The Underground Economy: An Overview of Illicit Trade

Center Forward Basics

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Overview

Illicit trade is a global challenge with sweeping economic, social, and political consequences. Encompassing activities from counterfeit goods and tax evasion to drug trafficking and forced labor, it undermines legitimate business, draining an estimated $2.2 trillion annually from the global economy, and fuels corruption, terrorism, and organized crime. Beyond the economic toll, illicit trade endangers consumers through unsafe counterfeit products, weakens governance by incentivizing corruption, and jeopardizes global sustainability goals by diverting resources away from public goods and development. International organizations such as the OECD, INTERPOL, and WTO coordinate diverse strategies to address these challenges, from strengthening transparency and enforcement to reducing trade barriers and promoting public-private partnerships. Together, international efforts highlight the complexity of illicit trade and the need for sustained, cooperative action to combat its effects.

What is Illicit Trade?

"Illicit trade," also known as illegal trade, is an umbrella term for a range of activities that break trade laws, from the trade of counterfeit goods to the smuggling of legitimate goods to drug trafficking. Most things related to the illegal production, movement, and sale of goods and services can be considered a form of illicit trade. Illicit trade disrupts legitimate business, undermining companies that follow rules and regulations.

The global economic drain of illicit trade amounts to $2.2 trillion annually – larger than the economies of Brazil, Italy, and Canada, and as large as Mexico and Indonesia combined. Shifting money out of the legitimate economy increases the influence of the illicit economy, squeezing out funds that could be used for investment in the future.

Illicit trade is not a victimless crime. Businesses lose revenue because of these activities, but illicitly traded goods also create risk for civilians. Counterfeit alcohol, for example, represents revenue loss for the legitimate company but simultaneously creates a health risk to oblivious consumers. Counterfeit goods distort intellectual property (IP) and threaten innovation, and enforcement agencies often lack the resources to address business and public concerns. Most counterfeit goods come from China, adding a layer of geopolitical complexity. Because of the influx of counterfeit goods, particularly from jurisdictions like China, and the availability of foreign products at unfairly low prices,

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Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

Key Definitions:

- **Illicit trade:** the illegal production, movement, and sale of goods and services. Operations, often run by criminal networks, exploit global supply chains and trade infrastructure, undermining public safety, weakening institutions, eroding the rule of law, and reducing tax revenues

- **Counterfeit:** the unauthorized representation of a registered trademark carried on goods identical or similar to goods for which the trademark is registered,

governments and businesses face significant economic harm. This includes the loss of tax revenue through the smuggling of taxable goods, whether legitimate items are rerouted from low-tax to high-tax regions, or counterfeit and dumped goods sold through unregulated marketplaces that evade taxation.

Governments consider social costs in addition to economic risks. Illicitly traded goods can be exchanged in illegal markets, and the sale of these goods creates revenue that can be used to fund terrorism, organized crime, human trafficking, weapons trafficking, and corruption. Preexisting criminal enterprises have more funding for their activities, creating global instability. The situation worsens when law enforcement becomes difficult in certain countries without controls to prevent illicit trade, and government and law enforcement officials begin to facilitate the movement of illicitly traded goods. As illicit trade grows profitable, it attracts people who join voluntarily, especially if the legitimate economy does not offer opportunities. Contrastingly, illicit trade creates demand for forced labor, including child labor. Forced labor produces a profit of $150 billion per year in illicit goods. The cycle continues – bad governance allows illicit trade to thrive, leading to corruption and the rise of criminal enterprises with few other economic opportunities, enforcing bad governance.

International Interventions

Around 20 intergovernmental organizations tackle this issue, including INTERPOL, the Organization for Economic Cooperation and Development (OECD), and the World Trade Organization (WTO). Each organization takes a different approach based on its mandate and resources.

The Organization for Economic Cooperation and Development (OECD) convened the OECD Working Party on Countering Illicit Trade (WP-CIT) to monitor the activities and risks of illicit trade. The WP-CIT provides empirical evidence about the scale, scope, and trends of the sectors of illicit trade and makes recommendations to fill gaps in governance that allow illegal activities to occur. In 2019, the OECD released the Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones ("the Recommendation"). The Recommendation aimed to support transparency in free trade zones, where reduced customs duties were designed to allow businesses to grow and give bad actors opportunities to engage in illicit trade. The WP-CIT regularly assesses how OECD member-states implement suggested strategies to combat illicit trade. Strategies include documenting the flow of all goods and services in and out of a free trade zone, granting access to economic compliance officials, and ensuring the traceability of cash transactions by encouraging electronic payments.

with a view to deceiving the purchaser into believing that he/she is buying the original goods.

- **INTERPOL**: the world's largest police organization with a mission to assist law enforcement agencies in each of its 196 member countries to combat all forms of transnational crime.
- **Organization for Economic Cooperation and Development (OECD)**: a unique forum where the governments of 37 democracies with market-based economies collaborate to develop policy standards to promote sustainable economic growth.
- **World Trade Organization (WTO)**: the international body dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible, with a level playing field for all its members.

Key Statistics:

- $2.2 trillion worth of illicitly traded goods (firearms, tobacco, pharmaceuticals, etc.) flows across the globe each year
- In 2021, counterfeit and pirated goods were estimated to account for $467 billion, or 2.3% of global imports
- Substandard and fake pneumonia medicines cause the deaths of up to 150,000 children per year

While the OECD works with national governments to empower them against illicit trade, INTERPOL works more directly to dismantle crime networks and spread awareness to consumers and governments alike. INTERPOL operates initiatives focused on illicit goods, food, and pharmaceutical crime. It supports operations with the World Health Organization (WHO), the World Customs Organization (WCO), and the United Nations Office on Drugs and Crime. INTERPOL's illicit goods operations recovered goods with a combined value of over $265 million between 2020 and 2021 alone. Items seized included cigarettes, COVID-19 rapid tests, spare car parts, toys, jewelry, food, and medical devices. All of INTERPOL's initiatives stress the adverse effects of

illicit trade on consumers, businesses, and governments, which all suffer from the activities of illicit trade in various ways.

The World Trade Organization (WTO) takes a relatively narrow scope and focuses its efforts on the illicit trade of food and medicine. Like the OECD, the WTO publishes guidance and recommendations for member-states to incorporate into their domestic strategies. The WTO rulebook includes a legal framework to combat illicit trade. The organization also advocates for support for developing countries to improve capacity and coordination between its members and international organizations. However, the WTO takes a different approach than the OECD, arguing that cutting red tape and customs procedures will reduce criminal opportunities. Strong public-private partnerships are vital to the WTO's response to illicit trade.

Illicit trade covers a variety of activities. The next Basics in this series will dive deeper into each topic and how the U.S. government confronts these issues.

Links to Other Resources

- INTERPOL – Illicit goods
- OECD – Report on the Implementation of the OECD Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones
- Tax Foundation – Taxes and Illicit Trade
- Transnational Alliance to Combat Illicit Trade – The Societal Costs of Illicit Trade
- World Economic Forum – Illicit Economy
- WTO – Illicit trade in food and food fraud
- WTO – Tackling illicit trade in medical products