

Statement Prepared for the OECD High-Level Risk Forum

The Destructive Impact of Illicit Trade and the Illegal Economy on Economic Growth, Sustainable Development, and Global Security

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Bonjour!

It is an honor to co-chair this workshop with Rolf Alter, Director for Public Governance and Territorial Development Directorate at the Organization for Economic Cooperation and Development (OECD), and someone whom I have enjoyed working with over the years to improve public governance and promote risk management solutions to economic and security challenges in many parts of the world.

It is a great pleasure to join some of the world's "thought leaders" here today as we expose the harms of illicit trade and the illegal economy to international peace and security, social cohesion, and economic growth and development.

I would like to applaud the OECD for its leadership in identifying and analyzing these harms through the High-Level Risk Forum, which, as many of you know, seeks to increase societal resilience to pressing global threats such as natural disasters, pandemics, financial crises, terrorism and cyber attacks and—today—the risks posed by corruption and transnational illicit networks to governments, markets, and communities.

I also would like to thank our private sector partners who are committed to taking up this fight, including members of the OECD Business and Industry Advisory Committee (BIAC), the World Economic Forum (WEF), and many others who will share their ideas and experiences with us today.

The Dark Shadows of the Global Illegal Economy

So why is there so much attention on illicit trade and the illegal economy? As Moises Naim underscored in his well-known book *Illicit*, "Global criminal activities are transforming the international system, upending the rules, creating new players, and reconfiguring power in international politics and economics."

Moises penned those alarming words in 2005. Today, global criminal activities *have* transformed the system, changed the rules, and altered power dynamics across the globe. It is a fact that the global illicit economy is experiencing a boom thanks to a wide spectrum of illicit activities: narcotics, kidnapping-for-ransom, arms trafficking, human smuggling and trafficking,

the trade in stolen and counterfeit goods, bribery, and money laundering, to name just a small cross-section. According to some estimates, the illegal economy accounts for 8 to 15 percent of world GDP, distorting local economies, diminishing legitimate business revenues, fueling conflict, and deteriorating social conditions.

As some of our speakers will underscore, the reality of today's global economy is one of convergence. One in which legal business transactions and legitimate commerce both perpetuate and feed off the illegal economy; one in which illegal arms brokers and narcotics kingpins are acting in practice as the new CEOs and venture capitalists. From Wall Street to other financial centers across the globe, illicit networks are infiltrating and corrupting licit markets, reducing productivity, and dis-incentivizing investments in research and development—not to mention, jeopardizing public health, emaciating communities' human capital, and eroding the security of our institutions and destabilizing fragile governments.

Risks to Economic Growth and Sustainable Development

Today's global threat environment is a multi-dimensional matrix connecting an incredible array of illicit actors and networks at critical nodes in space and time. The pipelines linking these threat actors and networks slice through borders, drain licit markets into illicit cesspools of wealth, and undercut the interests and security of our partners across the international community.

In addition to the direct links among specific illicit actors and networks that are of grave concern, the growing illegal economy and criminalized markets are a greater threat that we cannot afford to ignore. Illicit markets are providing not only a safe haven and exploitable sanctuaries for illicit forces, but also illicit liquidity for corrupt officials, criminals, and terrorists to mingle, operate, and do business with, with one another or on their own. And, too often, these criminal actors are staging operations without fear of reprisal from law enforcement.

Consequently, illicit trade and the wide availability of illicit liquidity not only prevent fair and open markets from reaching their full economic potential and threaten state sovereignty, but the hard truth is that illicit trade also decays communities as kleptocrats, criminals, terrorists, and illicit networks dominate every facet of life in certain communities, and endangering the health and safety of our people and destroying our vital habitats and ecosystems:

- In addition to the corrupting and destabilizing harms of illicit drugs to societies every year based on the staggering tens of billions of dollars in its trade – regionalized drug epidemics, increased drug use, and high relapse rates impose enormous economic costs that further tax communities, including the costs of healthcare programs to treat drug abuse, lost productivity, support for law enforcement and the criminal justice system to counter violence and criminality, and costs to fund other social programs. Of increasing concern is the alarming lower age for the initial onset of drug use (e.g., in many parts of the world, drug addicts as young as 4-8 years of age have been detected for the first time); the high purity of drugs such as Afghan heroin and the impurities/toxic cutting agents in Latin American crack cocaine that are causing a public health crisis, especially among children;

- The high-profit, low-risk dumping of toxic waste by organized criminal groups contaminates food and water supplies, while illegal logging and deforestation exacerbate climate change concerns;
- The poaching and trafficking of endangered wildlife species for the production of traditional medicines and other uses destroy vital habitats and ecosystems and robs governments and citizens of their natural resources and national treasure;
- Counterfeit pharmaceuticals endanger public health, as well as the lives of individuals, by denying the sick effective treatment and allowing deadly diseases to mutate and become untreatable; and
- Trafficking in persons devastates communities and wastes the most precious resource of any community – its people – tearing families apart and violating individuals’ basic freedoms and dignity instead of investing in human capital through education and skills-development training to help emerging economies become the new markets of tomorrow.

As some have underscored, the illegal economy obeys no laws except the law of the strong, the corrupt, and the criminal; impunity, coercion, lawlessness, unrest and violence reign.

From an economic perspective, all of these illicit activities divert money from the balance sheets of legitimate businesses and put cash in the hands of criminals, who build larger and larger illicit networks. These networks threaten the stability of governments and the prosperity of our economies. National revenue and assets intended to finance the future are instead embezzled and stashed away for private gain, impairing the ability of communities and businesses to make the investments necessary to create resilient pathways for economic growth and give people hope for a brighter tomorrow.

Illicit trade and the illegal economy also undermine the social stability and socioeconomic welfare of our communities. Illicit enterprises not only divert opportunities from the legal economy, they also divert revenue threatening economic growth and development and preventing the equitable distribution of public goods. But this goes beyond just the economic harm. The illegal economy also incurs a significant negative social cost.

Consider how criminals undermine fair labor conditions through exploitation of persons in the illegal economy such as coca and heroin cultivation and in industries as varied as manufacturing counterfeits, agriculture, tourism, and elder hostels. Equally damaging is the environmental damage resulting from criminals’ penetration into illegal logging, wildlife trafficking, waste hauling, and fishing. Instead of producing wage earners for tomorrow’s markets and investments, the communities most at risk of exploitation by illicit networks are saddled with the negative externalities of the illicit economy.

The grim reality is that revenue that could be used to build roads to facilitate commerce, hospitals to save lives, homes to raise and protect families, or schools to educate our future leaders are lost to kleptocrats, criminals, and terrorists whose only interest in the future may be to destroy it.

Risks to Global Security

The illegal economy poses an existential threat when it begins to create criminalized markets and captured states, which launches a downward, entropic spiral towards greater insecurity and instability. In economies that have been corrupted by criminal networks, market- and state-building become more unattainable, economic growth is stunted, efforts towards development and poverty eradication are stifled, and foreign direct investment is deterred.

As my USAID colleagues have noted recently, in fragile states and regions especially, criminal and illicit threats may facilitate “a nexus of violence that is a threat to peaceful cooperation among nations.” Thus, the criminal threat to economic prosperity anywhere is equal to a threat to peace and security everywhere.

In the OECD’s 2011 *Future Shocks Reports: Improving Risk Governance*, it was noted that:

On the one hand the globally integrated economy has enabled impressive productivity gains, bolstered international trade and foreign investment, and raised living standards in many countries. On the other hand it is built on greater interconnections, and in some cases interdependencies, that pave the path for more localised shocks to propagate and become events of global consequence. The challenge for policy makers is to preserve the gains that interconnectedness leads to, while managing the vulnerabilities.

One of the stated goals of this workshop is to discuss how various partners can work with the OECD to develop innovative approaches that can help policy-makers manage risks in order to sustain economic prosperity in today’s markets and develop the requisite policies, reforms, and regulatory frameworks that secure a future of economic viability, resilience, and vitality; a future for those who would invest in sustainable, potential-maximizing new markets.

I hope that from our discussion today we can chart an active and meaningful public-private partnership to help communities and businesses not only better understand the contours of the “dark side” of the global economy, but also identify and quantify the harms posed by illicit trade and the proliferation of criminalized markets to our collective security and stability.

Colleagues, illicit trade presents a clear and present danger to our economic growth, sustainable development, social cohesion, security, and stability, no matter where in the world we call home. But if through this initiative as part of the OECD High-Level Risk Forum we can identify key nodes, the most pernicious and permissive illicit financial hubs, we can map, measure, monitor, manage and mitigate future harms of the illegal economy and build community resilience to these and other related risks.

Evidence-based research and advanced analytics can help policy-makers map and understand the market vulnerabilities exploited and created by illicit trade. Mapping the harms and impacts of illicit trade and the licit-illicit complex system will help us pinpoint large-scale disruptions to

economic activity and identify tools to reinforce the most vulnerable points of entry to the illegal economy.

Quantitative metrics will allow us to drive criminal entrepreneurs out of business, reduce the incentives for communities to resort to illegal commercial activity, mitigate opportunities for organized crime to taint our financial system with their ill-gotten gains, and help governments sustain legitimate markets so that businesses that respect regulations can thrive.

Pragmatic mapping tools will also be useful for policy-makers and law enforcement to not only engage in upstream and downstream coordinated mitigation and disruptions of the illicit trade, but also address gaps in surveillance and monitoring systems to develop more effective early detection and warning systems of the new harms and risks of illicit trade to the formal economy.

Navigating Today's Risks and Threats to Chart New Markets and Investment Frontiers

Working together, we can develop a community of action.

Working with the OECD High-Level Risk Forum, the World Economic Forum (WEF), and other leading partners such as Google and its Illicit Networks Forces in Opposition series, we hope that we can usher in a new era of cooperation between the public and private sectors on better understanding the illegal economy and illicit trade.

Moving forward, we should build on this important OECD initiative and leverage with other collaborative efforts and knowledge-based platforms such as with the United Nations Office on Drugs and Crime (UNODC), the World Bank, the G8/G20, INTERPOL, the Financial Action Task Force (FATF), World Customs Organization (WCO), the European Union, the Asia Pacific Economic Cooperation Forum (APEC), Association of Southeast Asian Nations (ASEAN), Organization of American States (OAS), African Union (AU), and other regional and sub-regional bodies.

Via effective public-private partnerships, we can help meet the governance and security challenges posed by illicit trade that threaten the prosperity of our economies and integrity of our markets, the security of the legitimate global supply chain, our fundamental institutions, and the health and safety of our people.

Together we must create legitimate markets to replace and shut down illegal markets. Nurturing the network of government and business leaders that support innovation in the vibrant sectors of tomorrow – such as computer and high engineering industries, biomedical, green energy and other emergent technologies – and harnessing the ideas, talents, and human potential of our citizens, will help our government officials and entrepreneurs create the right governance conditions across sectors for new markets and investment frontiers to thrive globally.

Economies must fulfill the aspirations and potential of their people who yearn for sustainable socioeconomic development and a better way of life. Governments must not adopt or allow policies that lead to crippled, unproductive markets driven by short-term gains and ill-gotten profits by deviant and criminal actors and networks, who siphon national wealth away into

offshore accounts hidden from tax and law enforcement authorities, and feed a perpetual cycle of hopelessness.

It is especially important that those of us who represent governments today act in concert with the cooperation of the international business community, the scientific community, NGOs, and other market actors whose legitimate revenues are threatened by illicit enterprise to increase awareness of these harms and develop sound, strategic policies to protect our rule-of-law-based market systems, national assets, human capital, and natural resources.

The United States is committed to this important initiative. In July 2011, we released a National Strategy to Combat Transnational Organized Crime: Addressing Converging Threats to National Security. A key pillar of the Strategy is to enhance international cooperation with key partners to combat the lethal nexus of organized crime, narco-trafficking, and terrorism, and to protect our communities from the violence, harm, and exploitation wrought by transnational threat networks. The Strategy also challenges the U.S. government and our international partners to work together to combat transnational illicit networks and converging threats, and take that fight to the next level by breaking their corruptive power; attacking their financial underpinnings; stripping them of their illicit wealth; and severing their access to the financial system.

We must shut down the illegal economy and criminalized markets and put criminal entrepreneurs and illicit networks out of business.

I look forward to our discussion.

Thank you.