

# Hidden Costs of Crime: Quantifying the Economic Impact of Illicit Trade on Business and Investment

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# Can we quantify negative entrepreneurship and impact of crime?

- Not yet!

# Why not?

- There are both positive and negative aspects of the illicit economy
- The phenomenon is too latent to properly approximate its size
- The criminal economy functions differently in different regions of the world as it mirrors the legitimate economy

# What impacts would we have to study?

- We need to think beyond the increased violence and instability related to crime
- Diverse impacts –on human security, environment, business innovation, competitiveness and entrepreneurship
- Employment by criminal economy

# Diverse Impacts of Illicit Trade— Human Security

- Provides employment in many regions of the world that lack legitimate employment
- Health Costs—distribution of counterfeit pharmaceuticals
- Higher Mortality Rates—individuals die in transit (human smuggling), die prematurely of violence (Central America—highest mortality rates outside of conflict regions; South America—20 most violent cities in the world)
- Labor conditions—individuals have accidents and die prematurely

# Business Impacts

- Decline in Innovation—increased production of counterfeits undermines investment in new products
- Competitiveness—organized crime targets rivals and puts them out of business
- Undermines entrepreneurship (i.e. corporate raiding)
- Criminal capital funds new businesses—criminalizing the legitimate economy

# Business Models of Crime

- Significant regional differences influenced by history, traditions of trade, culture
- There are patterns that exist within what seems to be chaotic behavior
- Criminal models have different levels of profitability
- Problems of supply and demand contribute to its growth and sustainability
- Business models of crime—have different patterns of money laundering

# Trade and Development Model—from China

- Business applies to human smuggling, trafficking and counterfeit trade
- Makes maximum profits as business is integrated from start to finish, i.e. Asian cruise case generated \$60 million in profits (10% estimated from trafficking) in DC and New York
- Mostly labor exploitation but also sexual
- Recruitment based on knowledge of victims and families
- Rationality of business model reduces level of human rights because abuses of victims have consequences
- Money laundered back to China for development

# Natural Resource Model—from former Soviet states to US

- Women are sold off like timber and oil with no concern for future development
- High levels of human rights violations because not dependent on past victims to recruit future victims
- Human trafficking is not used for development of society
- Model developed in reference to sexual trafficking but also other forms of illicit trade in natural resources
- Profits are often dissipated or moved to offshore locale

# Supermarket Model– from Mexico to US

- Movement of drugs and people
- High volume and low cost of trafficking, profits made on number of individuals or drugs moved
- Trafficking is not separate from other elements of illicit economy—linked to corruption, arms and drug trade, many established drug groups moving into this area taxing traffickers
- High fatalities and human rights violations because concern is on volume and not on individual
- Costs have increased with increased border security
- Profits moved south in bulk cash, not efficiently invested

# Conclusion

- Multiple impacts that cannot be easily quantified
- Corruption is key to the operation of this criminal activity and there are some measures to understand this phenomenon
- Growing problem of illicit trade and diversification of criminal activity by diverse non-state actors