

Stop Crime

The Ninth United Nations Congress on
the Prevention of Crime and the Treatment of Offenders

Transnational crime disrupting development and peace

Taking advantage of the dominant economic trends of the 1990s — globalization and liberalization — transnational crime is now a major force in world finance, able to alter the destinies of countries at critical stages of their economic and social development.

With combined annual sales that dwarf the gross domestic product of most countries and a customary 70 per cent rate of profit which allows them to amass assets more rapidly than banks or large corporations, the biggest syndicates are now world-class financial powers in their own right. Also ominous is the new tendency for the traditionally insular and clannish world powers of crime — the Hong Kong-based Triads, South American cocaine cartels, Italian mafias, the Japanese *Yakuza*, the Russian *Vory v Zakonye* and affiliated newcomers, and rapidly expanding West African crime groups — to make deals with each other and combine operations.

The principal threat, however, lies in the tendency of transnational crime to subvert the benefits of globalization and liberalization, on which industrialized as well as developing countries are pinning their hopes for economic growth, and bring out destructive aspects of the process.

Currencies in crisis

The December 1994 devaluation of the Mexican peso provides a graphic example. It was triggered by fiscal and trade imbalances aggravated by the movement of “hot” money — speculative or short-term investments that enter and leave national economies rapidly and at will. How much of that money was — and is — not only “hot” but “black” (the proceeds of crime) or “gray” (laundered or invested so as to illicitly evade taxation) is an open question.

“The transformation of Mexico’s political and economic system in the last few years means that central controls have deteriorated, and new measures have not yet taken their place,” says Mexican economist Luís Rubio. “As a result there has been an

increase in illicit activity, particularly as related to narcotics traffic.”

Mr. Rubio cites a United States Treasury estimate that more than a quarter of the funds used to purchase recently privatized Mexican banks was of illicit origin.

Mexico is a strategic transit point for drug money because of its geographical and commercial access to the United States, by far the largest consumer of illicit narcotics, and cultural and commercial ties to the rest of Latin America. It is generally estimated that 70 per cent of the cocaine consumed in the US enters via Mexico, and the US Drug Enforcement Agency estimates that operatives in Mexico charge a 40 to 50 per cent commission for their work.

The trade has taken on all the attributes of large-scale commerce: traffickers are purchasing truck fleets and warehouses in the maquiladora zone adjacent to the US, and the *New York Times* reports that confederates are flying cocaine into Mexico on fully loaded Boeing 727 and Caravelle jets stripped of their passenger seats.

Cocaine in transit is not the only source of illegal funds. Sales are generated by extensive cultivation within Mexico of cannabis (marijuana) and poppies (for the production of heroin) and numerous methamphetamine (“speed”) laboratories, as cited in the 1995 report of the UN’s International Narcotics Control Board.

In addition, the Mexican economy is one of the many around the world subject to rapid liberalization and large-scale privatization, a pattern that attracts money launderers handling funds that may have come from Europe, Asia, Africa or North America, as well as Latin America and the Caribbean.

“Mexico is one of the major money-laundering countries in the hemisphere, and the lowered barriers brought on by the North American Free Trade Agreement is aggravating the situation,” says Charles



Intriago, editor of *Money Laundering Alert*. "It's difficult to imagine any economic developments in Mexico unaffected by money laundering. In regard to the rapid flows of money taking advantage of the ups and downs of the Mexican bolsa, Mr. Intriago points out that "the money managers of international crime are as astute as any Wall Street financier".

Once the devaluation was implemented — bringing crushing hardship to the Mexican people and disrupting financial markets around the world — money launderers moved quickly to take advantage. Holding large amounts of dollars suddenly worth 30 per cent more relative to the peso, money launderers were reported buying pesos with which they purchased moveable Mexican assets such as works of art, luxury automobiles and boats for sale in other countries for dollars. These dollars in turn could be recycled into pesos, and the process repeated.

According to a 1993 United Nations Development Programme (UNDP) survey, drug money in economies around the world stimulates consumption of imports and luxury goods, favours speculation over investment in productive export enterprises and fuels inflation. In addition to these factors, all evident in the 1994-1995 Mexican crisis, is impact of political de-stabilisation. Mexican national confidence was badly shaken by the 1994 a of the presidential candidate as well as the Secretary-General of the country's leading political party. The public perception that both crimes may have been initiated by organized crime, whether or not corroborated by the facts, was itself a major factor undermining the confidence of legitimate investors and bringing on the devaluation.

Russia is another country where the 1990s imperatives of privatization, deregulation and competition for investments, markets and hard currency have opened the door to transnational crime.

- In 1982 there were four banks in the country, all closely regulated by the Soviet central bank. Today, there are at least 2,000, and until recently bank charters could be purchased for the price of a luxury car. Many of these banks are reportedly fronts for criminal organizations, both domestic and foreign.

- Russian crime groups and money launderers acting on behalf of international syndicates "buy privatization vouchers or directly purchase businesses and thereby exercise control over a vast range of enterprises", according to a report to a June 1994 international conference on money laundering.

- Roubles as well as smuggled arms and valuable metals worth billions of dollars leave the country in an unregulated fashion each month, and there is a substantial inflow of black and gray money.

"There are all sorts of conspiracy theories floating around as to how the rouble is being manipulated for speculative advantage", remarks Guy Dunn of Control Risks Group, a London-based consulting firm. "But we can safely say that the monetary system is so immature, and the amounts of illegal money flowing in and out of the country is so huge, that the Russian financial system is held hostage by the mafia." During

the October 1994 currency crisis, the central bank halted a 20 per cent drop in the value of the rouble with an intervention of \$150 million, and "if you can temporarily stabilize the currency for that much, you can de-stabilise it for the same amount", Mr. Dunn said.

Wealth and reach of organized crime

Russian syndicates have established a dominant position in Eastern and Western Europe, controlling the prostitution industry and bringing home an estimated quarter-million stolen cars each year. But their international impact is eclipsed by the less-publicized wealth and reach of the Triads, an intricate network of Chinese crime organizations with a history dating back to the nineteenth century opium trade.

The Triads operate in every major city with a substantial Chinese population, bringing in an estimated \$200 billion a year from extortion, prostitution, heroin, alien smuggling, entertainment, the media and banking. The liberalized Economic Zones in Fujian and Guangdong provinces, China, are favoured sites for investing profits, and the Triads' banking expertise, Hong Kong base of operations and ethnic ties with the mainland population allow them privileged access.

The Fujian-Guangdong economic juggernaut is the engine of growth in China, and the Chinese economy in turn is considered a linchpin to continuing growth in East and South-East Asia. But Chinese authorities as well as economic experts are concerned that boom could turn to bust under the destabilizing impact of speculative investment and the rapidly widening gap between rich and poor — both exacerbated by crime group penetration.

Also causing alarm are the nature of some of the investments. "These include cargo facilities and bonded goods sales at the Fujian International Airport, a large-scale containerized cargo facility to handle sea-borne exports in Xiamen Island and a large export-processing warehouse in Shenzhen for containerized shipment of goods by air and sea through Hong Kong," an expert witness told a United States investigatory committee in 1994. Cargo containers are now the favoured means for shipping narcotics, other smuggled commodities, and even bales of currency from drug sales.

The illegal state and the clandestine economy

For a time in the early 1980s, criminal organizations involved in the cocaine trade were widely acknowledged to be running the government of Bolivia. Similar pre-conditions — debt, a depressed market for primary commodities, pressures brought on by a changing international economic environment — led to Charles Taylor's rise to power in Liberia in the early 1990s. Although he failed to consolidate control of the Government, Taylor remains a national power broker, and his methodology is serving as a model for military, crime and political opposition leaders in other African countries.

"You just need some crack cocaine, some 13-year olds separated from their families, and some cheap East European weapons and you can control territory", is how one observer characterizes the process. The territorial potentates then strip natural resources for sale overseas, and secondarily engage in drug trafficking and smuggling, while avoiding governmental obligations such as payments on national debt, providing minimal services to the general populace, meeting international standards and honoring international conventions. This scheme works most effectively in countries with civil conflicts, conveniently saleable natural resources such as diamonds and precious stones, and impoverished populations — and there are easily half a dozen in Africa answering that description.

Although borne of the economic and political difficulties afflicting Africa, these modern-day fiefdoms require an appropriate international environment. The weapons and the hard drugs come from outside Africa, and the purchasers of raw materials are either crime syndicates or international businessmen with few scruples as to how they turn a profit. The gangster territories, in turn, provide new base areas for the expansion and consolidation of transnational crime networks.

Criminal convergence

The rapid expansion of cross-continental operations means that the major crime syndicates are more frequently crossing paths. While there is no desire to merge organizations, there are indications that they are willing to enter into mutually beneficial arrangements:

- Italian mafiosi are advising Russian crime groups on money-laundering techniques, and high-level meetings to facilitate collaboration have been held in Warsaw and Prague.

- Last year, more than a tonne of Colombian cocaine was seized by Russian police in St. Petersburg, and Colombians arrested in the same city have been charged with helping Russians to set up drug-producing laboratories. They are also known to be interested in the export potential of the millions of acres of cannabis (marijuana) and poppies (for the production of heroin) inside the territory of the former Soviet Union.

- Arms and stolen goods are exchanged between Russian gangs and the Yakuza through the east Russian port of Vladivostock.

- The illegal amphetamine known as "ice" is produced in South China labs and distributed via Hong Kong on routes jointly coordinated by the Triads and the Yakuza.

- The ancient "Silk Road" that was the first link between the East and the West has been revived as a Central Asian heroin corridor, linking Afghani and Pakistani producers with European distributors via crime groups in former Soviet republics.

- A successful multi-national law enforcement "sting", called Operation Dinero, uncovered direct ties between leading Italian and Colombian smugglers. In the course of the 1994 investigation, a crime family-owned ship suspected of trying to violate the UN

embargo against Croatia was stopped, and two large cargo containers with arms and ammunition were discovered.

Crime and development

"The capital that is accumulated in Russia is not flowing into productive opportunities, but into speculation, short-term investments and luxury spending," says Jozef van Brabant, Principal Economic Affairs Officer at the United Nations.

Most newly formed Russian businesses are in the service sector, Mr. van Brabant points out, and most are owned by or necessarily cooperate with organized crime. Restaurants and night clubs are especially common start-ups. As a result, imports now make up 60 per cent of Russian consumption — as opposed to 10 - 20 per cent in most large countries.

A decline in "official" GDP of 18 per cent in 1993, and a 25 per cent slide in industrial production, stand in eerie contrast to a 10 per cent increase in aggregate personal income during the same year. The gap indicates the size of criminal and off-the-books economic activity. It also explains the the Government's difficulty collecting taxes, a major cause of the budgetary crises which continue to plague Russia.

Further inefficiencies are brought about by corruption of public officials and extortion of legitimate businesses — practices which the Russian gangs, the Italian mafias, the Yakuza, the Triads and the Cali cartel all excel.

A similar misallocation of economic and human resources takes place wherever transnational crime organizations operate — which is in most of the world.

A UNDP survey of the effects of drug money on Colombia, Peru and Bolivia finds that trafficking brings large amounts of foreign exchange into these countries, fueling inflation and bringing down the return on exports. Production of goods for export is further discouraged by money laundering which, according to the survey, "fosters contraband activity, often lowering the costs of goods smuggled; propitiates the underbilling of imports and the overbilling of exports; stimulates the flight of capital and induces mistrust of foreign investors, thus affecting the equilibrium between savings and investment, as well as legal employment generation". The Economist points out, in a 1995 article on Colombia, that "where the main purpose of investment is to launder drug money, the effect is often to crowd out legal businesses". This is because the main objective of the money launderers is to transform illicit money into legitimate assets; it is in their interest to keep a business in operation even if it sells goods or services below cost. Legitimate businesses cannot set their prices in this fashion.

In the weak economies of sub-Saharan Africa, transnational crime's effect on social and economic development is crystallizing rapidly. The focal point is the African crime capital of Lagos.

Lagos became a transit point for South American cocaine in the 1980s. When prices for oil —

Nigeria's economic mainstay — plummeted in the mid-1980s, young college-educated Nigerians who saw their careers disappear overnight decided to go with a commodity with more of a future. At first working under the tutelage of the Colombian cartels, the Lagos-based groups now control cocaine routes originating in the Andean highlands and passing through Brazil. Channels for South-East Asian heroin were also established. The intensity of involvement is indicated by an African newspaper report that there are so many Nigerians languishing in Thai jails that the Government of Thailand is asking for their repatriation.

Similar types of crime organizations, with greater or lesser Colombian involvement, were established in nearby West African countries. These economies were also hard hit by falling prices for primary commodities, including cocoa, coffee and copper. Syndicate inroads were facilitated by the structural adjustment programmes debt-ridden countries agreed to in order to receive loans from the International Monetary Fund. Promoting economic liberalization and governmental austerity, structural adjustment set off a desperate scramble to mobilize capital in countries with depressed legal economies. An impoverished populace with fewer public services to rely on became more amenable to recruitment into organized crime, police forces were weakened under austerity budgets and officials became more susceptible to corruption.

"The drug trade in Africa has developed hand-in-hand with structural adjustment," concludes Tara O'Connor of the Control Risks Group.

The fallout from West African transnational crime:

- In addition to flooding established markets in Europe and North America, drug distribution networks were established on the African continent. Abuse of hard narcotics, relatively unknown in sub-Saharan Africa before 1990, is now a major problem.

- Crime groups are a major impediment to a democratic transition in Nigeria, traditionally considered the most politically and economically influential sub-Saharan African nation.

- South Africa's status as an international model of political reconciliation and the new engine of economic growth for Africa is in jeopardy due to penetration by Lagos crime groups. A rapidly growing demand for cocaine, a sophisticated financial infrastructure coveted as a base for money laundering, the economic and political imperative of rapidly attracting investments, the presence of unemployed civilians with paramilitary training and disaffection among the newly organized security forces all point to the possibility that a rising regional power may become a playing field for transnational crime.

- The Lagos-controlled East-West cocaine routes first intensified Brazil's importance as a transit point, and then the nearly inevitable spillover effect swelled domestic marketing of the drug. The rapid growth of Brazilian cocaine gangs brought about military occupation of Rio de Janeiro's hillside favelas

(low-income neighborhoods) and army patrols on Rio's famed beaches.

Avenues for international cooperation

Experts contend that coordinated international action and greater harmonization of criminal justice systems can drastically curtail the power of transnational crime.

"A successful effort will entail a more innovative use of existing and new bilateral and multilateral legal mechanisms as well as more uniformity in national actions, so that law enforcement officials can be as mobile and efficient as new organized criminals," according to an article in a Washington, D.C., criminal justice journal.

- Informal measures such as personnel exchanges between national law enforcement agencies, regional and international seminars and conferences, and ongoing information exchanges have proven effective in encouraging a transnational subculture based on common functions and objectives. "It is this transnational identity — based on the notion that a cop is a cop and a criminal is a criminal, no matter what their respective nationalities — that provides the oil and glue of contemporary international law enforcement," writes author Ethan A. Nadelmann.

- Technical and technological assistance to police, judiciaries, penal institutions and other criminal justice agencies in developing and transitional countries disrupts organized crime while promoting domestic political and economic stability.

- Extradition of fugitives is crucial to international cooperation. Greater harmonization among criminal justice systems would facilitate cooperation, as would adoption of the Model Treaty on Extradition elaborated at a 1990 UN Crime Prevention Congress.

- Mutual legal assistance treaties (MLATs) are legal instruments providing for the exchange of evidence and witnesses between countries. As with extradition, nationalist sentiments and differing law codes are obstacles to full use of these agreements. But when seriously implemented, MLATs such as the 1977 accord between the United States and Switzerland concerning money laundering and bank secrecy and the 1985 "international subpoena" arrangement between the US and Italy have proven effective. A Model Treaty on Mutual Assistance in Criminal Matters was drawn up by the UN, also at the 1990 Crime Congress.

- Internationally harmonised measures against money laundering have been called for by Interpol, by the industrialized country-organized Financial Action Task Force and at a June 1994 money-laundering conference run by the UN's Crime Prevention Branch. Measures include limitations on bank secrecy, regulation of the many non-bank businesses and professionals now conducting financial operations, national mechanisms for asset forfeiture, and codification of money laundering as a crime in itself.

This archiving project is a collaborative effort between United Nations Office on Drugs and Crime and American Society of Criminology, Division of International Criminology. Any comments or questions should be directed to Cindy J. Smith at CJSmithphd@comcast.net or Emil Wandzilak at emil.wandzilak@unodc.org.