

Combating Illicit Trade

Introduction

We are all at risk of illicit trade and organized crime. It can manifest as a phishing email in our inboxes or as serious as counterfeit medications and identity theft.¹ Companies, governments, and citizens today must deal with the real possibility of illicit trades and criminals affecting their

institutions and well-being.² The scope and scale of illicit trade and organized crime are difficult to measure. The global value of illicit trade and transnational criminal activities have been estimated at between 8% and 15% of global Gross Domestic Product, with the value of narcotics trafficking at \$750 billion to \$1 trillion; the sale of counterfeit goods at \$650 billion worldwide; environmental crime at \$20 billion-\$40 billion; and human trafficking, at \$20 billion. Including money laundering, this figure increases to an astonishing \$3 trillion compared with a legitimate global trade figure of about \$10 trillion-\$12 trillion.³

According to Teresa Moreira, the head of competition and consumer policies at the United Nations Conference on Trade and Development (UNCTAD), “if illicit trade were an economy, it would be the eighth largest in the world.”⁴ Illicit trade, on both the black and gray markets, creates significant barriers to economic growth. It hurts legitimate markets, sabotages global supply chains, depletes natural resources and endangers market security. “Beyond the economic agenda, illicit trade and organized crime undermine the social and cultural welfare and stability of communities. Both phenomena weaken the state, corrupt officials and leaders and harm our values and trust in institutions and individuals⁵.”

The Basics of Illicit Trade

As stated by the American Foreign Service Association, “illicit trade consists of both tangible goods- drugs, human beings, weapons, wildlife and timber, fish, antiquities and ubiquitous counterfeits- and

¹ “Out of the Shadows: Why Illicit Trade and Organized Crime Matter to Us All.” *World Economic Forum*. https://www.oas.org/en/sms/downloads/BROCHURE_GAC14.pdf.

² Ibid

³ Ibid

⁴ “Stepping up War on Illicit Trade to Spur Development.” *United Nations Conference on Trade and Development*. <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2155>.

⁵ “Out of the Shadows: Why Illicit Trade and Organized Crime Matter to Us All.” *World Economic Forum*.

intangible goods brought and sold in cyberspace, such as passwords, botnets, and malware.”⁶ These practices put not only businesses, but also consumers at risk to unregulated products that could be detrimental to their health and safety.

Major practices involved in illicit trade include:

- Counterfeiting
- Piracy
- Falsification
- Adulteration of products
- Smuggling
- Tax evasion⁷

Illicit goods can be traded in both grey markets and black markets. The grey market, also known as the parallel market, “consists of the sale of genuine goods outside their official distribution networks where such sales are neither organized nor authorized by the product manufacturer or its representative.”⁸ Products sold on the grey market offer prices that “defy all competition” with authorized retailers, while manufacturers avoid customs or major profit taxes.⁹ Because of the dominant presence of the internet in the global market, sellers are able to increase the scope of their distribution, as well as the fragmentation of trade that allows “resellers to be located in countries where the sale of products from parallel markets is completely legal.”¹⁰ Meanwhile, the black market is the home of transactions where goods or services are exchanged illegally.¹¹ While technically any good can be purchased on the black market, more serious and lesser-known goods on black markets include human organs, endangered species, weapons, and slave labor.¹²

Potential Cost to Business of the Illicit Economy

Increased monitoring of the supply chain: As stated by the World Economic Forum, supply chain integrity is becoming a major concern. “For many decades the complexity and opacity of global supply chains made it very easy for some agents to hide, and for others to ignore a wide array of illegal or unethical activities.”¹³

Costs due to compliance: Those that participate in the illicit economy typically disregard existing laws and regulations regarding the economy. In the Association of Southeast Asian Nations (ASEAN), for example, regulations have struggled to keep pace with the growing agri-food industry in the region placing a restriction on import/distribution licensing arrangements and making onerous

⁶ “Illicit Trade and Our Global Response.” *American Foreign Service Association*. <https://www.afsa.org/illicit-trade-and-our-global-response>.

⁷ “Illicit Goods - the Issues.” *INTERPOL*. <https://www.interpol.int/en/Crimes/Illicit-goods/Illicit-goods-the-issues>.

⁸ “The Grey Market: Illicit Trade of Licit Goods? – ALCCI.” *Association de Lutte Contre le Commerce Illicite*. <https://www.alcci.fr/en/the-grey-market-illicit-trade-of-licit-goods/>.

⁹ *Ibid*

¹⁰ *Ibid*

¹¹ “How Black Markets Work.” *Investopedia*. <https://www.investopedia.com/articles/economics/12/mechanics-black-market.asp>.

¹² *Ibid*

¹³ “Illicit Trade, Supply Chain Integrity, and Technology.” *The Global Enabling Trade Report, World Economic Forum*.

product regulatory standards, and a lack of uniform food security and trade standards result in trade barriers, which create opportunities for criminals to engage in illegal food trade.¹⁴

Liability stemming from health and safety of consumers: As stated by the UNCTAD, “traffickers of illicit/illegal goods often prey upon vulnerable and disadvantaged consumers.¹⁵” Illicit trade thus increases the risk of unregulated goods circulating the market and made available to consumers.¹⁶

Tax Revenue Lost to Governments from Illicit Trade and Organized Crime

The avoidance and evasion of significant taxes have a negative impact on tax revenue. “Illicit activities are known to undermine the government’s authority, and money from illicit trade is often reinvested in other criminal activities.”¹⁷ This is especially relevant when looking at illicit tobacco trading, which has resulted in the loss of \$50 billion in tax revenue across the globe. Solutions that have been implemented in Bangladesh, for example, which suffers an annual loss of \$100 million in tax revenue from the illicit tobacco trade, include the use of stamps and banderoles.¹⁸

In Tanzania, a major source of loss in tax revenue is the illegal logging industry. A report authorized by the Tanzanian government in 2007 discovered that through poor governance and rampant corruption, resulting in illegal logging and exports of forest products has contributed to millions in lost revenue each year.¹⁹ Up to 96% of revenue generated by timber was lost by district and state governments because of the under-collection of taxes.²⁰

Another significant issue is trade misinvoicing, which is a method for moving money illicitly across borders through the deliberate falsification of the value, volume, and/or type of commodity of goods or services by at least one party to the transaction on an invoice.²¹ This means, the perpetrators report selling or buying a certain amount of a good, but have really bought more, allowing them to pay fewer taxes and resale the additional, unreported items for more money. According to Global Financial Integrity, there are four primary reasons to misinvoice trade, which include: Money laundering; directly evading taxes and customs duties; claiming tax incentives and dodging capital controls.²²

Trade misinvoicing accounts for \$737 billion in illicit financial flows from developing countries.²³ It is considered to be the largest component of illicit financial activity.²⁴

¹⁴ “Mapping the Impact of Illicit Trade on the Sustainable Development Goals.” *United Nations Conference on Trade and Development*. https://unctad.org/meetings/en/Contribution/DITC2019_TRACIT_IllicitTradeandSDGs_fullreport_en.pdf.

¹⁵ “Intergovernmental Group of Experts on Consumer Law and Policy, IGE Consumer, Third Session.” *United Nations Conference on Trade and Development*. https://unctad.org/meetings/en/Contribution/cicplp3rd_c_tracit_en.pdf.

¹⁶ Ibid

¹⁷ “Illicit Cigarette Consumption and Government Revenue Loss in Vietnam: Evidence from a Primary Data Approach.” *International Journal of Environmental Research and Public Health*. <https://doi.org/10.3390/ijerph16111960>.

¹⁸ “A Global Review of Country Experiences: Bangladesh: Illicit Tobacco Trade.” *World Bank Group*. <http://pubdocs.worldbank.org/en/455291548434730684/WBG-Tobacco-IllicitTrade-Bangladesh.pdf>.

¹⁹ “Government of Tanzania Tackles Forestry Corruption.” *Wildlife Trade News from TRAFFIC*. <https://www.traffic.org/news/government-of-tanzania-tackles-forestry-corruption/>.

²⁰ Ibid

²¹ “Trade Misinvoicing ” *Global Financial Integrity*. <https://gointegrity.org/issue/trade-misinvoicing/>.

²² Ibid

²³ “Out of the Shadows: Why Illicit Trade and Organized Crime Matter to Us All.” *World Economic Forum*.

²⁴ “Trade Misinvoicing ” *Global Financial Integrity*.



Damage to Consumer Health

The production and consumption of counterfeit medication has proven to be detrimental to human health. “Counterfeit drugs pose a public health hazard, waste consumer income, and reduce the incentive to engage in research and development and innovation.”²⁵ They are facilitated by prescription drug shortages, a “long and convoluted supply chain,” and a wholesale market involving numerous firms and competition²⁶. The World Health Organization classifies counterfeit in three categories:

1. Falsified Medical Products: misrepresent identity and distributed with criminal intent
2. Substandard Medical Products: fail to meet quality standards
3. Unregistered/Unlicensed Medical Products: have not been approved.²⁷

Unfortunately, “1 in 10 medical products in developing countries [are falsified or substandard. The annual public health tolls are huge, as is the economic burden- up to \$200 billion annually.”²⁸

In 2012, counterfeit versions of Avastin, an anti-cancer medication, were distributed in the United States.²⁹ Recently, 35,000 online pharmacies have been created, with most of them selling unapproved and counterfeit drugs. In order to combat this, the World Health Organization (WHO) has created a surveillance system for falsified and substandard drugs. However, this system relies on countries actively reporting information to a website that is not available to the general public health community, making it hard for doctors and patients to know which producers to avoid.³⁰ One solution that is being proposed to combat the prominence of counterfeit medication is blockchain- “blockchain would record each time a drug swapped hands, assisting companies in detecting tainted products before they reached consumers.”³¹

²⁵ “The Health and Economic Effects of Counterfeit Drugs.” *American Health Drug Benefits*. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4105729/>.

²⁶ Ibid

²⁷ “It’s Time to Stop Murder by Counterfeit Medicine.” STAT. <https://www.statnews.com/2019/05/07/stopping-murder-counterfeit-medicine/>.

²⁸ Ibid

²⁹ “Counterfeit Doses of Avastin Distributed in the U.S.” *The New York Times*. <https://www.nytimes.com/2012/02/15/business/counterfeit-doses-of-avastin-distributed-in-the-us.html>.

³⁰ Ibid

³¹ “Pharma Companies Consider Blockchain to Track Counterfeit Drugs.” *Becker's Hospital Review*. <https://www.beckershospitalreview.com/pharmacy/pharma-companies-consider-blockchain-to-track-counterfeit-drugs.html>.

Illicit Trade and Sustainable Development Goals (SDGs)

Illicit trade poses threats to the achievement of the Sustainable Development Goals (SDGs), which were created by the United Nations to adopt a better global community by improving access to education, ending poverty, and ensuring gender equality. The Transnational Alliance to Combat Illicit Trade has shown that illicit trade is detrimental to the progress and achievement of the SDGs and their targets. The socioeconomic impacts of illicit trade have proven to be damaging to the achievement of all 17 SDGs. Specifically, it undermines “achievement of the economic goals for poverty reduction, decent jobs and economic growth (SDGs 1,2,3,4 and 8), and robbing governments of taxable income that can be invested in public services (SDGs 9 and 17).”³² Additionally, illicit trade “undermines goals for peace and stability (SDG 16). Most forms of illicit trade plunder natural resources (SDGs 6, 14 and 15), abuse supply chains and ultimately expose consumers to fake and potentially harmful products (SDG 12).”³³

Case Studies

The Illicit Tobacco Trade

Tobacco is one of the most common illegally traded goods today. The prices of illicit tobacco products are typically lower than the retail price of legal tobacco products, making them more attractive to consumers. For example, the average street price of smuggled cigarettes was 50 percent, 50 percent, 60 percent, and 67 percent cheaper compared to the average price of legal cigarettes in Brazil, Argentina, Uruguay, and Paraguay. In Malaysia, the average price of illegal cigarettes was about 55 percent lower than legally sold cigarettes. The recent consensus among experts estimates the annual revenue loss in tobacco taxation worldwide at US\$40–50 billion, that is, about 600 billion sticks (individual cigarettes), or 10 percent of global cigarette consumption.³⁴

The primary reason the trade of illicit tobacco must be stopped is that it perpetuates illnesses and death. These effects are mostly concentrated among marginalized communities.³⁵ Since illegal tobacco products are cheaper, the accessibility of the product increases for poor and young people alike. Once introduced to the product, they are more likely to become addicted and cause injury to their health. Another reason that illicit tobacco trade needs to be dealt with is that trade has an undermining effect on governance. Without the massive tax revenues, governments should be collected from the vast illicit trade networks, their tobacco control programs and other programs that support public health often go underfunded. Bringing this trade into the light of the law would benefit everybody.³⁶

³² “Mapping the Impact of Illicit Trade on the Sustainable Development Goals.” *United Nations Conference on Trade and Development*. https://unctad.org/meetings/en/Contribution/DITC2019_TRACIT_IllicitTradeandSDGs_fullreport_en.pdf.

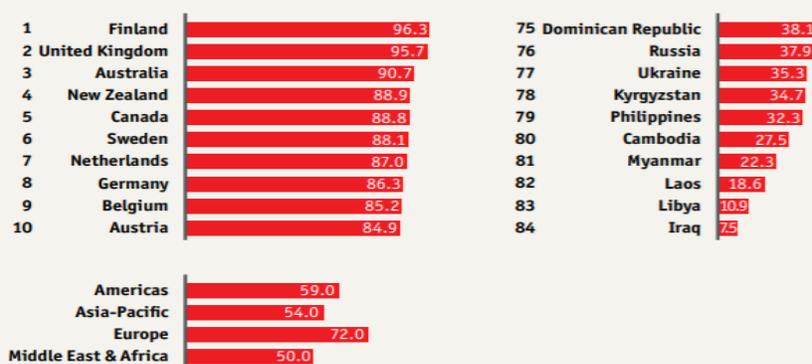
³³ Ibid

³⁴ “Confronting Illicit Tobacco Trade: A Global Review of Country Experiences.” *World Bank*. <https://www.worldbank.org/en/topic/tobacco/publication/confronting-illicit-tobacco-trade-a-global-review-of-country-experiences>.

³⁵ Ibid

³⁶ Ibid

Top 10 economies, bottom 10; regional average scores



Illicit Trade in Myanmar

Myanmar, as shown in the Global Illicit Trade Environment Index, is ranked 82 out of 84 nations surveyed. “From smuggling, counterfeiting and tax evasion, to the illegal

sale or possession of goods, services, humans and wildlife, illicit trade is compromising the attainment of economic and social development goals in significant ways, crowding out legitimate economic activity, depriving governments of revenues for investment and vital public services, dislocating millions of legitimate jobs and causing irreversible damage to ecosystems and human lives.³⁷ Major sectors of illicit trade in Myanmar include logging and mining, wildlife and human trafficking, alcohol and cigarette smuggling, and counterfeiting consumer goods.

In order to lessen the growing prominence of illicit trade in Myanmar, EuroCham Myanmar held an Anti-Illicit Trade Forum in 2018, which was filled with “anti-corruption experts, government officials, and industry stakeholders [that] discussed ways of strengthening Myanmar’s efforts to fight illicit trade.³⁸ Major issues identified during this forum include “inadequate structural defenses against illegal trade,” coupled with, as stated by local business owners, ineffective and insufficient efforts by the government and unreasonably high taxes.³⁹”

Questions to Consider:

- What regulations should governments implement to ensure that they are not losing critical tax revenue due to illicit trade?
- How can already existing systems, such as those relating to surveillance and blockchain, be improved to reduce the presence of counterfeit and falsified medications?
- How can governments and NGOs ensure that illicit trade does not inhibit their abilities to achieve the SDGs?
- What action should be taken to eliminate the presence of illicit goods such as cigarettes and other tobacco products from the market?

³⁷ “Illicit Trade Is a Scar of the Face of the Global Trading System.” *The Myanmar Times*. <https://www.mmtimes.com/news/illicit-trade-scar-face-global-trading-system.html>.

³⁸ “Myanmar Ranks Near Bottom of Global Illicit Trade Index.” *The Irrawaddy*. <https://www.irrawaddy.com/news/burma/myanmar-ranks-near-bottom-of-global-illegal-trade-index.html>.

³⁹ Ibid