

RANDOM HOUSE  BOOKS



Illicit

Moisés Naím

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About the Book

Any newspaper anywhere in the world, any day, carries news about illegal migrants, drug busts, smuggled weapons, laundered money, or counterfeit goods. These newly globalized struggles pit governments against agile, well-financed networks of highly dedicated individuals. Religious zeal or political goals drive terrorists, but profit is no less a motivator for murder and mayhem. And the stakes are rising. It is estimated that the global trafficking of people is worth more than \$10 billion a year. In Southeast Asia, an estimated 30 million women and children have been trafficked - in the past ten years.

Who supplies pirated movies, CD's, or the knock-off Rolex sold for \$20? Why is marijuana ever easier to find in schools and universities? Who is behind the illegal immigrants found suffocated to death in the backs of lorries? *Illicit* is the first book to reveal the shocking scale of this dark underground, and to show how the inner workings of the networks of illegal industries and new realities of globalisation combine to make them so successful and difficult to defeat.

About the Author

For the last six years, Moisés Naím has been editor and publisher of the influential journal *Foreign Policy*. Naím was minister of Trade and Industry in his native Venezuela, as well as an executive Director of the World Bank. Since 1989, he has been a forum fellow at the World Economic Forum and an advisor to its annual meeting in Davos. This is his first general trade book.

ILLICIT

MOISÉS NAÍM



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To Susana, Adriana, Claudia, and Andrés

Chapter 1

THE WARS WE ARE LOSING

THE FAMOUS FORMER United States president, for eight years the most powerful man on earth, was born in a small country town blessed with “very good feng shui.” As an adolescent struggling to excel in spite of his modest rural circumstances, he “admired the ambition of Gu Yanwu, who said we should walk 10,000 miles and read 10,000 books.” Often during his political career he sought wisdom and guidance in the sayings of Chairman Mao. As for the starstruck young intern with whom he had an affair that nearly destroyed his presidency, he had this to say: “She was very fat.”

The Chinese version of Bill Clinton’s autobiography¹ *My Life* that hit the streets in July 2004, months before the official, licensed translation, was obviously a grotesque forgery. Its appearance served as a welcome of sorts, introducing the former president to one of the more dubious honors of modern writerly fame. In Colombia, for instance, an entire cottage industry specializes in unlicensed copies of the works of the country’s great novelist Gabriel García Márquez.² In 2004 a master copy of the Nobel Prize winner’s first novel in ten years vanished without a trace from the printing press. Days later, a pirate edition could be found on Bogotá sidewalks, its text accurate but for the final revisions that García Márquez, a perfectionist, had been waiting until the last moment to turn in.

Laughable as they may seem, little separates these scams from others with far more dire consequences. The

same “knockoff markets” sell not only bootleg books and DVDs but pirated Microsoft and Adobe software; not only faux Gucci and Chanel accessories but bogus brand-name machinery made with substandard parts that can cause industrial accidents; not only placebo Viagra for gullible mail-order shoppers, but also expired or adulterated medicines that don’t cure but kill. In defiance of regulations and taxes, treaties and laws, virtually anything of value is offered for sale in today’s global marketplace—including illegal drugs, endangered species, human chattel for sex slavery and sweatshops, human cadavers and live organs for transplant, machine guns and rocket launchers, and centrifuges and precursor chemicals used in nuclear weapons development.

This trade is illicit trade. It is trade that breaks the rules—the laws, regulations, licenses, taxes, embargos, and all the procedures that nations employ to organize commerce, protect their citizens, raise revenues, and enforce moral codes. It includes purchases and sales that are strictly illegal everywhere and others that may be illegal in some countries and accepted in others. Illicit trade is highly disruptive, of course, to legitimate businesses—except when it isn’t. For as we shall see, there is an enormous gray area between legal and illegal transactions, a gray area that the illicit traders have turned to great advantage.

The marketing and distribution channels that transport all this contraband—and the financial circuits that move the hundreds of billions of dollars that it generates every year—aren’t exactly hidden from view. Some of the physical marketplaces can even be looked up in tourist guides to the world’s great cities: Silk Alley in Beijing, Charoen Krung Road in Bangkok, Canal Street in New York City. Others, like the arms and drugs bazaar town of Dara Adam Khel in northwest Pakistan or the multiproduct trafficking and money-laundering center of Ciudad del Este in Paraguay, serving the Argentine and Brazilian markets, aren’t exactly

leisure spots but are no less widely known. Factories in the Philippines or China that produce licensed manufactured goods may run unauthorized second shifts with shoddy components. Shipments of methamphetamine and bootleg videos and night-vision military goggles often travel in the same containers and cargo holds as loads of semiconductors and frozen fish and grapefruit. The proceeds of illicit trade merge with the greatest of ease into the vast daily flow of interbank settlements and Western Union money transfers. And the Internet not only boosts the speed and efficiency of all of these trades but expands the possibilities by, for instance, hosting online markets for prostitutes from Moldova and Ukraine destined for shipment to markets in Britain, France, Germany, Japan, and the United States.

Neither are those who benefit from illicit trade always careful to hide in the shadows. Many exercise their trade in the open, daring authorities to crack down on them—or inviting them to collude. In Thailand, a massage parlor operator ran for public office³ in 2003 on a platform of criticizing the police—in effect, running to defend his own interests in the trade in human beings while tapping into broader public discontent. In neighboring Cambodia, the national police are partners with international watchdogs in cracking down on the traffic in children for sex, but the local units collect payment envelopes from known traffickers⁴ in full public view. Illicit traders may have forsaken grand, hubristic gestures—Pablo Escobar Gaviria, the famed drug kingpin, in his heyday offered to pay up Colombia's entire national debt—but they have grown sophisticated in forming front companies with complex financial structures spanning numerous countries, blurring their traces so well that they can safely operate in the open. Which means that not only is illicit trade on the rise, but its interplay with social crisis—conflict, corruption,

exploitation—is more complex than it has been since the abolition of the Atlantic slave trade.

THREE ILLUSIONS

Yet in the face of all the evidence, at least three grand illusions persist in the way we—the public and the politicians in whom we place our trust—address global illicit trade.

First is the illusion that there is nothing new. Illicit trade is age-old, a continuous facet and side effect of market economies or of commerce in general. Illicit trade's ancestor, smuggling, traces back to ancient times, and many a "thieves' market" survives in the world's commercial hubs. Therefore, skeptics would argue that since smuggling has always been more a nuisance than a scourge, it is a threat we can learn to live with as we have always done.

But this skepticism ignores the important transformations of the 1990s. Changes in political and economic life, along with revolutionary technologies in the hands of civilians, have dissolved the sealants that governments traditionally relied on to secure their national borders. At the same time, the market-oriented economic reforms that swept the world in the 1990s boosted incentives to break through these sealants—legally or otherwise. Not only did the hold of governments on borders weaken, but the reforms amplified the rewards awaiting those who were prepared to break the rules.

Technology enlarged the market, not just geographically by lowering transport costs but also by making possible the trade in a whole range of goods that didn't exist before, such as pirated software or genetically modified marijuana. New technologies also made it possible to trade internationally products that in the past were hard or

impossible to transport or hold in “inventory”—human kidneys, for instance. Markets, of course, were also enlarged when governments deregulated previously closed or tightly controlled economies and allowed foreigners to visit, trade, and invest more freely.

The massive transfer of goods and equipment once under the exclusive control of national armies into private hands released into the market products ranging from rocket launchers to SCUD missiles and nuclear designs and machinery. Moreover, governments also boosted illicit trade by criminalizing new activities. File sharing through the internet, for example, is a newly illegal activity that has added millions to the ranks of illicit traders.

A clue to the explosion of illicit trade is the relentless rise of money laundering. Eventually, every illicit line of business generates money that needs to be laundered. And there is ample evidence that despite all the precautions and enforcement measures now in place, there is more and more dirty money floating in the international financial system now than ever before.

Yet until now, with the exception of narcotics, illicit trade has simply not been a priority in international law and treaty making, or in international police work and cooperative law enforcement. The United Nations devised common language to describe it only in the year 2000, and most countries have a long way to go in adapting their laws to international standards, let alone enforcing them. It took the advent of software piracy and the birth of “intellectual property crime” to add a fillip to international efforts against counterfeiting.⁵ And trafficking in persons—the most morally outrageous of all the forms of illicit trade—was defined in the 1990s only by academics and activists, and made the subject of a specific, comprehensive law in the United States in 2000. (Only seventeen other countries have done the same.)

The second illusion is that illicit trade is just about crime. It is true that criminal activities surged and became global in the 1990s. But thinking about international illicit trade as just another manifestation of criminal behavior misses a larger, more consequential point. Global criminal activities are *transforming the international system*, upending the rules, creating new players, and reconfiguring power in international politics and economics. The United States attacked Iraq because it feared that Saddam Hussein had acquired weapons of mass destruction. But during the same time a stealthy network led by A. Q. Khan, a Pakistani engineer, was profiting by selling nuclear bomb-making technology to whoever could pay for it.

Throughout the twentieth century, to the extent that governments paid attention to illicit trade at all, they framed it—to their public, and to themselves—as the work of criminal organizations. Consciously or not, investigators around the world took the model of the American and Sicilian Mafia as their blueprint. Propelled by this mind-set, the search for traffickers—almost always in drugs—led to what investigators thought could be only corporate-like organizations: structured, disciplined, and hierarchical. The Colombian cartels, Chinese tongs, Hong Kong triads, Japanese yakuza, and eventually after 1989 the Russian mafiya were all approached this way: first as criminal organizations, only later as traders. In most countries, the laws employed to prosecute illicit traders remain those born of the fight against organized crime, like the racketeering and corrupt organizations (RICO) statutes in the United States.

Only recently has this mind-set began to shift. Thanks to al-Qaeda the world now knows what a network of highly motivated individuals owing allegiance to no nation and empowered by globalization can do. The problem is that the world still thinks of these networks mostly in terms of

terrorism. Yet, as the pages ahead show, profit can be as powerful a motivator as God. Networks of stateless traders in illicit goods are changing the world as much as terrorists are—probably more. But a world obsessed with terrorists has not yet taken notice.

The third illusion is the idea that illicit trade is an “underground” phenomenon. Even accepting that trafficking has grown in volume and complexity, many—not least politicians—seek to relegate it to a different world than that of ordinary, honest citizens and constituents. The language we use to describe illicit trade and to frame our efforts to contain it betrays the enduring power of this illusion. The word *offshore*—as in *offshore finance*—vividly captures this sense that illicit trade takes place somewhere else. So does *black market*, or the supposedly clearly distinct *clean* and *dirty money*. All signify a clarity, an ability to draw moral and economic lines and patrol their boundaries that is confounded in practice. This is the most dangerous of all these illusions, because it treads on moral grounds and arguably lulls citizens—and hence public opinion—into a sense of heightened righteousness and false security.

This point is not about moral relativism. A thief is a thief. But how do you describe a woman who manages to provide some material well-being to her destitute family in Albania or Nigeria by entering another country illegally and working the streets as a prostitute or as a peddler of counterfeited goods? What about bankers in Manhattan or London who take home big year-end bonuses as a reward for having stocked their bank’s vaults with the deposits of “high-net worth individuals” whose only known job has been with a government in another country? Many American high-schoolers can procure a joint of marijuana more easily than they can purchase a bottle of vodka or a pack of cigarettes, and they know they don’t really run any major risk in doing so. Meanwhile honest Colombian judges

or police officers are routinely gunned down in a war on drugs that the U.S. government funds to the tune of \$40 billion a year. These are not just infuriating contradictions, unfair double standards, or interesting paradoxes. They are powerful clues about how age-old human mores have acquired new hues.

ELUSIVE AND POWERFUL

Since the early 1990s, global illicit trade has embarked on a great mutation. It is the same mutation as that of international terrorist organizations like al-Qaeda or Islamic Jihad—or for that matter, of activists for the global good like the environmental movement or the World Social Forum. All have moved away from fixed hierarchies and toward decentralized networks; away from controlling leaders and toward multiple, loosely linked, dispersed agents and cells; away from rigid lines of control and exchange and toward constantly shifting transactions as opportunities dictate. It is a mutation that governments in the 1990s barely recognized and could not, in any case, hope to emulate.

The world's first unmistakable glimpse of this transformation came on September 11, 2001. Politicians would later say that on that day "the world changed." It might be more apt to say that on that day something about the world was revealed—at the very least, the incredible power now residing in the hands of an entirely new kind of international entity, inherently stateless and deeply elusive. As subsequent events demonstrated, even experts disagreed as to what they were observing, and what it might have to do with specific states and regimes.

Left unchecked, illicit trade can only pursue its already well advanced mutation. There is ample evidence that it offers terrorists and other miscreants means of survival and

methods of financial transfer and exchange. Its effect on geopolitics will go further. In developing countries and those in transition from communism, criminal networks often constitute the most powerful vested interests confronting the government. In some countries, their resources and capabilities even surpass those of their governments. These capabilities often translate into political clout. Traffickers and their associates control political parties, own significant media operations, or are the major philanthropists behind nongovernmental organizations. This is a natural outcome in countries where no economic activity can match illicit trade in size or profits and therefore traffickers become the nation's "big business." And once their business becomes large and stable, trafficking networks do as big businesses are prone to do everywhere else: diversify into other businesses and invest in politics. After all, gaining access and influence and seeking government protection has always been part and parcel of big business.

Therefore not only are illicit networks tightly intertwined with licit private sector activities, but they are also deeply embedded within the public sector and the political system. And once they have spread into licit private corporations, political parties, parliaments, local governments, media groups, the courts, the military, and the nonprofit sector, trafficking networks assume a powerful—and in some countries unrivalled—influence on matters of state.

Perversely, the awareness of the ravaging effects of illicit trade often sparks nationalistic impulses and insular responses. Ironically, these reactions end up working in favor of the traffickers—for the more states seek to raise barriers against the flow of illicit goods, services, and labor, the more the traffickers stand to profit from their trade. National borders are a boon to criminals and a block to law enforcement agencies. Borders create profit opportunities

for smuggling networks and weaken nation-states by limiting their ability to curb the onslaughts of the global networks that hurt their economies, corrupt their politics, and undermine their institutions.

This story is no longer just about crime. It is also about a new form of politics in the twenty-first century. And about the new economic realities that have brought to the fore a whole new set of political actors whose values may collide with yours and mine, and whose intentions threaten us all.

BLIND SPOTS

My interest in illicit trade comes out of a decade of work on the surprises of globalization. As editor of *Foreign Policy* magazine, it has been my job to track and understand the unanticipated consequences of the new connections between world politics and economics. As I encountered these surprises, learned the stories, and often had the chance to meet their protagonists, this professional interest evolved into a personal fascination. I wrote about financial crashes on one continent that rock countries oceans away, and on the ways in which new standards of human rights developed in Europe ended up transforming politics in Latin America. I studied how corruption became a political lightning rod more or less simultaneously around the world—and not because corruption was born in the 1990s. What surprised me the most, however, was how often my research on a host of seemingly unrelated topics led me to the world of illicit trade and global crime.

My background is not in law enforcement or criminology. But as I investigated the effects of globalization on international economics, finance, and governance—in rich and poor countries alike—I was inexorably pushed toward this topic. Travels in Russia, China, Eastern Europe, and Latin America convinced me

that there was much going on in those regions—and in the world—that we could never understand unless we paid more attention to the role of criminal activities in shaping decisions, institutions, and outcomes.

My work at *Foreign Policy* also gave me a privileged and panoramic window into the changes the world was experiencing and the chance to discuss with some of the world's more insightful analysts and practitioners how they were interpreting these changes.

I also made a habit, however, of devoting some time everywhere I went to seek out police officers, prosecutors, journalists, and academics who could give me a glimpse of the illicit trade situation in their country. It quickly became clear that even in countries as diverse as Thailand, Colombia, Greece, Mexico, and China, these conversations had an uncanny resemblance. Illicit trade was bigger, more pervasive, and less understood than most people realized, including me. Up close its political consequences were evident and frightening. Yet their discussion was at best marginal. The more I looked, the more I found specialists who knew a lot about one aspect of global crime and far less about the others or the ties that connect them. I began to assemble my own list of perplexities, anecdotes, data, sources, thinkers, practitioners, and surprises about the different illicit markets.

I soon discovered that it was impossible to read the newspaper on any day anywhere in the world without spotting news about illicit trade. Most of the time it was presented as different stories, but for me these news items had become manifestations of a single, unified global phenomenon driven by the same improbable combination of old human impulses, new technologies, and changed politics. It also became apparent to me that neither reporters nor academics were affording the political consequences of the events they were writing about the importance that those on the front line of these fights kept

telling me they had. I was also intrigued by the scant attention specialists in international relations and world politics were paying to the consequences of illicit trade on their subjects of study. Most of all, I was baffled by how an inherently economic phenomenon was customarily treated with moral denunciations and law enforcement remedies.

In early 2002 the American Society of International Law invited me to deliver the Annual Grotius Lecture, which I centered on my views on illicit trade. I titled it “The Five Wars of Globalization”—referring to the illicit markets for arms, drugs, human beings, intellectual property, and money—and it was published in slightly different versions in the *American University International Law Review* and the following year in *Foreign Policy*. The article was reprinted by many other publications and enjoyed a broad dissemination worldwide. The publication of “Five Wars” encouraged many scholars, magistrates, and prosecutors, law enforcement and intelligence officers, journalists, and even victims of trafficking from around the world to share their views and experiences with me. Again I encountered stories from different trades, different countries, different continents, and different contexts. Yet the stories’ patterns and even details shared extraordinary similarities. More important, they illuminated even more sharply the prevailing blind spots, both in the analytical lenses we use to make sense of what is going on and in the public policies that governments have chosen to address this problem. These blind spots too were uncannily similar. Thus, the idea of this book was born.

A note about data: The volumes of the illicit trades and the profits derived from them remain at best gross estimates. All the numbers in this book come from the most reliable sources possible—usually international organizations and governments or nongovernmental organizations whose work is generally deemed to be serious and reliable. Each of the facts, figures, and events

mentioned in the text is referenced at the end of the book. Most of the individuals I interviewed are also named in the references, except of course those who would speak only on the condition of anonymity.

Still, while the figures used here are the best available, it is important to remember that these are estimates of secret activities. They may therefore either underestimate or overestimate the reality. Nonetheless, all the available evidence supports the central empirical argument of the book: the volume of these trades is larger and their operations much more complex and sophisticated today than they were in 1990. And as the chapters ahead show, we are beginning to understand how they really work and what their effects are.

Chapter 2

GLOBAL SMUGGLERS ARE CHANGING YOUR WORLD

THERE IS THE story we know. And then there is the other story.

Here is what we know: The last decade of the twentieth century changed the world. A sudden, unexpected eruption of new ideas and new technologies in turn changed politics and economics everywhere. Billions of lives were transformed. The demise of the Soviet Union discredited communism and gave free politics and free markets unprecedented popularity. As a result, the 1990s¹ will go down in history as an example of a period when the power of ideas became obvious to all.

Those years will also be remembered as another period when the pace of technological change took everyone by surprise. New technologies shrank the world and made distance and geography less important than ever. During the 1990s the only thing that seemed to drop faster than the cost of shipping cargo from Shanghai to Los Angeles was the cost of making a phone call across the world. Traveling to places once prohibitively expensive to reach or politically off-limits suddenly became a normal experience for millions. The political consequences were as enormous as the economic ones. Democracy soared and during the 1990s the number of countries where elections were held reached an all-time high. So did stock markets, international trade, international capital flows, and the number of movies, books, messages, and phone calls that crossed borders.

That is the part we know. It is a story in which we all participated and one that has been the subject of plenty of books and ample media coverage. But another story runs alongside it. That story is just as crucial but far less known.

That story is about smuggling and, more generally, about crime. During the 1990s smugglers became more international, wealthier, and more politically influential than ever before. Global crime has not just soared in volume but, thanks to its ability to amass colossal profits, has also become a powerful *political* force. And the lenses through which we interpret world politics and economics need to be adjusted to this change—urgently.

Behind this political ascendancy of global criminal networks is a dynamic of globalization that is powerful, yet usually overlooked. That dynamic is the theme of this chapter. It is how the changes of the 1990s did not just empower criminals but at the very same time weakened the agencies in charge of fighting them. Criminal networks thrive on international mobility and their ability to take advantage of the opportunities that flow from the separation of marketplaces into sovereign states with borders. For criminals, frontiers create business opportunities and convenient shields. But for the government officials chasing the criminals, borders are often insurmountable obstacles. The privileges of national sovereignty are turning into burdens and constraints on governments. Because of this asymmetry, in the global clash between governments and criminals, governments are systematically losing. Everywhere.

The signs are all around us: visible, recognizable, with tangible effects on our daily lives. Illicit trade today permeates rich and poor societies alike. Old smuggling and trafficking specialties are revitalized and whole new lines of business are sprouting. Forms of illicit commerce that we thought we had ended for good, just as medicine eradicated smallpox, are instead back in business.

Consider slavery. It was supposed to be dead. Instead it's thriving, in the form of coerced sex, domestic work, and farmwork by illegal migrants working off never-ending debts levied by traffickers. Yes, many foreign workers around us have voluntarily chosen their condition as illegal immigrants. But many others have been coerced into their current predicament, the exploited victims of criminals who profit from an illicit market worth billions. Slavery is just one facet of a global trade² in human beings across borders that affects at least 4 million people every year, most of them women and children, for an estimated value of \$7 to \$10 billion. Whole new trade routes have opened up, joining the republics of the former Soviet Union, South and Southeast Asia, West Africa, Latin America, Western Europe, and the United States in baroque networks of recruiters, touts, extortionists, hired muscle, transporters, safe houses, and online dispatchers that can procure a "worker" of any desired age, nationality, or physical characteristics and deliver her or him across continents in as little as forty-eight hours.

Or take the drug trade. We still speak of drug "cartels," but the drug business today has largely dissolved the heavy organized crime-like operations of the past and works in more nimble, less traceable ways. And business is good. A ferocious new boom in opium poppies, the raw material for heroin, exploded in Afghanistan after the war that ousted the Taliban, and production has taken off in places where it was previously unknown, such as Colombia. Meanwhile methamphetamines and "party drugs" like ketamine and Ecstasy have surged onto the market. Global drug seizures nearly doubled in volume between 1990 and 2002,³ with no evidence of consumption coming down. In fact, Southeast Asia has seen a surge of party drugs, countries on the new trade routes such as Brazil, Nigeria, and Uzbekistan are wrestling with unprecedented levels of addiction, and in the United States heroin and methamphetamines are

reaching the crisis proportions that crack cocaine assumed in the late 1980s. All this despite the declared war on drugs, the largest deployment of money, technology, and personnel that humankind has ever devoted to stopping drugs from moving across borders.

Meanwhile, the international weapons trade has mutated and gone largely underground, with ominous implications. During the cold war era, arms trading was associated with the efforts of powerful governments—together with a few big-name companies—to lock in the loyalty of client states with fighter jets, frigates, or munitions. That part of the arms business is still enormous, but it is joined today by a vibrant private trade in small arms and light weapons, such as shoulder-launched missiles, AK-47 assault rifles, and rocket-propelled grenades or RPGs. According to the United Nations, since 1990 the small-arms trade has fueled close to fifty wars⁴ around the world, especially (though not only) in Africa. Vast amounts of cold war-era overstock have flowed onto the market. Thousands of informal, often invisible merchants today ply the trade once reserved for large corporations that catered to governments. Now, private armies, informal militias, guerrilla groups, and all kinds of new organizations—including a private security business that is booming worldwide as a result of rising crime rates—fuel the boom in the small-arms business. Looming behind all this is something more worrying still: the international traffic in the knowledge, equipment, and materials used to produce nuclear weapons.

And although “loose nukes” might not turn up at every street corner, counterfeits—another immense growth area for illicit trade—increasingly do. Improperly copied clothes, cosmetics, compact discs, and even motorcycles and cars are produced and consumed at unprecedented rates around the world, often in full knowledge that the brand is fake. Music and film copied or downloaded under dubious

conditions are a staple of countless homes around the world, to say nothing of college dorm rooms. Software manufacturers dread the “one-disc” effect, a phenomenon in which a single counterfeited copy can propagate until it has taken over an entire country, pushing the legitimate product out of that market. Yet even in countries with high intellectual property standards, such as the United States, or in the European Union, piracy rates of one-quarter or more for popular software and operating systems are common.

No product is safe. Counterfeit medicines range from life-saving generics to life-ending hazards like the fake cough medicine that killed close to a hundred children in Haiti because it contained automobile antifreeze.⁵ In all these businesses the complicity of public officials and senior military officers is not only obvious but indispensable.

The financial industry, which exploded in the 1990s, has not been spared in the onslaught. Quite the contrary: money laundering and tax evasion have grown in proportion to the ballooning size of the international financial system, or faster. In 1998 the then director of the International Monetary Fund, Michel Camdessus,⁶ estimated the global flow of dirty money at 2 to 5 percent of the global economy, a figure he called “beyond imagination.” Yet more recent estimates place the flows of laundered money at up to 10 percent of global GDP.⁷ It is clearly time to expand the reach of our imagination: dirty money is a fundamental part of the world economy. No longer the preserve of exotic “offshore” islands like the Caymans or the Isle of Man, money laundering has worked its way into the sinews of the financial system. The high speed, interconnectedness, and global reach of transactions have made common the practices of juggling accounts, establishing front companies, channeling funds through dizzying arrays of intermediaries, and blending

legitimate and illicit uses. The island of Manhattan or the City, London's financial district, are as much the front line in the fight against money laundering as are Vanuatu or Curaçao.

The list of thriving contraband businesses goes on: Ivory from the tusks of elephants illegally culled in South Africa and Zimbabwe, openly sold in Guangzhou, China. Human kidneys from live sellers ferried from Brazil to South Africa and transplanted into German customers recruited online by Israeli brokers. Ancient Inca or Iranian antiquities spirited away from protected sites and sold in the art galleries of Paris and London. Exotic animals like pangolins and pythons. Chemicals that deplete the ozone layer. Long-lost Matisse and Renoir paintings. Junk computer parts saturated in mercury sent to dumping grounds in locales where environmental protection laws can be evaded. "Blood" or "conflict" diamonds illegally mined and smuggled from war zones. All of it for sale, in a thriving global marketplace that has been easy to overlook because it has merged so effectively and seamlessly into the legitimate market, using the same tools and often involving the same people—whether as suppliers, transporters, financiers, wholesalers, brokers, or final customers like you and me.

Illicit trade has broken the boundary and surged into our own lives. We can no longer ever be sure—not sure of whom our purchases benefit, not sure of what our investments support, not sure of what material or financial connections might tie our own labor and consumption to goals or practices we abhor. For traffickers, that spells triumph. A triumph that takes the form of unfathomable profits and unprecedented political influence.

GLOBALIZATION HAPPENED

How did this happen? Simply, globalization happened. That is not an explanation in itself, of course. Globalization is a loose and flexible concept invested with many meanings. But then, how else to describe the rapid integration of world economies, politics, and cultures that defines our time? And how to mark what is new about this time that makes the eighties feel so often like a distant antiquity?

One major change that this most recent wave of globalization often brings to mind is a revolution in politics as deep and transformational as the one in technology. That revolution represented the ascendancy of the Western political and economic system, or some version of it. It began with the fall of the Berlin Wall and the dissolution of the Soviet Empire, and it saw its application in a menu of economic reforms that countries around the world, rich and poor alike, implemented in full or in part. In policy circles, the “Washington consensus” sobriquet that came to designate this menu became a recognized “brand” of the 1990s.⁸ Its convenient use to summarize sweeping changes in economic policies glossed over the power politics that accompanied the new agenda, and it minimized the enormous variations in the way different countries actually executed these reforms.

Still, the reforms of the 1990s all pointed in a common general direction, toward what economists call an “open economy.” In this view barriers to trade or investment should be as few and as low as possible; rules are known in advance, transparent, coherent, and uniformly enforced; and government interventions are bounded, meaning that few or no prices are set by the government and the economic weight of the state is reduced thanks to balanced budgets and the shedding of state-owned enterprises. Promoting exports and open trade is better than protecting local industry behind barriers that limit imports. During the 1990s these ideas provided the compass for economic policy makers around the world.

Globalization has given us new habits, new customs, new expectations, new possibilities, and new problems. That we know. What we know far less well is how richly globalization has translated for traffickers. The interconnected world has opened bright new horizons for illicit trade. What traffickers and their accomplices are finding on these horizons is not only money but also political power.

REFORM = OPPORTUNITY

Commerce of all kinds surged in the 1990s as country after country lowered its barriers to imports and exports and eliminated regulations that inhibited foreign investment. The change was dramatic. In 1980, the average tariff—or duty that governments levied on imports and exports—was 26.1 percent. By 2002,⁹ it had fallen to 10.4 percent. Crowning events in this trend included passage of the North American Free Trade Agreement (NAFTA) grouping the United States, Canada, and Mexico in 1994; the establishment of the World Trade¹⁰ Organization in 1995 and China's joining it, after long negotiations, in 2002; the enlargement of the European Union from fifteen to twenty-five member states in the spring of 2004; and a spate of trade facilitation treaties between countries or entire regions on every continent. With each of these measures participant countries agreed to accord their trade rules, always in the direction of lower tariffs, fewer obstacles, and simpler ways to resolve trade disputes should they occur.

The dramatic expansion of world trade during the decade—it grew on average at over 6 percent from 1990 to 2000—also created ample room for illicit trade. For there remained plenty of rules for legitimate trade to obey while markets and customer appetite for products that countries restricted kept growing. It was soon clear that the facilities

that countries adopted to encourage legitimate trade in their success also benefited illicit traders in their own activities. One benefit was the reduction of border controls, either in number or in stringency; in some places, as among the so-called Schengen group of countries within the European Union, border controls were virtually abolished. And those that persisted tended to become swamped by the sheer flow of goods. Even after 9/11 and the ensuing crackdown on U.S. frontiers, the main border posts between Mexico and the United States can inspect only a small proportion of trucks—and for a few minutes at most—for fear of backing up traffic for miles. The situation at the world's cargo container ports is even more problematic. And everywhere increased traffic, express custom clearance schemes, the spread of free ports and export processing zones, the ubiquity of air cargo, and the impossibility of checking every FedEx or DHL package all offer smugglers new ways to traverse borders.

The crush of goods at congested border posts vividly illustrates that markets have integrated much faster than have political systems. Illicit traders have turned this reality into a crucial competitive advantage—one that strengthens their position both vis-à-vis legitimate competitors and in their cat-and-mouse game with authorities. As goods move more easily across borders, frontiers clearly still matter: on either side is a different jurisdiction with its own police, customs agents, laws, and regulations. Illicit traders can hop among these jurisdictions or spread their operations across them thanks to the many tools now available to commerce. With communication technologies that allow such tasks as warehouse management and shipment tracking to be done remotely, the trader and the goods need never be in the same place at the same time. This flexibility is a crucial advantage that illicit trade has over governments, and is a defining aspect of the problem. It gives traffickers an

incentive to organize in ways that maximize the jurisdictional tangle.

Privatization and business deregulation have played their part as well. In the formerly closed or state-dominated economies, the sell-off or closure of state-owned companies ended a great many industrial monopolies, forcing factories to convert themselves in order to survive. For many, this meant supplying weapons and munitions with little attention to who might be buying, or playing fast and loose with patents and trademarks. Of course, state ownership is no insurance against illicit trading practices; quite the contrary, as shown by China, where firms controlled by the government or the military have been linked time and again to counterfeiting. Meanwhile, the tendency to lift regulations on businesses has not only spurred the desired forms of entrepreneurship and investment but also multiplied the avenues for illicit traders to establish legitimate fronts and launder funds, and generally reduced the cost of doing business.

Crucially, economic reforms have benefited illicit traders by weakening their enemy. Governments simply have less latitude to act, enforce, and spend as they please. Fiscal restraint has become the paramount value by which to judge a government's performance. Wedged into what the *New York Times* columnist Thomas Friedman famously called the "golden straitjacket"¹¹ of the capital markets, few countries can afford to be blacklisted by global money managers turned off by large deficits. A large and unsustainable budget deficit, especially in poor countries or "emerging markets," is likely to spark massive capital outflows, resulting in high borrowing costs to finance government operations. This in turn can wreak havoc on a government's ability to deliver the public works and social programs its citizens expect. The answer in most emerging markets where taxes are hard to raise (or even collect) is to cut expenditures. And it is often easier to cut funding to

law enforcement, jails, and the judiciary than to cut funds for politically sensitive social programs. This was the norm in many countries during the 1990s. So while traffickers saw their markets grow global and their revenues soar, funding for the agencies in charge of containing them either declined or stagnated.

In the most vulnerable settings, these effects went further. Fiscally constrained governments often have trouble compensating their civil servants adequately, or even paying them in full and on time—all of which almost guarantees corruption. They are limited in their attempts to change the incentives to traffic, for instance by supporting alternative cash crops to coca or opium poppies. And they are more likely to have to concede to traffickers the role of default social welfare provider, ensuring local support (or at least toleration) for the trade and blurring the situation's moral clarity. Few governments have the capacity to navigate all these perils without leaving some vulnerability unaddressed. The traffickers have enormous incentives to find these vulnerabilities. They almost always succeed.

TOOLS OF THE TRADES

It was not economic reform alone that stimulated the boom in world trade. New technologies have played a major part too: more efficient ships, roll-on/roll-off cargo container vessels, new loading and unloading tools, better port management, improved logistics, advances in refrigeration, new packing materials, just-in-time inventory management, satellite navigation and tracking, and more. To these—which serve all forms of trade, legitimate and otherwise—traffickers have added creative applications of their own. The generalization of high-quality latex condoms, for instance, reduces the risk of breakage (usually lethal) associated with the universally preferred container for drug