Illicit trade and the transformation of the global economic landscape

Illicit networks are reshaping the world in far more meaningful ways than formal trade negotiations have been able to. These are not the common criminals of your parents’ era. As Moises Naim cited in his book Illicit, first published in 2005: illegal trade, accounting for one-fifth of the global economy, is a threat more serious than terrorism. His statement – over ten years later – remains more accurate than ever. More importantly, we now understand and have evidence of the very close correlation between illicit activity, corruption, governance, and violence (a subject covered in OECD’s 2015 report Illicit Trade – Converging Criminal Networks, as well as in the United Nations University’s Crime-Conflict Nexus Series 6 article, of April 2017, which addresses this correlation in the context of the Colombia Peace accords).

Converging criminal networks have grown in ways previously unforeseen – they have mutated into highly sophisticated marketplaces with a broad range of activities and products. Smuggling has been around since the dawn of commerce, but recent changes in technology and politics have transformed the trade. The sheer size of the problem is forcing entire industries – from shipping, software, banking to movies – to rethink their operations.

Globalisation in our hyper-connected world has led to the ‘glocalisation’ of most of our activities, including crime. Major crime that used to be local has gone global, grown immensely in value, sophistication and scope, and is converging across criminal networks. Chinese counterfeiters now contract with Cameroonian human traffickers to have illegal migrants sell fake luxury items in Paris and New York. Ukrainian criminals trade guns to their counterparts in Colombia in exchange for cocaine – and these are just a couple of examples (www.europarl.europa.eu/meetdocs/2009_2014/documents/libe/dv/report_csd_/report_csd_en.pdf).

Just like state-of-the-art multinational corporations, criminal organisations are taking advantage of modern communication systems, transport networks and technology to manage complicated logistical operations and deliver specialised products to customers. In fact, illicit networks have shown remarkable abilities to use global production networks, by outsourcing services and leading amazingly complex global supply and production chains.

Not surprisingly, it is hard to tell the difference between a legitimate and illegitimate product when they often come out of the same factory! To some extent, some of the world’s largest rights holders have equipped and trained the very same counterfeiters they are now combating.

Governments and multilateral law enforcement efforts to control criminal behaviour are increasingly ineffective because the criminals are taking advantage of the new realities of the internet of everything to operate more flexibly, efficiently and quickly than slow-moving bureaucracies that, in most cases, remain border-centric and completely ill-equipped to the challenges we currently face.

Scope of illicit economy: the facts or lack thereof

What do we know? Illicit means that the trade is operating in the shadows and numbers are at best an estimate; however, even using low estimates, illicit trade has reached levels that cause major instability in the legitimate economy. So, while measurement might be difficult, we have to rely on and prioritise our work based on the best estimates of governments, law enforcement organisations, businesses, and international organisations.

We know that Illicit actors feed off weak state institutions and corrupt government authorities. By definition, the activities of a criminal network are illegal – so their return on investment in government relations, in getting close to or even owning governmental officials and agencies is very high, as is their investment in legitimacy and social acceptance.

And the more that happens, the more resources they have, the closer they get to government officials, and the more the whole apparatus of policies in countries become compromised and even captured by the interests of the illicit world.

Illicit traders cultivate political ties – and the more unstable and dysfunctional the country the better. Illegal activities do not merely subvert governments, but have, in many cases, become their principal businesses.
For instance, Transdniester, an enclave of Moldova, is ‘a family-owned and operated criminal smuggling enterprise’ (M Naim, Illicit pg 57 – 2006). And the North Korean regime’s survival is deeply linked with all levels of illicit activities, from the production and distribution of drugs to the production of some of the best counterfeit currency in the world, to the trafficking in women. Civil wars, failed states and weak institutions: the moment that the government wobbles, it is replaced by these networks that immediately hone in on and develop and exploit an activity or export. It should be no surprise that cartel leaders are hugely popular in impoverished communities: they bring the social services and cohesion that the governments had long abandoned.

The gangs of Central America operate in much the same way: one can either be protected by them and pay their war tax or extortion, or face the brutal consequences. There are examples of this all over the world. In regions of political instability and compromised institutions criminals are not far behind: Haiti, Honduras, and Venezuela have become sanctuaries for criminal networks.

Conclusion

The illicit economy is in reality like a large G7 country with totally free trade, limited barriers to entry, high profits and low risk. Not surprisingly, it is growing in size and sophistication as traditional and vertical rule-of-law mechanisms are overwhelmed.

We have repeatedly advocated for a matrix or mapping of actors and actions to ensure a horizontal and systemic approach to this global problem. It is easy to say we need a multi-stakeholder approach, but not so easy to articulate the ‘how’ of this approach, especially with competing incentives amongst the actors.

In our view, transformation and impact will only come through a matrix of connected platforms, all working in a coordinated fashion (see also WCO Transfers IPM to TechTrace on page 5). While this is complex in a world of sovereign divides, it is not impossible if we are able to build the right incentives for everyone.

Platform 1 – illicit economy forecast

The first platform needs to develop and share accurate forecasting of trends and analysis of the illicit economy – somewhat similar to a weather forecast that allows society to adapt and respond. We do not need to start from scratch but rather identify and connect existing research and intelligence hubs to address the gaps and opportunities for collaboration.

Obviously, this will require efforts to build common protocols and standards to ensure accurate and proactive disclosure.

Where possible, this information should be shared, like the weather forecast, with all of society. If consumers are made aware that there is a major influx of counterfeit pharmaceuticals, for instance, they can pressure their businesses and governments to take action. This increased transparency is one way to help drive corruption out of the system and protect value for states and businesses.

Platform 2 – governance and decision-making

We then need to develop a new global governance and decision-making platform that can use the enhanced analytics and intelligence described above to build a mutual understanding and approach.

Rather than the current state-centric multilateral approach, we need inclusive mechanisms that are designed for the borderless hyper-connected world in which we live – mechanisms that are agile and can share best practices in real-time, as well as foster confidence and trust, and enable collective action. Incentives are important if we are to stop illicit activity, and the associated licit activity must be as efficient.


• Those countries with lower levels of competitiveness have higher levels of informal activity, violence and crime;
• Encouraging standards-based security, privacy, service models and product models is an important means for equalisation of regulatory statutes. This is an impediment to illicit economic players since it eliminates many forms of ‘side-channel’ deals or regulatory arbitrage;
• Privacy and security need to be addressed by design in all products, and through public policy on an international basis. Common standards on privacy and security are key barriers or enablers for the industry’s growth;
• Security features have historically been designed after the fact, and there is a need for a vision to design them from the ground up. This requires key players to establish common principles among themselves – with simplicity a crucial factor – and to engage with governments on addressing public policy internationally. This is a need which has already been recognised by the ISO standard concerned with anti-counterfeiting authentication solutions (ISO 12931), which recommends that product lifecycle planning includes built-in counterfeit protection.

Platform 3 – technology marketplace

We also need a collective and trusted technology platform that is a marketplace of existing approaches. This will ensure that governments, rights holders, and consumers can easily and intuitively verify and authenticate transactions and products up and down the supply chain, anywhere and at any time in the digital economy. If we can use GPS technology to track and trace fish, can we not adapt this technology to other types of trafficking?

As with product security, which I mentioned earlier, security solutions must be designed with privacy and transparency as simultaneous goals.

Transparency is enhanced by the elimination of parochial approaches to track and trace and reporting. Standards-based approaches are a huge advantage. In this case, standards for track and trace (a good recommendation is the GS1 EPCIS system) provide transparency without jeopardising privacy.

Ubiquitous connectivity is creating new product and service models, driving the need for common platforms across all industries (the breadth of products and services is too extensive for any one player to dominate).

Bringing everyone together

Illicit trade is an issue that is too big and complex for any one sector or country to deal with on its own. We need a shared platform that brings together governments, business, consumers, civil society, academia and international organisations, and empowers them to detect and report illicit activity wherever they come across it.

This could be through simple tools and apps to identify the legitimacy of products or reporting of corruption. Academic institutions, particularly business and public policy schools, have a role to play in training the next generation of business and community leaders in anti-trafficking strategies and entrepreneurial solutions.

These are just a few examples of how we can harness system-wide interoperability to address many of the issues and challenges of the illicit economy. While it won’t be easy, it is a problem that can be solved if we are willing to pursue innovative new constructs.

About TechTrace SA

TechTrace SA is the long-standing technology provider behind the World Customs Organisation’s IPM anti-counterfeiting platform (see page 5). In addition to his position of Chairman of the Advisory Board of TechTrace, Ambassador Blackwell was the Chairman of the World Economic Forum’s Meta-Council on the Illicit Economy and its previous Councils on Illicit Trade.