

The Illicit Narcotics Trade, Corruption, and Transparency

A Global Approach

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The Nexus: Two sides of the same coin

To manufacture, move and sell the massive amounts of illicit drugs that traverse the planet each year requires skill, hard work, and organization. It both demands and fuels corruption and crime, an unvirtuous circle that has delivered vast profits to the people involved.

My testimony rests on several assumptions which I share below with a view to both transparency and analysis.

Assumption 1: In general, free people in wealthy democracies tend to generate the majority of illicit drug demand.

Assumption 2: In general, people in less-wealthy, less-democratic countries tend to make up the majority of illicit drug producers, manufacturers, and traders.

Assumption 3: Authoritarian kleptocracies such as Iran or North Korea have elevated levels of corruption from the bottom to the top. Thus, by their very nature, these governments sometimes facilitate and even encourage the illicit drug trade.

Assumption 4: Established democracies like the United States are innovative and tend to enjoy higher levels of transparency and rule of law. Thus, by their very nature they are uniquely equipped to assist partner countries.

Assumption 5: New technologies (such as those in shipping and payment methods) combined with the development of synthetic illicit drugs (such as fentanyl) mean that the illicit drug trade landscape has changed dramatically, creating new dangers and new opportunities to stop the flow of illicit drugs coming into the United States.

The implications of these assumptions are fairly constant, notwithstanding efforts to attack supply, demand, criminal networks or corruption:

1. As long as demand for illicit drugs remains high, illicit trade will continue. Eradication efforts such as the ones in Afghanistan and Colombia cannot deliver lasting positive effects because other circumstances have driven farmers to cultivation. If one farm is eradicated, another pops up elsewhere.

2. Prioritizing capacity building resources to US neighbors that are geographically close and have high levels of the rule of law and democracy will likely generate greater disruption to illicit trade and corruption.
3. Greater research and development efforts in new technologies such as blockchain (double ledger systems) and digital currencies aimed specifically at enhanced trade transparency.
4. Foreign trade zone infrastructure upgrades. As geographically concentrated areas, improvements here will not only stem the drug trade and reduce corruption, but improve the entire global supply chain of licit goods.

The next section includes more specific ideas about how this issue can be approached.

1. Global Geographic Targeting Orders (GGTOs), focusing on trade zones.
2. Incorporating global treaties on anticorruption and illicit drugs into all trade negotiations.
3. Think about transparency in a radically different way, using technology rather than emotion.

1. **Geographic Targeting Orders (GTOs)** are used in the United States to target the use of real estate to launder the proceeds of illegal activity.¹ U.S. cities with high real estate values often become havens for foreign corrupt officials, drug cartels, and many others to store illegally obtained value (money) in the form of homes, land, or other property (protected by enablers that work to make sure U.S. authorities do not find out who actually owns them). To counteract this the U.S. Treasury began the GTO program, whereby it publicly names the cities and areas where this happens the most often and then requires lawyers, real estate agents, accountants and others to do extra due diligence and reporting on their clients.

Foreign Trade Zones (FTZs), or also known as Special Economic Zones, Free Trade Zones, and other names) are geographically delineated areas that exist outside of the normal customs area – meaning that, in general, goods imported or exported from the geographic are treated differently than if they were outside of the zone. Nearly every country in the world now has at least one FTZ. The U.S. has about 200 and there are somewhere around 5000 in total are spread around the world. To give an example of how common they are, the entire Panama Canal is one and North Korea has four. One of the largest zones in China is the Hubei Free Zone, which includes the city of Wuhan.² Zones also exist in other problematic areas such as the Golden Triangle in Southeast Asia,³ the Northern Triangle in Central

¹ <https://www.fincen.gov/news/news-releases/fincen-reissues-real-estate-geographic-targeting-orders-12-metropolitan-areas-3#:~:text=WASHINGTON%E2%80%94The%20Financial%20Crimes%20Enforcement,purchases%20of%20residential%20real%20estate.>

² <https://www.fdicchina.com/blog/fdi-china-exclusive-the-21-free-trade-zones-guide-2021/>

³ https://www.voanews.com/a/east-asia-pacific_chemicals-meth-out-asias-booming-golden-triangle-drug-trade/6206451.html

America,⁴ and the Tri-Border Area in South America⁵ – know trafficking and manufacturing hotspots where some terrorist organizations also operate.

The bipartisan Helsinki Commission has drafted legislation aimed at identifying the most problematic zones (involved heavily in drug trafficking, human and animal smuggling, tax evasion, etc.). Creating and issuing Global Geographic Targeting Orders (GGTOs) that require the insurance companies that ensure shipments to the targeted zones to report more information could be helpful in both tracking down global traffickers and encouraging the zones to clean up. SWIFT does something similar (but far more drastic) with its blacklist.

- 2. International Anticorruption and Narcotics Treaties in Trade Agreements.** When NAFTA (the North American Free Trade Agreement) was renegotiated in 2020, the resulting USMCA (United States Mexico Canada Agreement) included an anticorruption chapter (Chapter 27) for the first time ever.⁶ Now, the United Nations Convention Against Corruption (UNCAC 2003 New York), the OECD Convention of Combating Bribery of Foreign Officials in International Business Transactions (1997 Paris), and the Inter-American Convention Against Corruption (IACAC 1996 Caracas) are legally binding in all trade between Canada, the United States and Mexico. International treaties and trade agreements do not always deliver immediate results, but the inclusion of international anticorruption agreements in the USMCA was a highly significant event that should be a model for all trade agreements.
- 3. Rethinking Transparency and New Technologies.** The definition of transparency is *credible aggregate government-disseminated information*. For example, it is a believable census count or literacy rate. In another example, North Korea recently reported a 100% literacy rate,⁷ hardly credible given that reporting on literacy in the U.S. shows the rate here at around 80% (and even breaks the data down into three different levels of literacy in America).⁸ When information is credible, that is transparency.

Blockchain technology makes information more credible and transparent. For example, the fact that cryptocurrency (which operates on blockchains) is used in ransomware attacks, means that we can all see the transactions and recover ransoms. Furthermore, in relation to corruption and the illicit narcotics trade, this transformative technology has the power to make public budgets (such as for governments and police departments) completely open and permanently recorded. The same could be done for political donations, virtually eliminating the presence of “dark money” contributions to campaigns, where in many developing democracies many campaigns are believed to be funded by the proceeds of the illicit narcotics trade.

⁴ <https://sites.duke.edu/northerntrianglepolicy/2019/05/15/drug-trafficking-and-violence-in-the-northern-triangle/>

⁵ https://www.loc.gov/rr/frd/pdf-files/TerrOrgCrime_TBA.pdf

⁶ https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/27_Anticorruption.pdf

⁷ <https://www.rfa.org/english/news/korea/illiteracy-11252020000636.html>

⁸ <https://nces.ed.gov/fastfacts/display.asp?id=69>

However, like all tech, blockchain is just a tool, like a hammer. It can be used to build beautiful things, but can also be used to cause great harm. This moment in time is very similar to the 1990s when the internet began rolling out. There was so much optimism about it that we failed to seize the moment and lead with clear regulatory guidelines or strategic goals at home or abroad for the development and use of the internet. Authoritarian governments around the world seized the moment, and they are still hard at work developing ways to exploit these technologies for their own survival.

Finally, on any subject, accurate aggregate data allows individual people to make better and more productive decisions about the future for themselves, their communities, and ultimately the world. Too often people confuse transparency with the work of investigative journalists and others who seek to find data points that “expose” or “shine light” on something they think is bad. Of course, there will always be a place for a free press in democracy and by no means do I mean to denigrate the work of investigative journalists, but like clockwork this approach regularly degenerates into partisan fighting, and worse yet, generates few systemic reforms.

CONCLUSION

The entire approach to international anticorruption efforts and the illicit narcotics trade needs some work. Plans are needed to slowly shift away from a focus on exposing bad actors and seizing drugs to one that empowers people with economic opportunities and credible information using new technologies like blockchain and crypto. A clear regulatory framework and more research and development could spur this transformation along at amazing speed. The most impressive and cost-effective point here is that the only cost of entry to this new technology is a cell phone and an internet connection.

Another point to consider: Public opinion and laws surrounding marijuana are rapidly changing in many parts of the world, including the U.S. Many people, governments and businesses believe that the United States will eventually fully decriminalize the drug. In the eventuality that this might happen, it might be prudent to begin making plans across the entire federal government for rapidly shifting resources from anti-marijuana law enforcement efforts to disrupting cocaine, methamphetamine, heroin, and fentanyl supply chains.

Finally, one of the greatest causes of drug abuse, trafficking, and corruption is poverty. For example, the police in Mexico and many countries are paid very little, making it a difficult choice for some to decline or accept a bribe. Encouraging livable remuneration could help.