

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 1990s 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 that has been reported and one that has received ample media coverage. The other part is just as crucial but less so.

That story is a different one. During the 1990s, the world became more politically and economically integrated, not just soared in economic growth and profits, has also become a global village through which we are all adjusted to this change.

Behind this part of the story is a dynamic of global integration. That dynamic is the result of the 1990s did not weaken the agricultural and manufacturing works thrive on the advantage of the marketplaces into which the frontiers create business. The government cannot surmountable obstacles are turning into burdens. This asymmetry, in the form ofinals, governments, and the world.

The signs are everywhere. The effects on our daily lives are societies alike. Countries are organized and whole nations of commerce that were eradicated small.

Consider slavery in the form of legal migrants with Yes, many foreign

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 trade 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, 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 power-

ful governments—to lock in the loyalty of nations. That part joined today by a weapons, such as shells and rocket-propelled Nations, since 1990 wars around the world amounts of cold war. Thousands of information trade once reserved for governments. Now, private all kinds of new organizations that is booming with boom in the small-thing more worrying equipment, and ma-

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ful 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 wars 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. 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, 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. 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 with the same tools and often the same players, transporters, and intermediaries like you and me.

Illicit trade has become a global phenomenon. We can no longer ignore the benefits it brings, nor the costs it imposes. It is a source of what materialists call "wealth" and consumption, and it is a force that spells triumph for the few and unprofitability for the many.

GLOBALIZATION

How did this happen? It is an explanation in search of a theory. A concept invisible to the eye, but one that describes the rapid changes in the world that define the time that makes the difference between the past and the present.

One major force often brings to mind the international as the ascendency of the West, the version of it. It is the evolution of the world economic reform, like, implementation of a "consensus" a recognized "best practices" sweeping changes in politics that accompany the various variations of these reforms.

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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. 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, 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 Trade 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.

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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" 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

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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 packets smuggled in the digestive tract of “mules.” Aggressive and inventive adoption of new technologies has helped traffickers to lower risk, increase productivity, and streamline their business. As Cesar Gaviria, the former president of Colombia, told me: “The Cali cartel was already using sophisticated encryption techniques in the early nineties. It was far ahead of the methods we had in the government.”

Meanwhile, financial liberalization has expanded the flexibility of traffickers to invest the profits and the range of uses they can give to their capital, as well as generated many new instruments with which to move funds across the globe. The free movement of capital is a hallmark of globalization. In the pre-reform era most countries either banned or tightly limited foreign currency transactions. Foreign investment was closely screened and regulated, and "export of capital" was a crime. But in the 1990s, countries found themselves in need of the money, the technology, and the export marketing prowess of multinational corporations, and so they promoted foreign investment instead of constraining it. Mainstream economic thinking and research also confirmed that a country was better off with more foreign investment than with less of it—especially if investors could be persuaded to stay for the long haul. Opening the local stock market to foreign money made it boom, and listing local companies in stock markets abroad, in New York or London, became a symbol of success.

None of this, however, was easy—or even possible—if the country maintained controls on foreign exchange transactions. So the 1990s saw a major shift away from exchange controls. Free buying and selling of currencies became the new global standard. And the market boomed. In 1989 daily transactions in the global currency market totaled \$590 billion. By 2004 daily trading had rocketed to \$1.88 trillion. Technology fueled the fire. Once governments allowed foreign exchange transactions, computerized global banking networks let them occur at the speed of light, and from anywhere to anywhere.

Money launderers suddenly found themselves in paradise. Illicit traders gained opportunities and channels to conceal and launder their revenues. Legitimate banks, competing with one another for vast new flows of funds, had incentives to look the other way when dealing with "unusual" clients. To many bankers working on commission, luring wealthy individuals to park their holdings in their bank became more important than finding out where the wealth came from. Some countries ceded to the temptation to turn them-

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selves into offshore havens, feeling that the new environment could accommodate competition to the established shelters such as Monaco and the Cayman Islands. Such obscure venues as Nauru, Niue, and the Cook Islands honed a specialty in no-questions-asked financial services, but so too did other more "reputable" countries. And even the most aggressive global efforts to impose and enforce uniform banking standards keep butting up against the competitive considerations of banks and national authorities.

Some of the financial technologies that have benefited illicit traders are quite ordinary and common. One is the humble ATM card, not long ago the preserve of a few developed nations but now employed almost everywhere. In December 2004 the U.S. Federal Reserve announced that for the first time in history electronic payments using debit and credit cards exceeded check payments. And this trend is visible everywhere. Unimaginable without a global financial communications backbone, the card is one of the most essential and taken-for-granted tools of daily life, including for traffickers. The rise of e-money and virtual money—for instance, smart cards that store value on a chip—offers both convenience and anonymity. Yet another thread of world financial integration useful to illicit traders is the expanding wire-transfer industry. Essential to daily life for emigrant diasporas, Western Union and its peers despite their best efforts almost inevitably circulate some degree of ill-gotten gains.

The realization that these were the tools that Mohammed Atta and his terrorist accomplices used to fund their murderous deeds on 9/11 led governments to launch a major effort to limit their ease of use for illegal purposes. But while the efforts have added costs, risks, and inconveniences for the criminals, the illicit money trade continues to be a large, ominous, and global reality.

Then there is the Internet. Its value to traffickers is immense, and its specific uses too many to enumerate. Those involved in illicit transactions communicate with one another from the privacy and anonymity of Web-based e-mail accounts, frequently changed and accessed from cybercafes and unobtrusive venues. They moni-

tor shipments using the tracing services that FedEx and its peers provide. They offer goods for sale via online display cases. The modern-day slave auction is electronic, wherein local pimps can examine and purchase via e-mail women and girls from wholesalers in other countries, and where retail customers can order up the prostitute of their choice. The Internet recruits mercenaries, advertises unscrupulous transport companies, hosts professional-looking Web sites that are electronic fronts for bogus businesses. And Internet lotteries, sports books, and casinos—an immense and chaotic industry worth an estimated \$5 billion in 2003—make a fine setting for shifting dirty money about. “The Internet has become an open medicine cabinet, a help-yourself pill bazaar to make you feel good,” said Karin P. Tandy, the head of the DEA in 2005, when announcing the shut down of a drug ring that used two hundred Web sites based in the United States, Costa Rica, Canada, and Australia to sell amphetamines and other drugs manufactured in India and shipped illicitly anywhere in the world.

The convergence potential for trafficking and cyber crime, in the near and distant future, seems unlimited. The Internet allows traffickers to communicate privately and efficiently, to operate as many transactions as possible in virtual rather than geographic space, and creates new ways to move and conceal funds. All this without concern for physical location, freeing the traffickers to play across borders and cover their tracks without impeding the actual flow of goods.

NEW SOURCES, NEW ROUTES

The virtual world was not the only new territory that the 1990s opened up for illicit trade. With the end of the cold war, nations previously held outside the world trading system began to reenter, and ones that had regimented (or at least attempted to regiment) the flow of goods and money on their territory released their grip. Of course the systems that loosened or fell—the Soviet brand of communism and the Chinese one, the heavy “state capitalism” in vogue

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in India and elsewhere in the developing world, and even the highly directed economy in South Korea and Taiwan, and more—varied widely in their methods and results. But all had in common the principle that government knew best how to run the economy. And everywhere the rollback of central planning, price controls, import licenses, industrial subsidies, currency restrictions, and the like revealed markets-in-waiting, some of them already quite advanced, with entrepreneurs and moneylenders at the ready. So too were traders, legitimate and otherwise. When these markets-in-waiting joined up with the world market, the world economy became truly global. And so did illicit trade.

The opening produced a cascade of benefits for illicit trade. The most immediate was a supply shock. The fall of the Eastern Bloc and its overseas allies released onto the market whole new streams of supply of interest to illicit traders, some of them at bargain-basement prices. They included overstock weapons and military materials from the vastly oversized Warsaw Pact armies and the state-owned factories set up to supply them; nuclear materials and skills, set loose by the rapid and disorderly end of the Soviet Union; civilian and military aircraft and vehicles; ample natural resources, from nickel and copper to uranium and diamonds; but also migrant labor; babies for adoption; women for prostitution; and even human bodies, dead and alive, for organ sales. Political and economic reform also made available a vast infrastructure of industrial plants that governments had developed behind the protection of trade restrictions, now needing new activities to stay afloat—a perfect opportunity for manufacturers of goods for illicit trade.

As the Berlin Walls of the world came down, possibilities for traffickers multiplied and so did new national business specialties. Before long, countries like Ukraine and Serbia would be known for manufacturing contraband compact discs or ammunition. Moldova, wedged between Romania and Ukraine, suddenly sprang to the world's notice as a supply and trading hub for trafficked human beings, a bivouac for drugs and weapons shipments, and a go-to venue for fake aircraft registrations and more. Transdniester, a breakaway

part of Moldova that pretends to be a country but really is a family-run criminal enterprise, became an important center for arms smuggling. Belarus developed as a hub for human trafficking. Romania, with its strong technical education system and high unemployment, became an early global leader in cyber crime and Internet fraud. The central Asian republics and the Balkans reassumed a central role in trade between Afghanistan and Europe—echoes of the old Silk Road, only this time in drugs and smuggled migrants. China's Yunnan province took on a similar role with respect to Myanmar. These transitions came easily, as much out of necessity as initiative.

All this happened fast—so fast that the world barely had time to register the trend before settling into the new assumptions it bred. Yet it was momentous, with parallels in places well outside the old Soviet orbit and profound consequences for the whole world order. And the dynamics were frustratingly hard to pin down. Jim Moody, a former top FBI agent who in the early 1990s pioneered the bureau's response to the onslaught of global crime, told me in frustration: "Even today we still don't know what happened to us in the 1990s. We will never know what [the criminals] did to us. Where did all that money go? I believe part of it is here in the United States and in many other developed countries, invested in legitimate business controlled by big-time crooks."

ALTERED STATES

Behind these changes another deeper political dynamic was lurking: the proliferation around the world of weak and failed states, ripe for traffickers to colonize. During the cold war, states took up residence in the "sphere of influence" of either superpower in exchange for military protection and economic assistance. When this protection collapsed, so did the safety net that prevented states with feeble or inept governments from losing control of their territory or their resources. Ever since the 1960s, political scientists had used terms like "strong states" and "weak states" to describe differences in a government's capacity to carry out basic functions. But the 1990s

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saw a new coinage, the “failed state”—a near-empty shell with a capital, a titular government, and the skeleton of some institutions but very little legitimate government control or effect on the economy and on real lives. Weak states in general and this extreme subset in particular have mushroomed since 1990.

In such countries, illicit trading networks can easily “capture” key government agencies—customs, courts, banks, ports, police. The recruitment of journalists, politicians, and business leaders is rarely far behind. Soon enough, they branch out toward legitimate businesses that implant them deeper into the communities: owning the local radio station or newspaper is often as necessary a cost of doing business as “owning” a judge or the chief of police. In the same way that al-Qaeda was able to “capture”—and for not a lot of money—the Taliban government of Afghanistan, the goals and needs of international traffickers have deeply permeated politics and economic life in many countries. This criminalization of the national interest has become an important characteristic of our time.

Take for example North Korea. Its involvement in the international trafficking of drugs, weapons, people, and endangered species and in all sorts of criminal activities is not some secondary project by groups of individuals who also happen to hold high-level government positions. Rather, according to most experts interviewed for this book, international crime is a core activity that defines in fundamental ways the nature of the North Korean state. Nauru, a tiny island nation in the Pacific, is well known as a haven for Russian laundered money. The small country of Suriname (population half a million) on South America’s northern coast has become a transshipment haven for drug traffickers. No other economic activity in Suriname can compete in profits. It is hard to imagine that its government is immune to the seduction or the threats of the powerful foreign players that operate from there. Indeed, in 2004 the son and the half-brother of the former dictator Desi Bouterse were accused of belonging to one of the major drug organizations that used Suriname as a base to export cocaine to the Netherlands. Tajikistan’s total economic output per year is about \$7 billion. According to UN

estimates, the street value in a European capital of just the drugs seized in Tajikistan in 2003 was equivalent to roughly half the value of all the goods and services produced in that country.

In Peru during the mid-to-late 1990s, Vladimiro Montesinos was the all-powerful head of the national intelligence services, a fundamental behind-the-scenes power broker who controlled members of Peru's Congress, top bankers, and media owners. At the same time he ran a large network that trafficked drugs and weapons and laundered money all over the world. As the former Peruvian prime minister Roberto Dañino told me: "Peru's national interest and important foreign policy decisions were often unilaterally defined or greatly shaped by Montesinos's interests." Those interests, we now know, were often criminal. A senior British intelligence officer confirmed that this is also the view many in his agency have of Alexander Lukashenko, the president of the former Soviet republic of Belarus, or of Transdniester's Igor Smirnov. For countries like these, trying to understand the "national interest" without reference to global illicit trade would miss a crucial driver of their policies and of the actions and omissions of the government.

The effect can be even sharper at the regional level, especially in remote regions or ones that span borders. In many countries local governments are easy prey for criminal networks who seek a pliant and convenient base of operation. When Colombia decentralized authority to local governments in the early 1990s, it proved to be a boon for the trafficking networks, which could now simply appoint their own mayors, governors, and judges. In Afghanistan the poppy boom benefits local warlords, and in Mexico the networks have taken over some of the most virulently criminal cities and states. The "Golden Triangle" of Thailand, Myanmar, and Laos and the no-man's-land between Pakistan and Afghanistan are notorious examples of cross-border regions where illicit trade has thrived. But in fact it is rare today to find a country without pockets of lawlessness that are well integrated into larger global networks. In its 2004 annual report to the U.S. Congress, the CIA announced that it had identified fifty regions around the world over which central govern-

ments exert little or no transnational criminal

These places are ports or trans-shipment points. For instance, the FARCs in Liberia no longer merely turned themselves into transporters, and whole Colombian government \$783 million in cocaine in 1990s, the RUF rebel in Liberia partnered with a Liberian warlord. Even al-Qaeda got involved. Even nationalist Doug Farah, trafficked diamonds through deals.

The trends are more. It is inherently vulnerable. Officials are easily corrupted. It has turned into a major trade route from the Middle East to Europe and Africa. It is direct, and neither is it controlled (so far) of the drug. But it is a major traffickers advantage. Early Haiti and other drug shipments into the region. The precariousness of the country's long-unpatented

Other weak states. Official certificates are prized. Official certificates that are not the mate buyer, they are false but true because they are chased for a small fee and many more have

ments exert little or no control and where terrorists, smugglers, and transnational criminals find a welcoming environment.

These places are perfect markets for arms smugglers and source or trans-shipment points for anything else. Rebels turn into traders: for instance, the FARC and AUC in Colombia's guerrilla organizations no longer merely sell protection to the drug trade but have turned themselves into cocaine brokers, trading with farmers, labs, transporters, and wholesalers in Mexico and the United States. The Colombian government estimates that the FARC alone earned \$783 million in cocaine revenue in 2003. In West Africa in the late 1990s, the RUF rebels in Sierra Leone and Charles Taylor's faction in Liberia partnered with arms dealers to move diamonds and timber out of the region and cash, drugs, weapons, and other goods in. Even al-Qaeda got involved, according to the reporting of the journalist Doug Farah, transferring cash assets into Sierra Leone diamonds through deals in Liberia, all in the run-up to September 11.

The trends are most extreme in failed states, yet any weak state is inherently vulnerable. Its borders are hard to patrol, and its officials are easily corrupted. In this way, for instance, Nigeria has turned into a major trading hub for heroin en route from the Middle East to Europe and North America. The route might not seem direct, and neither is Nigeria itself a major producer or consumer (so far) of the drug. But the vulnerabilities of the Nigerian state offer traffickers advantages that make the detour worthwhile. Similarly Haiti and other Caribbean nations became way stations for drug shipments into the United States when other routes got too hot. The precariousness of successive Haitian governments and the country's long-unpatrolled coastline made it an obvious pick.

Other weak states offer other specialties. "True-false" end-user certificates are prized in the smuggled arms business, for instance. Official certificates that guarantee that a cargo is going to a legitimate buyer, they are false because the weapons are going elsewhere but true because the letterhead and signature are authentic, purchased for a small fee. Chad, Panama, Bolivia, Ghana, Ivory Coast, and many more have cropped up as purveyors of such documenta-

tion. And in Romania, Albania, Slovakia, and Greece, where human traffickers corral women lured from around the region to “break them in” as prostitutes, border guards stamp passports they know are fake and look the other way as these modern-day chain gangs are convoyed to the West.

THE NEW ENTREPRENEURS

A powerful contribution of the former closed and state-dominated economies to the rise of global trafficking networks in the 1990s can be measured in human capital. The changes released into the marketplace an army of highly skilled, experienced, and ruthless operators who provided the backbone for the new criminal and semi-criminal businesses that soared thanks to the possibilities bred by open markets and freer politics.

After all, these economies had entrepreneurs—just not of the standard mold. Consider Russia’s new capitalists. The typical post-Soviet tycoon did not train at Harvard Business School. He more likely spent his formative years in government, the military, or the KGB. He garnered his work experience not at some tony investment bank or multinational corporation but as a participant in the shady transactions that became a fact of life whenever rationing and government controls were the norm. Under Communism, smuggling was not an illegal international transaction undertaken by a few hardened criminals but a common survival strategy. Personal gain awaited just at the other side of the barriers government imposed on the exchange of goods and services, not abroad but inside one’s own country. Prosperity, in relative terms of course, hinged on finding a way—never legal—to provide embattled factory managers with the raw materials they needed to reach their production quotas, or to “divert”—that is, steal—consumer goods from the government and sell them on the black market. It also meant gaining access to the stocks of foreign blue jeans that could be discreetly sold to the young, and to the vodka that their elders used as a lifeline.

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provided, and therefore entrepreneurial spirits had no other outlet than to find ways to break the law. Inevitably, the schemes required help and collaboration from someone inside the government. When straightforward partnerships or corruption did not work, the use of violence, threats, or blackmail was never beyond the means used to get cooperation. Decades of this environment produced an ample supply of experienced and clever organizations, ruthless gangs, talented operators, and reckless enforcers.

For the rest of the world *perestroika*, the restructuring of the Soviet economy, might have meant the victory of the free-market ethos. But for the entrepreneurs that the Soviet system bred, it meant more freedom to apply their experience undermining government efforts, breaking the law, and corrupting officials. They soon discovered that thanks to globalization they could now operate internationally and that the world at large also offered ample profit opportunities for organizations with their skills and proclivities. Once government controls were lifted, private ownership allowed, borders opened, factories privatized, rationing eliminated, and foreign bank accounts legalized, the market-oriented networks that used to operate illegally under the old system adapted faster to the new ways than almost any other group of society. Neither was this a Soviet phenomenon alone. Around the world, from China to Argentina and from Italy to India, talents honed by exploiting the labyrinth of official controls for private gain have found lucrative new outlets in global trafficking.

UNDERWORLD NO LONGER

Few industries could go through such explosive expansion without a major recomposition or restructuring of their own. Illicit trade is no exception. It no longer resembles either of the two dominant images that we still carry of it in our popular imagination: the freelance smuggler-frontiersman or the "organized crime" syndicate.

One reason is that these players no longer possess the ideal skills. The fast pace of world trade and the infinite combination of

possibilities for supply, warehousing, transportation, banking, wire transfers, cell phone providers, Webmail accounts, encryption software, front company paperwork, and marketing to customers around the world stretch the capabilities of organized crime beyond the typical mafioso's comfort zone. Rigid hierarchies in which authority is centralized don't do well in a high-speed global marketplace where opportunities and risks change too fast. The more organized crime groups resemble corporations, the more their hierarchies and their routines prevent them from optimizing their activities. The new environment gives an advantage to organizations capable of responding and adapting rapidly to new opportunities and able to constantly shift locations, tactics, and ways and means to make the most money possible. As a result, "organized crime" itself is changing—becoming less organized in the traditional sense of command and control structures, and more decentralized. In this it is trying to catch up with the illicit trading networks that have forged ahead.

Just as obsolete is the assumption that different traffickers specialize in different types of merchandise. Of course, at any given time a particular ethnic group or local syndicate may appear to control the market for heroin, or child labor, or Kalashnikovs, or stolen cars, or cigarettes, particularly in a single city or region. But that is just the exposed part of the system. In fact, the economic and technical possibilities bred by globalization make it easier than ever for traders to combine their cargos or shift from one to another—and less of a competitive advantage to control, end to end, a given product's supply chain. They have mutated accordingly, focusing on skills instead of commodities. As the FBI's deputy director, Maureen Baginski, told me, "The specialization became the network itself, and its ability to procure, transport, and deliver illegal merchandise across countries. What the merchandise was became almost irrelevant."

Entire industries—finance, computing, entertainment, publishing, travel, pharmaceuticals, fashion—have been reconfigured by the rise of trafficking networks that cut through them and affect

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Businesses are not the only ones affected. The surge of the global networks has also altered our surroundings. Milan, Barcelona, San Diego, and even orderly Zurich have seen their urban landscape transformed by improvised housing that has sprouted up to shelter the illegal immigrants massively “imported” by the people trade. From Rio de Janeiro to Detroit, the use of public spaces in neighborhoods ravaged by drug wars has been deeply altered by the unwritten but strongly enforced rules imposed by the traffickers and their retail associates. In American high schools—poor and affluent alike—drugs, pirated music, software, clothing, and, to a lesser extent, even small arms are as much a part of the experience as blackboards, books, and football games.

CHANGING THE WORLD

Ultimately, it is the fabric of society that is at stake. Global illicit trade is sinking entire industries while boosting others, ravaging countries and sparking booms, making and breaking political careers, destabilizing some governments and propping up others. At one extreme are countries where the smuggling routes, the hidden factories, the pilfered natural resources, the dirty-money transactions, can no longer be distinguished from the official economy

and government. But comfortable middle-class lives in wealthy countries are far more connected to trafficking—and to its global effects—than most of us care to imagine.

This transformation has happened despite the fact that governments everywhere—particularly the United States and some European countries—are throwing vast resources into the project of containing global illicit trade. Despite massive financial appropriations, ever stricter laws, and better technology, the fact remains that no government can yet show any significant, durable progress in the fight against trafficking networks.

Complicating the fight is that these networks are simultaneously global and local. Their ability to exploit their international mobility at great speed and their deep entrenchment within local power structures give them a huge advantage over the national or local governments that try to contain them. The networks can evade governmental pursuit by moving to another jurisdiction or by using political influence to fend off their pursuers, or both. When a new opportunity comes up, it responds with incredible speed. Survival hinges on the networks' ability to recombine, form collaborations, and dissolve them with equal ease, forging new markets and always keeping a step ahead. Illicit traders are very creative, and their ingenuity is fueled by profits hard to find in any other business.

In coming decades, the activities of the global trafficking networks and their associates will have a far greater impact than is commonly imagined on international relations, development strategies, democracy promotion, business and finance, migration, global security, and war and peace. In too many nation-states, members of the political, military, and business elite will find it more important to defend the lucrative illicit trades from which they and their families and friends benefit than for their country to join the World Trade Organization, cooperate with the International Monetary Fund, or participate with the United States or the UN in whatever coalition is needed to fend off the crisis of the day. It is already a mistake to treat global illicit trade as mere "smuggling" and its participants

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simply as “criminals” and to reduce the solution to “law enforcement.” Those words only begin to tell the story. It is all of this, but also much more. In coming years global illicit trade will become even larger and more complex, and these categories will become less and less adequate to convey the nature of a phenomenon that will be changing the world in myriad ways.

One of these effects is already with us. International terrorism as we are now coming to understand it follows in the footsteps of international illicit trade, employing the same tools and conveniences of the new global economy to melt into cities and countries, hiding in plain sight. Since 9/11 (and for that matter, even before), terrorist cells uncovered from Manila to Hamburg and London to New Jersey have had in common some use of illicit trade as a means to support themselves and fund their activities. It will be impossible to understand the tools, tactics, and possibilities of terrorists without also understanding those that the global trafficking networks have pioneered. Of course, seen separately, the prospect of a suicide attack using weapons of mass destruction in a crowded city and that of tons of cocaine or containers of illegally produced CDs flooding the market are of completely different degrees of alarm. But our tendency to look at them separately is part of the problem as well.

International terrorism, the spread of horrific weapons, the empowerment of “rogue regimes,” the flare-up and persistence of regional wars and ethnic violence, the threat of environmental depredation, the stability of the world financial system, the fierce pressures and aspirations of international migration—all of these and more find their outlet, their manifestation, and often their sustenance in global illicit trade. The examples are everywhere once you start looking for them. The problems of West Africa, central Asia, or the Balkans—to name just a few—cannot be understood without considering the immense weight that traffickers have in their political and economic life. Can the behavior of China or Russia, two of the most important countries for the future of humankind, be properly understood without taking into account the

enormous influence of global illicit trade on their governments' decision making? Can a legitimate business enterprise that operates internationally decide on a strategy without pondering the impact of traffickers? Can democracy be promoted in countries in which criminal networks are the most powerful political players? Of course not. The surprise is how easy it has been for politicians, military planners, journalists, and scholars to miss or ignore this reality.

SMUGGLER'S NIRVANA?

In its own raw and sordid way, illicit trade shows us some of the places globalization is going. We can learn from the innovations of illicit traders so that ultimately we may respond to them with the same creativity they have visited on us.

But that is getting ahead of the story, and ahead of today's reality. Right now it is the traffickers who are ascendant. Their work has grown easier to initiate, organize, and dissimulate, and they have adapted to take maximum advantage of these new possibilities. They are flexible, responsive, and rapid: no itinerary is too complex, no supply deadline too urgent. The trades in drugs, arms, human beings, counterfeits, money, or the other illicit markets discussed in the chapters ahead each has its own history and dynamics. But they all have in common this transformation, and they are coming together—ever harder to distinguish, both conceptually and in practice, from one another and from the legitimate economy.

So is the globalized world a smuggler's nirvana? For now, the evidence overwhelmingly says yes. After all, we have willed this: much of what makes illicit trade so successful today is the result of deliberate policies, ones aimed at global integration, open economies, and open societies. So it should really come as no surprise that legal trade and trafficking have grown hand in hand, or that the diffusion of power to individuals and groups has spurred innovation on both sides of the law.

But look a bit more closely: Why? Why has legal trade not

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crowded out the illegal? Why have democratic values not ostracized the traffickers and educated their customers? Why has technological innovation not helped law enforcement crack down on the bad guys, once and for all? And where do we go from here?

The clues are in the stories.