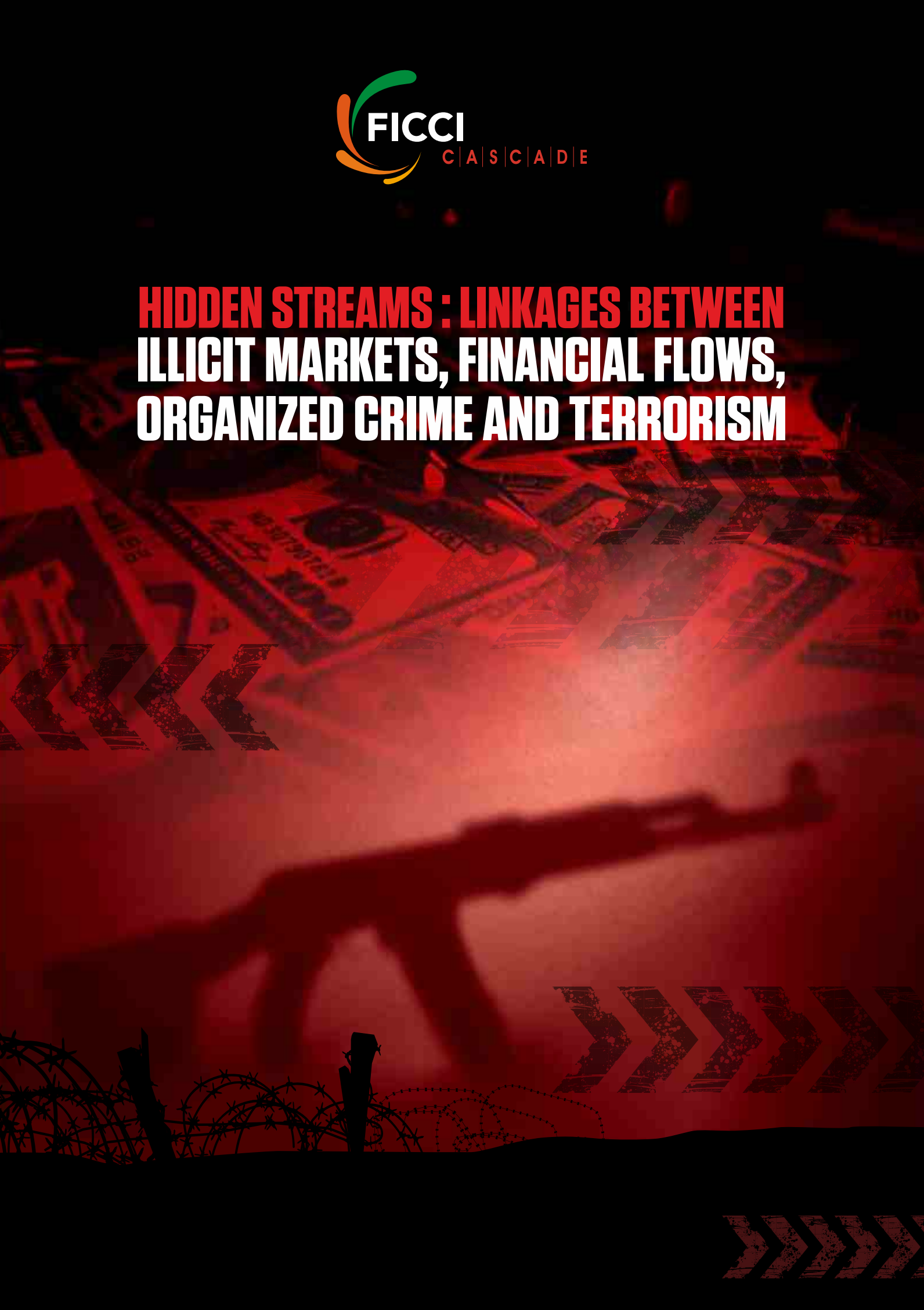




HIDDEN STREAMS : LINKAGES BETWEEN ILLICIT MARKETS, FINANCIAL FLOWS, ORGANIZED CRIME AND TERRORISM





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ILLICIT MARKETS, FINANCIAL FLOWS,
ORGANIZED CRIME AND TERRORISM**

Hidden Streams : Linkages Between Illicit Markets, Financial Flows, Organized Crime and Terrorism



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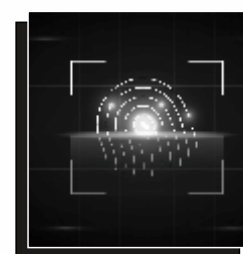
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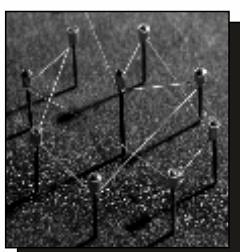
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About this Report

This report has been prepared by Thought Arbitrage Research Institute (TARI) for FICCI Committee Against Smuggling and Counterfeiting Activities Destroying the Economy (CASCADE).

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ABOUT THOUGHT ARBITRAGE RESEARCH INSTITUTE (TARI)

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- ▶ Corporate Governance
- ▶ Sustainability
- ▶ Economics
- ▶ Public Policy

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Note from the Authors



Note from the Authors

This report is titled "HIDDEN STREAMS: LINKAGES BETWEEN ILLICIT MARKETS, FINANCIAL FLOWS, ORGANISED CRIME AND TERRORISM of 2023.

The report relies on secondary data sources and indicators from international and other agencies on terror and crime, such as the Global Terror Index (GTI), Crime Index, and Global Organised Crime Index (GOCI) to understand the subject across 122 countries. Organisation of Economic Cooperation and Development (OECD) indicators on counterfeiting, Global Financial Integrity (GFI) indicators on IFF, and other regulatory and institutional governance indicators country-level data provided by the World Bank, to establish linkages and relationships.

This research, as any data-based research, makes certain assumptions and works with limitations in the absence of reliable data, resources, and time. We have highlighted these assumptions and limitations at appropriate places in the report.

- ▶ The classification and grouping of 122 countries for both crime and terrorism into three categories: High, Moderate, and Low is based on their GTI and Crime Index scores with inference drawn from these indices.
- ▶ Our evaluation and benchmark of the illicit economy and organised crime actors, including arms and drug trafficking are based on evaluations and indices from the Global Organised Crime Index report for 2021. All linkages and empirical relationships with terrorism and crime are limited to 2021.
- ▶ The evaluation and benchmarking of counterfeiting/illicit goods are based on the GTRIC (General Trade-Related Index of Counterfeiting) index provided in the OECD and EUIPO 2021 study for the year 2017-19. Using the counterfeiting index from this report we provide linkages and relationships with terrorism.
- ▶ The data on IFF for trade-based money laundering (TBML) comes from the Global Financial Integrity (GFI) report of 2021, which looks into the issue of trade mis-invoicing in 134 developing countries in a study called "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018.
- ▶ The empirical relationship between terrorism and illicit financial flows is based on data from 76 developing nations for the period 2017-2019 and also includes other control variables from world development indicators provided by the World Bank. We report independent variables coefficients, and standard errors within a confidence limit of 95%.
- ▶ The study has a special focus on India and we analyse India's position in illegal economy, organised crime and terror by comparing it to the 122 benchmarked countries included in the study.
- ▶ The study also highlights and provides evidence of organised crime actors and the illegal economy, key components of the illegal economy such as counterfeiting, arms, and drug trafficking, as well as trade-based money laundering (TBML) in

India to demonstrate their potential linkage with terrorism and crime.

We thank the members of the FICCI CASCADE think tank, who are named below for their comments, observations and suggestions during the course of this research and this report.

- ▶ Mr. Anil Rajput, Chairman, FICCI CASCADE and Member, Corporate Management Committee & President, Corporate Affairs, ITC Limited
- ▶ Mr. Najib Shah, Former Chairman, Central Board of Indirect Taxes and Customs
- ▶ Mr. Justice Manmohan Sarin, Former Chief Justice, Former Lokayukta, NCT of Delhi, Chief Justice, High Court of Jammu & Kashmir & Judge, High Court of India
- ▶ Dr. Debi Prasad Dash, Former Principal Director General, DRI, Chairman, Enforcement Committee, World Customs Organisation (WCO)
- ▶ Mr. Sanjeev Tripathi, Former Chief, Research and Analysis Wing (RAW)
- ▶ Ms. Kameswari Subramanian, Former Chief Commissioner of Central Excise, International Expert, Customs Law, Procedures & Trade facilitation
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- ▶ Dr. Guriqbal Singh Jaiya, Former Director, SME Division, WIPO
- ▶ Mr. Hem Kumar Pande, Former Secretary, Ministry of Consumer Affairs, Food and Public Distribution, Government of India
- ▶ Mr. Rajiva Ranjan Verma, Former Director General, RPF, NCB, Civil Defence, Home Guard & Fire Services, Bureau of Police Research and Development
- ▶ Mr. Suvashis Choudhary, Former Joint Commissioner, Chief Security Commissioner, Delhi Metro Rail Corporation, Delhi
- ▶ Mr. P C Jha, Advisor, FICCI CASCADE & Former Chairman, Central Board of Indirect Taxes and Customs
- ▶ Mr. Deep Chand, Advisor, FICCI CASCADE & Former Special Commissioner of Police, New Delhi



Foreword





Foreword

Illicit financial flows are a clandestine network of illegal activities intertwined with organized crime, posing a dual threat to economic progress and global security. In our increasingly interconnected and rapidly evolving world, the linkages between illicit markets, financial flows, organized crime, and terrorism have emerged as critical threats to global security, stability, and prosperity. This complex web of criminal activities transcends borders, exploiting vulnerabilities in our financial systems and threatening the very fabric of our societies.

FICCI CASCADE's (Committee Against Smuggling and Counterfeiting Activities Destroying the Economy) study titled "**Hidden Streams: Linkages between Illicit Markets, Financial Flows, Organized Crime, and Terrorism**" employs a rigorous research approach to unveil hidden layers and establish connections between the illicit economy, organized crime, and terrorism. Drawing from various secondary sources, it also provides linkages, empirical relationships, and evidence confirming the

Foreword

nexus between these different components of the illicit economy.

India's growing prominence in global trade elevates the risk of illicit financial transfers, hindering economic development and funding terror activities. To combat these risks, India should adopt a comprehensive strategy supported by multidisciplinary approach spanning various domains. The study proposes the "Six Cs" as policy recommendations to chart a path forward. We hope this study will stimulate further discourse on the magnitude of this issue and

provide avenues for addressing and mitigating this global scourge.

I thank all stakeholders, especially the Think Tank members of FICCI CASCADE, for their contributions to this study and extend my best wishes for future success.

Sincerely,



Leena Jaisani

Assistant Secretary General

FICCI



Chair's Message





Chair's Message

The nefarious link between illicit trade and terrorism has been now established beyond doubt. As money continues to be the lifeblood of terrorists, procuring finances, sufficient to sustain terror operations continues to be a priority for terrorists across the globe. Today the world's most lethal terrorist organisations rely on the proceeds from illicit trade to fund their evil agendas.

It is this nexus of illicit markets, financial flows, organized crime, and terrorism that pose numerous challenges to nations world over - from eroding national security, impeding economic development to damaging physical and social well-being. Although terrorists have been financed by illicit trade for decades, the sheer scale, size and extent are reaching levels never seen before.

It is in this backdrop that an urgent need for a comprehensive study on this subject was felt. I am delighted to present the findings and recommendations of the report titled **"Hidden Streams: Linkages between Illicit Markets, Financial Flows, Organized Crime,**

and Terrorism." In a world where the challenges of security, stability, and sustainable development are closely intertwined, this report sheds light on this complex relationship that demand our immediate attention and action.

The study draws on data and indicators from international agencies, providing empirical evidence of the relationships between illicit financial flows, organized crime, and terrorism for 122 benchmarked countries. The key findings from this report highlight the significant economic impact of illicit financial flows, which can range from 2% to 5% of the global GDP, translating to trillions of dollars.

This is both revealing and alarming, underscoring the urgent need for coordinated efforts on a global scale.

Under the leadership of our Hon'ble Prime Minister, Shri Narendra Modi, India is committed to work with all countries to combat terror financing in all its forms. We have been reiterating the need for an effective, collaborative and multilateral approach designed to

Chair's Message

choke the flow of funds by eliminating traffickers, smugglers, terrorists, or organized crime, in order to counter the funding of acts of terror. This will not only enable us to reach our desired goal of defeating the evil intentions of such unscrupulous elements indulging in illicit activities but will also protect our communities and economies.

I extend my heartfelt appreciation to the esteemed members of the CASCADE Think Tank, whose ongoing guidance and valuable

insights have played a pivotal role in shaping up this publication. I also wish to acknowledge the significant contribution of TARI in compiling and analysing data.

I am sure you will find this an interesting read.

Jai Hind!



Anil Rajput

Chairman, FICCI CASCADE



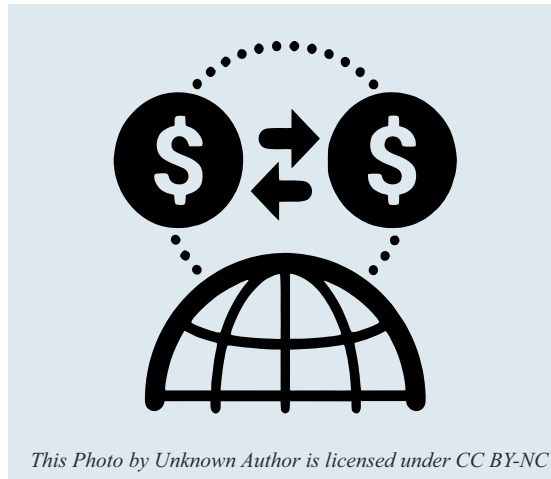
Executive Summary





Executive Summary

The G20 Leaders Declaration in New Delhi on September 10, 2023 unitedly agreed to "strongly condemn all terrorist acts against critical infrastructure, including critical energy facilities, and against other vulnerable targets. All acts of terrorism are criminal and unjustifiable, regardless of their motivation, wherever, whenever and by whomsoever committed. Effective counterterrorism measures, support for the victims of terrorism and the protection of human rights are not conflicting goals, but complementary and mutually reinforcing."



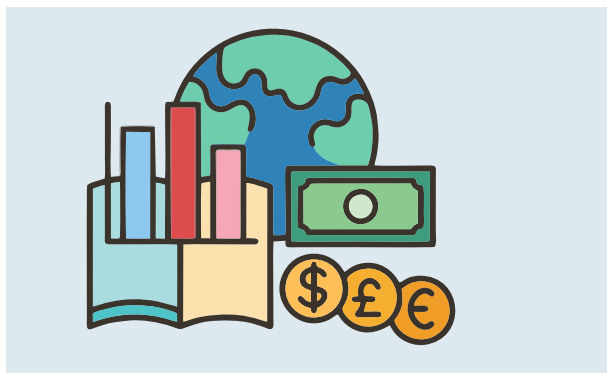
Based on the widely acknowledged concerns about illicit financial flows (IFFs) and their relationship with terrorism and crime, recognised by the G20 and the United Nations as a significant and pervasive threat, our study seeks to explore and shed light on the intricate nexus between the illegal economy, terrorism, and organised crime. By understanding these connections, we present a data-based reasoning that may be used to develop strategies to counter challenges to peace and contribute to an equitable global future.

This study uses data and indicators from international agencies on terror and crime, such as the Global Terror Index (GTI), Crime Index, Global Organised Crime Index (GOCI), Organisation of Economic Cooperation and Development (OECD) indicator on counterfeiting, Global Financial Integrity (GFI) indicators on TBML-IFF, and other regulatory and institutional governance indicators country level data provided by the World Bank. Using data from these sources, we provide linkages and empirical evidence of the relationships with terrorism and crime for the benchmarked 122 countries.



1. Illicit Financial Flows, Organized Crime and Terror

Illicit financial flows, a significant part of the illegal economy, pose a significant risk to society, economies, and the world as a whole. The United Nations estimates that the global amount of money laundered in a year is estimated to range from 2% to 5% [1] of the global GDP, which for the year 2021 translates between US\$ 1.9 trillion and US\$ 4.75 trillion.



The World Trade Organization estimates that illicit trade, primarily through trade mis-invoicing, accounted for 2.8% of global merchandise trade, worth \$772 billion in 2022. These sums exclude other illegal flows from non-trade sources.[2]

The Global Financial Integrity (GFI) estimated the annual size of illegal criminal markets [3], which include arms and drug trafficking, counterfeit merchandise smuggling, human trafficking, flora and fauna crime, etc., in 2017 to be between US\$ 1.6 trillion and US\$ 2.2 trillion, despite challenges in quantifying their extent.



The United Nations (UN) framework defines IFFs as financial flows that are illicit in origin, transfer, or use, reflecting an exchange of value and cross-country borders. This UN IFF framework [4] has four components, including: illegal tax (a term used for describing by UN evaded taxes through unlawful trade and means) and commercial practices (trade-based money laundering -TBML), illegal markets, corruption, and exploitation and terrorism financing.

Illicit financial flows from the trade-based money laundering (TBML) and illicit flows other illegal markets such as trafficking etc. are collectively termed as illegal economy for this report.

Illicit financial flows from the illegal economy are significant conduits for organised crime and terrorist groups, providing definitive sources of financing for their activities.

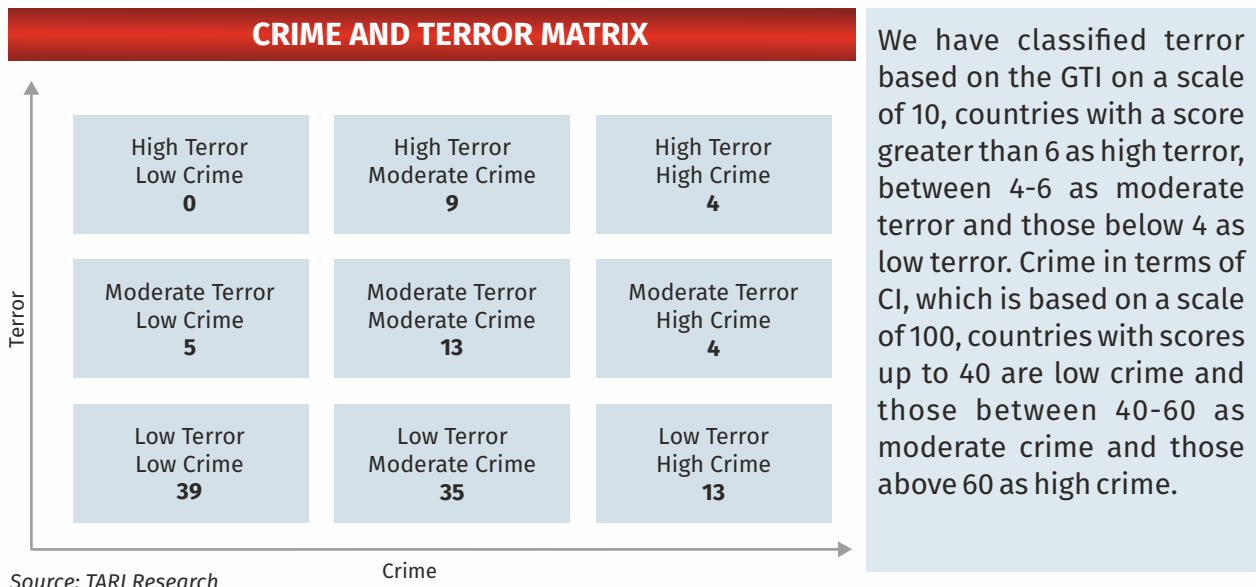


The United Nations Security Council passed a resolution in 2014 to control the menace of funding acts of terror and crime by the illegal economy, affirming the need to prevent and suppress the financing of terrorist acts and has included illicit flows and their impact on terrorism, violence, and crime as a significant socio-economic risk towards achieving SDG Target 16 of the United Nations' Sustainable Development Goals.

- ▶ The International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) also acknowledge the linkage between IFF, illegal activities, and organised crime/terrorism.
- ▶ In terms of purchasing power parity (PPP), the economic effect of violence on the world economy in 2022 was US\$17.5 trillion, which represents 12.9% of the total GDP of the world. [5]

2. Illicit Economy, Organized Crime and Terrorism

The Global Terrorism Index (GTI) and Crime Index (CI) indices have been used in this report to assess and benchmark the intensity of terror and crime of 122 countries.

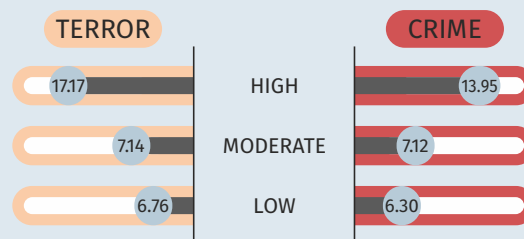


The matrix shows 39 countries have low terrorism and crime intensities (lower left corner), and 4 countries have high terrorism and crime intensities (right top corner).

The socio-economic consequences of high-intensity terrorism and crime are substantial. The data for the Economic Value of Peace 2021 highlights [6] that the total average cost of violence (per cent of the GDP)

- is nearly 2.5 times higher for high-terror countries in relation to low-terror countries, and
- 2 times higher for high-crime countries in relation to low-crime countries.

Average Total Economic Cost of Violence (% of GDP) - 2021



Linkages between the illegal economy, terror, and crime reveal that illegal economy shows stronger correlation with terrorism ($r=0.44$) as compared to crime ($r=0.30$). Countries with high terrorism levels experience an increase in illegal activities, such as human trafficking, arms trade, and resource exploitation e.g., flora and fauna crimes etc.; whereas countries with high crime exhibit significantly more arms trafficking and non-renewable resource-related illegal activities, e.g. gold, oil, precious stones etc., as compared to low-crime nations.

High-terror countries often observe heightened organised criminal activity across all types of criminal actors, both internal and external, with criminal networks and mafia-style groups playing a significant role.



The extent of the illegal economy is a good predictor of terrorism ($r^2 = 0.19$) in comparison to crime ($r^2 = 0.10$). Empirical relationships highlight that as the illegal economy goes up by 1 point, the Global Terrorism Index (GTI) score tends to go up by 1.04 points, suggesting that as a country's illegal market economy grows, it can expect an increase in terrorism levels.

3. Trade based Money Laundering, Counterfeiting/Illicit Goods and Terrorism: Understanding the Linkages, Relationship and Evidences

Trade-based money laundering (TBML) is a universal route and technique used by criminal organisations to legitimize the proceeds of their illegal activities, and according to Global Financial Integrity (GFI) over 80% of illicit financial flows (IFFs) are accompanied by commercial mis-invoicing. [7]



The Global Financial Integrity (GFI) of 2021 report examined the phenomenon of trade mis-invoicing across 134 developing countries and their trading partners for the period between 2009 and 2018 and estimated that the total value of trade discrepancy resulting from trade mis-invoicing over a span of ten years for these 134 developing countries aggregated to a substantial amount of US \$13.8 trillion. [3]



Trade discrepancy is the difference, or "value gap," between what any two countries had reported on their trade with one another. The analysis emphasises a significant increase in absolute trade value discrepancies, indicating an upward trajectory in illegal financial flows associated with trade mis-invoicing.

Our study using data from Global Financial Integrity (GFI) report 2021 [3] provides the empirical relationship between terrorism and illicit financial flows for 76 developing nations for the period 2017–2019. Our analysis also integrates control variables, including merchandise trade as a percentage of GDP, GDP per capita and trade across borders scores. All independent variables are highly predictive of the GTI score and are statistically significant

Terrorism is more prevalent in nations with high levels of TBML (trade-related illicit financial flows). In particular, the level of terrorism (GTI score) tends to increase by 0.0084 points when illicit financial flows increase by one million dollars, holding other factors constant.



The global threat posed by the illicit trade of alcohol and tobacco is significant, as it is exploited by organised crime and terrorist groups. The estimated annual value of this illegal trade ranges from \$284 billion to \$616 billion [8], making it a significant part of the overall illegal market.

This information is supported by seizure data from the World Customs Organization's 2022 Illicit Trade Report, [9] which reveals that two-thirds of all excise seizures involve tobacco products, while less than one-third involve alcoholic beverages.



Counterfeiting/trade in illicit goods is often overlooked and underestimated, but it serves as a significant source of profits and revenue for illicit and terror activities. The General Trade-Related Index of Counterfeiting for Economies (GTRIC-e) index, based on the OECD/EUIPO 2021 report [10], identifies the likelihood of an economy exporting counterfeited goods, or "illicit goods," based on international trade flows.

However, GTRIC-e deals with illicit products made for exports and does not deal with products that are smuggled outright, the quantum of which is significant and contributes hugely to the illegal financial flows of a country.

The top four countries with a high GTI score are also among the top 10 countries in terms of trade in illicit goods/counterfeiting, indicating a complex relationship between such goods and terrorism.

The relative likelihood of exporting counterfeited products was observed to be significantly higher in high and moderate-terror countries compared to low-terror countries.

Further analysis shows a good correlation for products such as clothing, leather goods, handbags, and footwear, countries with high terrorism intensity have higher propensity to export these counterfeited products.

4. Arms and Drug Trafficking, Terrorism and Crime



Arms and drug trafficking are significant components of the illicit economy, with an estimated annual value between \$427.7 billion and \$655 billion. These activities contribute to approximately 30% of the overall illicit economy. [11]

Arms trafficking is ranked as the third most pervasive unlawful market (after human trafficking/smuggling and synthetic drugs trade). Small arms and light weapons (SALWs), their parts and accessories, and ammunition contribute significantly to the spread of armed conflict and act as a source of income and a threat multiplier for terrorist groups.



Countries with a high level of arms trafficking are likely to have a high level of terrorism, as the relationship demonstrates that a one-point increase in the arms trafficking score results in a 0.69-point increase in the GTI score.

The growing connection between terrorism and organised crime, specifically arms trafficking, is a globally worrisome relationship.

Crime and arms trafficking are interconnected, with a significant correlation between the two. Countries with high crime rates are more likely to have a high level of arms trafficking, as a one-point rise in the arms trafficking score results in a 3.10-point increase in the Crime Index score.

This is evident in nations with high crime rates, organized criminal markets, and mafia-style organizations.

Mexico, a country with a well-consolidated weapons market and a significant channel for arms flow, had led to lethal consequences concerning gun violence.

The SAHEL region has seen an increase in terror-related deaths between 2007 and 2022, with firearms being the primary weapon used in 70% of attacks. This influx of illegal firearms has aggravated the security situation in the region and accelerated the activities of terror groups.[12]

Global drug trafficking, worth 650 billion dollars, is on the rise.

Cannabis remains the most widely produced drug, as indicated by seizures reaching 6,900 tonnes in 2020.

Other illicit drug seizures increased by 77.29 percent from 2019 to 2021, suggesting drug trafficking may be a lucrative avenue for criminal and terrorist organisations to earn illegal revenue and money laundering.[13]



The synthetic drug, cannabis, and heroin trades are closely linked to terrorism, with their prevalence rising as terrorism intensity increases. The relationship is validated by good correlation ($r=0.29$) between illegal drug economy score and GTI score for benchmarked 122 countries.

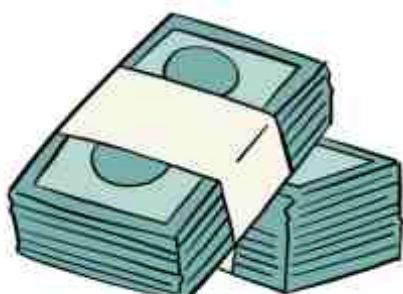
The drug trade has become a significant conduit for terrorist organizations, offering lower risks and substantial profits.

The UNODC highlights the complex relationship between terrorism and drug trafficking, with Latin American countries like Columbia, Peru, and Bolivia being the world's largest cocaine producers and critical exit sites for cocaine bound for Europe and the United States. [14]

5. India - Terrorism, Organised Crime, and Illegal Economy

Based on UNDOC estimates, when the Indian economy surpassed the \$3 trillion mark in 2021, the quantum of money laundering in India can be estimated at US\$ 159 billion about 5% of the GDP.

This accentuates the magnitude of the problem driven by the rise of illicit markets (trade, illegal e.g., drugs, arms etc.) and non-market actors.



The GFI 2021 [3] report data highlights that the mean percentage of trade value discrepancies (trade-based money laundering, which is a part of overall money laundering described above) from 2009 to 2018 was 19.8%, with the total aggregate value gap of mis-invoicing for these 10 years amounting to over US\$ 674.9 billion.

Recent data provided by the Directorate of Revenue Intelligence (DRI) vividly illustrates India's substantial trade gap and highlights growing illicit trade.

Smuggling in India Report 2021-22[15] identified 437 instances of duty evasion totalling ₹3,924 crore, which was a 40% increase from ₹2,810 crore in 2020-21.



As India strives to transform its economy into a US\$ 5 trillion-dollar powerhouse in the coming years, the current trade composition at 30% would make the trade value at US \$1.5 trillion.

This puts India in a precarious position, with an impending surge in trade activities that could inadvertently foster the proliferation of illicit financial flows. Currently the illicit trade gap as estimated by GFI is 20%, which translates into nearly US\$300 billion when we reach the 5 trillion-dollar economy.

The convergence of trade-based money laundering with terrorism (as highlighted by our empirical TBML model – which shows that a 1 million US Dollar rise in trade gap translates in 0.0084 points increase in GTI score) raises significant concerns for our national security.

Counterfeiting and illicit goods in India pose significant risks, including financial implications, public health threats, and intellectual property issues.

The OECD/EUIPO 2021 report, which assesses countries using the GTRIC-e score (measuring the propensity to export counterfeit products), ranks India at 24th place with a moderate score of 0.447 for the period of 2017-19.

India's informal economy increases the likelihood of counterfeit goods production and trade, raising concerns about terrorist activities. This index does not include smuggling and other illicit trade practices, which when taken together will enhance the country's risk of terrorism.



The issue of addressing both terrorism and crime has garnered significant attention due to the increasing focus on security concerns. It's worth noting that addressing these challenges has had a substantial economic impact due to violence, defined as the expenditure and economic effects associated with containing, preventing, and dealing with the consequences of violence. In 2021, the economic impact of violence was estimated at US \$1.17 trillion, which accounts for approximately 6% of the country's GDP in terms of PPP and violence per capita impact is estimated at US\$ 841at PPP. [16]

It is estimated that nearly 80% of such containment costs relate to security and as the economy grows (along with it the illegal economy) , India's cost of addressing terror and crime will be significant.

The Global Organised Crime Index (2021) shows a low prevalence of organized crime actors in India, but the criminal network has significant influence, with a score of 6 (higher than the average score of 5.8 for 122 countries).

The illegal economy in India has an overall score of 6.3 (average score of 5 for 122 countries), indicating that various criminal markets have a significant impact on the overall economic structure of India. [11]





India's arms trafficking score of 5.5 is higher than the international benchmark of 5.2, indicating a complex security issue.

The proliferation of firearms poses a significant threat to India's security and stability with empirical relationship showing strong correlation between arms and terrorism.

The "Operation Dhvast" case where NIA in coordination with Punjab and Haryana Police busted a Terrorist-Gangster-Drugs-Arms Trafficking nexus, and raided 324 locations and seized a huge cache of arms and ammunition in eight states, which serves as a stark reminder of the gravity of arms trafficking in India and shows a strong nexus between arms and terrorism.

India's strategic location near major drug-producing regions has led to a more prevalent illicit drug trade. Cannabis has a higher score of 7.5 in India compared to the global average of 5.4, indicating a significant presence.

The country's drug economy has seen a noticeable increase in recent years, with a rise in drug seizures. A good correlation between drug trafficking and terrorism highlights that drug trafficking may contribute to a higher terrorism risk for India with case evidence from the National Investigation Agency (NIA) confirming the narco-terrorism.

6. Recommendations and Way Forward

The complex challenges posed by crime and terrorism have emerged as a critical global concern. These challenges transcend across borders, having negative ramifications for societies, economies, and security at various levels.

India's growing global trade prominence raises the risk of trade-based illicit financial flows, potentially affecting economic progress and supporting terrorism and criminal activities. To counter these risks, India should adopt a comprehensive approach addressing illegal markets, terrorism, and organised crime, tailored to its unique circumstances and challenges.

This study suggests the 6 Cs as a policy recommendations and way forward for this issue:



End Notes

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16. Global Peace Index 2023. (n.d.). <https://www.visionofhumanity.org/wp-content/uploads/2023/06/GPI-2023-Web.pdf>; The ratio to PPP to economy at current prices is roughly 3:1 in terms of this report

ILLICIT FINANCIAL FLOWS, ORGANIZED CRIME AND TERROR: UNDERSTANDING THE CONTEXT

1



ILLICIT FINANCIAL FLOWS, ORGANIZED CRIME AND TERROR: UNDERSTANDING THE CONTEXT

1.1 ILLICIT FINANCIAL FLOWS: SETTING THE CONTEXT

According to United Nations estimates,¹ the global amount of money laundered in a year is believed to range from 2% to 5% of the global Gross Domestic Product (GDP). This translates to a substantial sum of money, estimated to be between \$ 1.9 trillion and \$ 4.75 trillion in current US dollars for the year 2021.² However, given the discreet nature of money-laundering, it can be challenging to accurately determine the precise amount of money involved in the laundering process.

In the wake of the Covid-19 pandemic, international trade emerged as an unwavering pillar of resilience, driving global recovery against all odds. Even as geopolitical tensions escalated, the global merchandise trade reached a record peak in 2022, surged 12 percent to an astonishing value of US\$ 25.3 trillion³. However, within the complexities of global trade, a concealed and unsafe⁴ domain exists that includes the clandestine flow of money and goods, referred to as illicit financial flows. Illicit trade is a global phenomenon that continues to grow notwithstanding the endeavours of govern-

ments, international organisations including law enforcement and multilateral agencies, and private sector businesses.

In the recently held G20 summit in New Delhi, the global leaders acknowledged this critical issue of money laundering and assured their commitment to fight against this menace. The signed G20 New Delhi Leaders' Declaration⁵ highlights that, "we remain committed to the timely and global implementation of the revised FATF Standards on the transparency of beneficial ownership of legal persons and legal arrangements to make it more difficult for criminals to hide and launder ill-gotten gains."

These illicit funds are generated by a plethora of illegal activities and illicit trade that are part of a vast network of organised crime. World Customs Organization (WCO) highlights that⁶ "illicit trade involves money, goods or value gained from illegal and otherwise unethical activity. It encompasses a variety of illegal trading activities including human trafficking, environmental crime, illegal trade in natural resources, intellectual property infringements, trade in certain substances that cause health and safety

¹ United Nations Office on Drugs and Crime (UN ODC). Money Laundering. <https://www.unodc.org/unodc/en/money-laundering/overview.html>

² Total World GDP is estimated at US\$ 95 trillion in 2021, aggregate sum of all countries GDP (current US\$) from world development indicators

³ WTO (2023) Global Trade Outlook and Statistics. https://www.wto.org/english/res_e/booksp_e/trade_outlook23_e.pdf

⁴ WCO (2022) Illicit Trade Report 2022, Enforcement and Compliance, World Customs Organization (WCO).

⁵ G20 New Delhi Leaders' Declaration. Available at: https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf. New Delhi, India, 9-10 September 2023. Page 28

⁶ WCO (2013) Illicit Trade Report 2012, World Customs Organization. http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/enforcement-and-compliance/activities-and-programmes/illicit-trade-report/itr_2012_en.pdf?db=web, p. 2.

risks, smuggling of excisable goods, trade in illegal drugs and a variety of illicit financial flows."

The continuation of illegal trade presents a huge risk to the safety of our societies, as well as to the health of our economies and the world at large. These illegal operations, which range from the sale of counterfeit goods and the distribution of illegal drugs to the theft of wildlife and the sale of cultural relics, are harmful to legitimate businesses, provide fuel for organised crime networks, and put the health and safety of individuals all over the world at risk.

India, as one of the world's fastest-growing economies, is vulnerable to illicit economy, illegal markets and terrorism. These illicit trade flows are estimated to account for approximately 20 percent of the total trade in the country as per Global Financial Integrity (GFI) between 2009 to 2018.⁷ Drawing from insight by the United Nations (UN) on illicit financial flows (IFFs) and their linkages with terrorism, this convergence pose a looming security threat for India, when it reaches a US\$ 5 trillion-dollar economy.

Illicit financial flows and its financial counterparts pose an overwhelming narrative of growing risk. It is a serious problem, and its impact is far-reaching, affecting various stakeholders, including the governments, domestic industries, entire economies, and citizens of the country.

The World Trade Organization (WTO) estimated that the overall value of illicit trade, or trade-based money laundering (TBML), primarily through trade mis-invoicing (differences between reported imports and reported exports), to be 2.8 per cent of the total value of global merchandise trade.⁸ On this basis global illicit trade can be estimated at US\$ 772 billion in 2022. The Global Financial Integrity (GFI) for 134 developing countries estimated the overall aggregate value gap of trade mis-invoicing or illicit trade for a 10-year period between 2009 and 2018 at US\$ 13.8 trillion.⁹ These sums exclude other illegal flows from non-trade sources.

These mis-invoicing illicit trade flows do not include flows from the illegal economy which covers, among other things, drug trafficking, counterfeit merchandise smuggling, arms trafficking, human smuggling and trafficking, wildlife trafficking, and the smuggling of cultural property and artefacts and other crimes.¹⁰ Despite the inherent difficulty in quantifying the extent of the illegal economy, the Global Financial Integrity (GFI) took steps to tackle this challenge in their 2017 report titled, "Transnational Crime and the Developing World" published in March 2017, the report provided an estimate of the annual size of the transnational illegal economy, ranging between \$1.6 trillion and \$2.2 trillion.¹¹ The following table represents the magnitude of illegal economy globally.

⁷ GFI(2021). *Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018*. Global Financial Integrity. <https://gfindtegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>

⁸ WTO (2021). *Tackling illicit trade in medical products: Better international cooperation for better health*. World Trade Organization. https://www.wto.org/english/res_e/publications_e/tacklinkillici22_e.html

⁹ GFI (2021). *Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018*. Global Financial Integrity. <https://gfindtegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>

¹⁰ WCO (2022) *Illicit Trade Report*. World Customs Organization. <https://www.wcoomd.org/en/media/newsroom/2023/june/the-world-customs-organization-releases-the-illicit-trade-report-2022.aspx>

¹¹ GFI (2017) *Transnational Crime and the Developing World*. Global Financial Integrity. <https://gfindtegrity.org/report/transnational-crime-and-the-developing-world/>

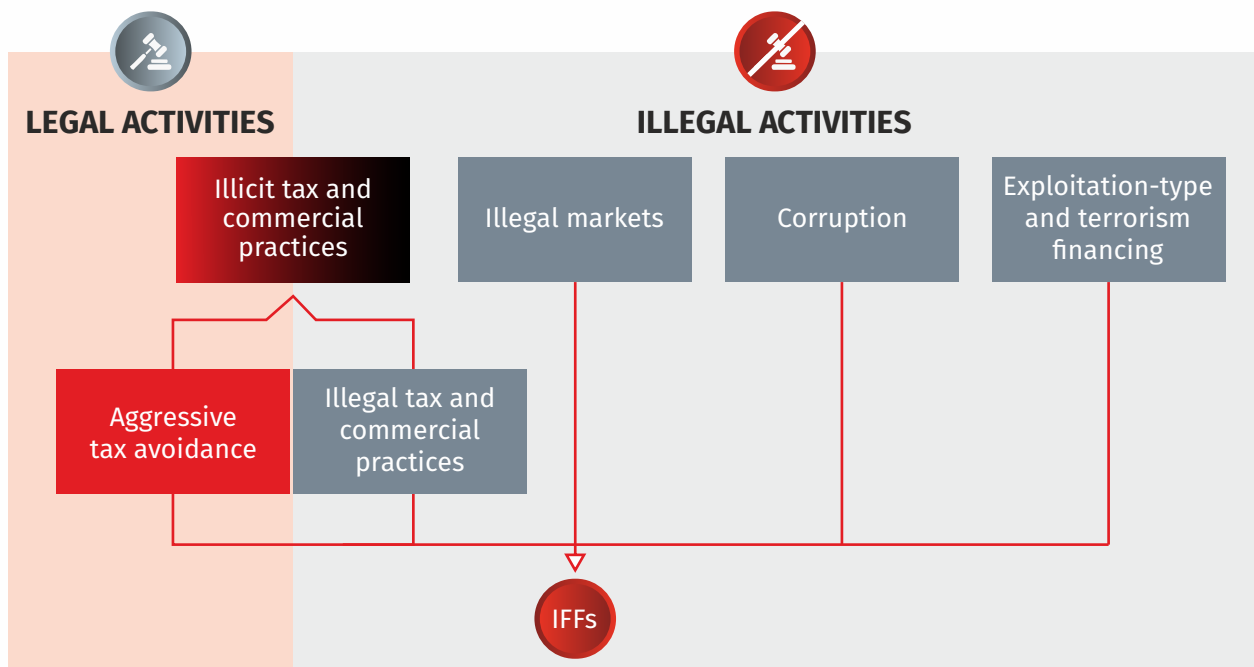
Total Value of Illegal Economy	
Transnational Illegal Crime	Estimated Annual Value (US\$)
Counterfeiting/Illicit Goods	\$923 billion to \$1.13 trillion
Drug Trafficking	\$426 billion to \$652 billion
Small Arms & Light Weapons Trafficking	\$1.7 billion to \$3.5 billion
Human Trafficking (including organ trafficking)	\$151.4 billion to \$151.9 billion
Flora and Fauna Crime (includes Illegal logging, fishing and wildlife trade)	\$72.5 billion to \$216.4 billion
Non-renewable Resource Crimes (including cultural property)	\$18.4 billion to \$61.5 billion
Total	\$1.6 trillion to \$2.2 trillion

Source: GFI, TARI

Illicit financial flows from trade-based money laundering (TBML) and other illicit financial flows from illegal markets such as trafficking etc. are collectively termed as illegal economy for this report. Given the sizeable amount of illicit financial flows (IFF) generated from the overall illegal economy, it becomes imperative to recognise that these illicit funds serve as lucrative conduits for organised crime and terrorist groups and are instrumental in financing their activities.

The United Nations understanding the criticality of the illicit financial flows (IFFs) on

global economy and countries, has defined it and worked on the statistical framework to measure it. As per the UN framework¹² IFFs are defined "as financial flows that are illicit in origin, transfer or use, that reflect an exchange of value, and that cross-country borders." This UN IFF framework has four components, including: illegal tax (a term used for describing by UN evaded taxes through unlawful trade and means) and commercial practices (trade-based money laundering -TBML), illegal markets, corruption, and exploitation and terrorism financing.



Source: UN Statistical Commission Framework on IFFs

¹ UNCTAD and UNODC (2020) Conceptual Framework for the Statistical Measurement of Illicit Financial Flows. https://Sdgpulse.Unctad.Org/Illicit-Financial-Flows/#Ref_5SQZVCD6.

According to the IFF conceptual framework provided by UNCTAD and UNODC, each of the four elements are essential component of the illicit trade that generates illicit financial flows (IFF). Nonetheless, each component is unique, how it trades and generates IFF. However, it is important to understand that not all activities are illegal such as tax avoidance that takes place along with the normal course of business or trade¹³.

The illicit financial flows (IFFs) from the trade-based money laundering (TBML) and other illicit flows from illegal markets are the key components of this overall IFF framework, generating staggering illicit monies proceeds of which are used to finance terror and criminal activities. This study focuses solely on these essential components, as they are indispensable to illicit trade and generate a substantial quantity of illicit funds.

Given in the UN framework of IFF, but this study does not consider and do not include IFF components like corruption and exploitation-type actions like extortion, abduction, etc. in its analysis. Even though they produce illicit financial flows, these activities do not come under the purview of this study since they do not include the transfer of products or services.

1.2 UNRAVELLING THE COMPLEX NEXUS: ILLICIT TRADE, TERRORISM, AND ORGANIZED CRIME

The UN framework emphasises that Illicit Financial Flows (IFFs) are complex and encompass various activities that are primarily illegal in nature and carried out by

organised criminal actors. Illicit financial flows, organised crime, and terrorism are interconnected in a complex relationship. Numerous organised crime groups operate within the illegal economy, generating illicit financial flows. The proceeds from these activities can be used for various purposes, such as funding terrorism, supporting organised crime, and facilitating illegal activities.

Understanding menace and impact of illicit financial flows, the United Nations Security Council passed a resolution to control the menace of funding acts of terror and crime by the illegal economy and Resolution 2195 of the UN security council in December 2014. This resolution affirms illicit trade as a source of terrorism and articulates the following: "Reaffirming the need to prevent and suppress the financing of terrorist acts, expressing concern that terrorists benefit from transnational organized crime in some regions, including from the trafficking of arms, persons, drugs, and artefacts and from the illicit trade in natural resources including gold and other precious metals and stones, minerals, wildlife, charcoal and oil, as well as from kidnapping for ransom and other crimes including extortion and bank robbery."¹⁴.

The International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) also acknowledge the linkage between IFF, illegal activities, and organised crime/terror. They view IFF as encompassing funds generated from illegal activities including illegal acts such as smuggling, tax evasion, drug trafficking, and corruption that contravene national or international laws, and the proceeds may be used for activities such as crime and terror financing.¹⁵

¹³ UNCTAD and UNODC (2020) *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. https://Sdgpulse.Unctad.Org/Illicit-Financial-Flows/#Ref_5SQZVCD6.

¹⁴ United Nations Security Council (2014) 'Resolution 2195'; URL: <http://unscr.com/en/resolutions/doc/2195>

¹⁵ Privacy, Transparency and Combatting Illicit Financial Flows - IMF F&D. (2019, September 1). IMF. <https://www.imf.org/en/Publications/fandd/issues/2019/09/illlicit-financial-flows-and-privacy-vs-transparency-purcell> Policy ; Coherence in Combating Illicit Financial Flows. (n.d.). https://www.oecd.org/gov/pcsd/IFFs%20thematic%20module%20v12cL_for%20web.pdf

Nexus between Illegal Economy, Organised Crime and Terrorism: Evidences

Terrorist groups and crime syndicates generate hundreds of billions of dollars annually through illegal activities. They employ various TBML schemes to conceal the illicit origins of their funds.

It is worth noting that the United States Government Accountability Office (GAO) has highlighted the utilisation of trade-based money laundering (TBML) schemes by terrorist organisations such as Hezbollah and the Revolutionary Armed Forces of Colombia.¹⁶ These groups employ TBML methods to launder the proceeds obtained from their illicit activities. Many U.S. officials and experts have highlighted the involvement of Hezbollah in various trade-based money laundering (TBML) activities within the Tri-Border Area of South America. This region is located at the convergence of Argentina, Brazil, and Paraguay. These illegal activities were utilised to fund terrorist operations worldwide. Additional connections have been discovered linking Hezbollah to TBML schemes, which were employed to launder money and facilitate the transfer of funds derived from illicit activities across West Africa. The process involved transferring funds from Lebanon to the United States in order to purchase second-hand cars. These cars were subsequently shipped to Benin and sold across various countries in West Africa.

There are several additional pieces of evidence that clearly show the complex link between trade-based money laundering (TBML) and organised crime.

Drug cartels in countries like Mexico and Colombia have been found to employ low-risk, high-reward techniques, such as commerce mis-invoicing, for money laundering purposes. By collaborating with corrupt officials, businesses, and individuals in the private sector, these entities were able to increase their influence on important geopolitical locations like ports, airports, and borders.¹⁷ This allowed them to easily engage in activities such as trade mis-invoicing and smuggling. According to a 2017 US State Department report¹⁸ on Colombia's cocaine economy, it was estimated that between US\$ 5 billion and US\$10 billion in annual cocaine proceeds were being funnelled back into Colombia through trade-based money laundering (TBML) techniques.

The 2030 Agenda for Sustainable Development Goals underlines a strong linkage between illicit financials flow, organised and illegal activities. It puts emphasis on the reduction of illicit financial flows (IFFs) as a priority area, in SDG goal number 16.4, 'By 2030, significantly reduce the illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime'.

This interplay highlights the complex nature of these issues and importance of understanding their connections to develop more effective strategies for countering them. Moreover, the involvement of the illegal economy blurs the lines between these realms as they easily transition from the legal to the illegal and vice versa with consummate ease and anonymity.

¹⁶ U.S. Government Accountability Office (GAO). (2020, May 1). Report: GAO-20-333. <https://www.gao.gov/products/gao-20-333>

¹⁷ Lauren (2021) Seeking Solutions to Trade Misinvoicing in Mexico and Colombia. Global Financial Integrity, 14 Sept. 2021, <https://gfintegrity.org/seeking-solutions-to-trade-misinvoicing-in-mexico-and-colombia/>.

¹⁸ U.S. Government Accountability Office (GAO). (2020, May 1). Report: GAO-20-333. <https://www.gao.gov/products/gao-20-333>

1.3 IMPACT OF TERROR AND ORGANISED CRIME

Terrorism, armed conflicts, and organised crime act as barriers to achieving the UN SDG 16 goal, which is centred on maintaining peace and harmony. According to the data presented in United Nations Sustainable Development Goal 16, about one-quarter of humankind resides in conflict-affected regions. It is also crucial to note that terrorism and criminal activity are not only harmful to the people who are directly affected by them, but they also pose a significant risk to nations, communities, and the legitimate governments of those countries and communities.¹⁹

The recently signed G20 New Delhi Leaders' Declaration²⁰ condemns any kind of terrorism and violence, by showing commitment that, "We condemn terrorism in all its forms and manifestations, it constitutes one of the most serious threats to international peace and security."

Between 2016 and 2020, there were over 52 thousand acts of terrorism that harmed over 121 thousand people throughout the world. There were around 2.5 fatalities at each event, resulting in an estimated total of approximately 129 thousand fatalities between the years 2016 and 2020 as a result of acts of terrorism.²¹

The impact of terror, violence and crime is not limited to social or human aspect but also has a significant bearing on the economic aspect which is borne by the entire country. In terms of purchasing power parity (PPP), the economic effect of violence on the world economy in 2022 was US\$17.5 trillion. This represents 12.9% of the total gross domestic product of the globe or US\$ 2,200 for each individual. In the top 10 nations that were hit the most by violent crime, the average economic effect was equal to 34 per cent of GDP, while in the ten nations that were hit the least by violent crime, the average economic impact was only comparable to 2.9 per cent of the GDP.²²

Global Total Economic Impact of Violence, (Billions of PPP US\$)



Source: Global Peace Index 2023 and Economic Value of Peace 2021

¹⁹ United Nations Department of Economic and Social Affairs Sustainable Development. (n.d.). Transforming our world: the 2030 Agenda for Sustainable Development. Retrieved August 25, 2023, from <https://sdgs.un.org/2030agenda>

²⁰ G20 New Delhi Leaders' Declaration. Available at: https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf. New Delhi, India, 9-10 September 2023. Page 28

²¹ Herre, Bastian, et al. "Terrorism." Our World in Data, Sept. 2023. [ourworldindata.org](https://ourworldindata.org/terrorism), <https://ourworldindata.org/terrorism>

²² Institute for Economics & Peace. Global Peace Index 2023: Measuring Peace in a Complex World, Sydney, June 2023.

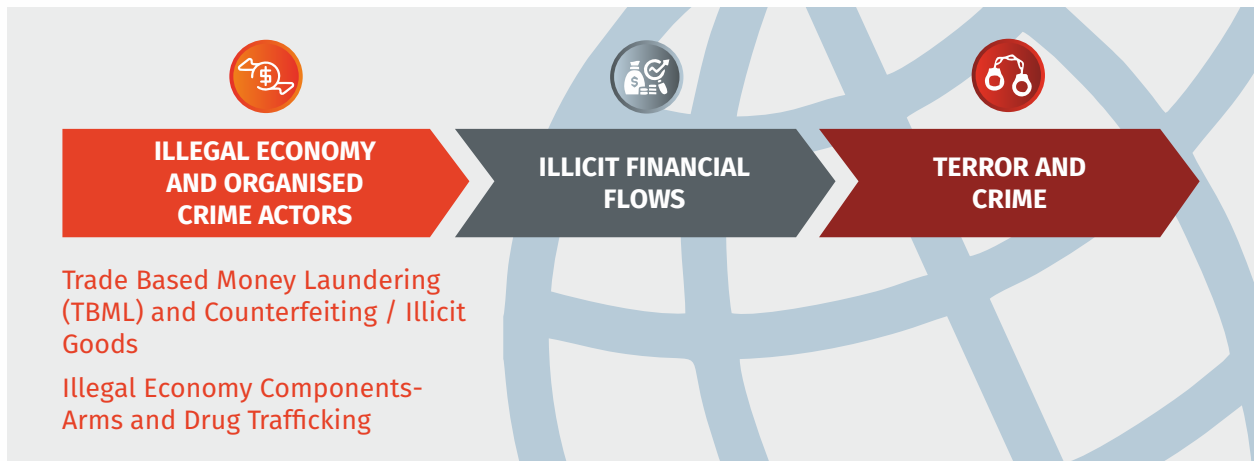
According to the Global Peace Index 2023 and the Economic Value of Peace 2021²³, there has been a considerable rise in the economic cost of violence, notably after the year 2019, which has climbed by more than three trillion US dollars. The cost of violence containment, which largely comprises expenditure on the national security, amounts for more than 80 per cent of the total economic cost of violence.

In conclusion, while international trade played a pivotal role in global recovery during the challenges brought about by the Covid-19 pandemic, there remains a concealed threat in the form of illicit financial flows and trade. These illicit activities not only pose significant socio-economic risks but also hinder progress towards achieving SDG Target 16 of the United Nations' Sustainable Development Goals. Illicit flows and their impact on terrorism, violence, and crime are key and pervasive risks to global peace, prosperity, and overall human wellbeing.

1.4 RESEARCH APPROACH AND OBJECTIVE

This study takes a holistic research approach, which allows us to grasp hidden layers and build relationships between illicit financial flows, organised crime, and terrorism, all of which are entwined in a very complicated relationship. We augment our understanding from the UN Conceptual Framework for the Statistical Measurement of Illicit Financial Flows, that provides various components through which IFF is generated.

Organised crime actors and the illegal economy are key to illicit financial flows and, as highlighted earlier, have a good linkage with terror and overall crime. We specifically seek to understand key aspects of illegal economy that generate huge illicit financial flow including illegal markets (including counterfeiting/illicit goods) and trade-based money laundering (illegal tax and commercial practices).²⁴ Furthermore, we analyse two key elements of the illegal markets, namely arms and drug trafficking, to understand their complex relationship with terror and crime.²⁵



Source: TARI Research

We rely on secondary data sources and indicators from international agencies on terror and crime, such as the Global Terror Index (GTI), Crime Index, Global Organised

Crime Index (GOCI), Organisation of Economic Cooperation and Development (OECD) indicator on counterfeiting, Global Financial Integrity (GFI) indicators on IFF, and

²³ Institute for Economics & Peace. Global Peace Index 2023: Measuring Peace in a Complex World, Sydney, June 2023.

²⁴ UN ODC (2020). Conceptual Framework for the Statistical Measurement of Illicit Financial Flows. October 2020

²⁵ GFI (2017) Transnational Crime and the Developing World. Global Financial Integrity. <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

other regulatory and institutional governance indicators country level data provided by the World Bank, to establish linkage and relationships.

Drawing from the importance of the looming threat that the United Nations considers very pervasive and real through this study, we aim to shed light on the intricate nexus among the illegal economy, terrorism and organised crime. By understanding these connections, we hope to present data-based reasoning to funnel into strategies to coun-

ter these challenges and contribute to a more peaceful and equitable global future.

Using the data and indicators from Global Terror Index Report and the Global Organised Crime Index Report 2021 and other data bases mentioned above, we provide linkages and empirical evidence of their relationship with terrorism and crime for the benchmarked 122 countries in our study.

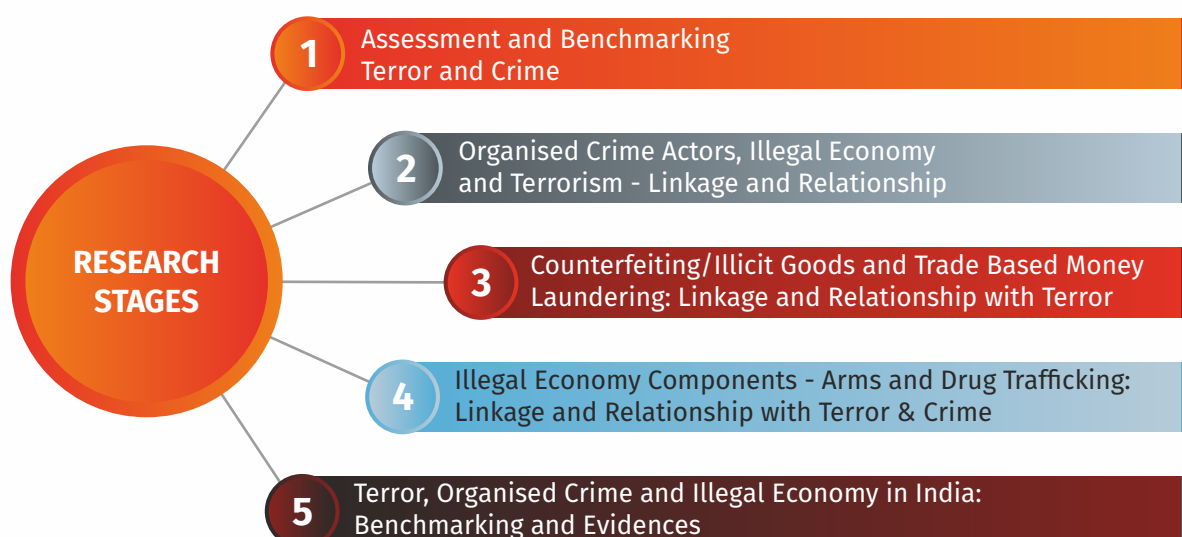
Specifically, in this study we aim to achieve the following objectives:



Source: TARI Research

We adopt a research methodology using secondary data from the above-mentioned sources and aim to establish linkages and empirical evidence of their relationship between organised crime, the illegal economy, illicit financial flows, and terror. We also

provide evidences on how IFFs generated by these activities are utilised by terror and criminal groups to engage in a variety of terror and criminal activities. Our study has five research stages; a brief detail provided here.²⁶



Source: TARI Research

²⁶ For more details, please refer to Annexure -1 Research Methodology



ILLICIT ECONOMY, ORGANIZED CRIME AND TERRORISM: UNDERSTANDING THE LINKAGES AND RELATIONSHIPS

2



2

Illicit Economy, Organized Crime and Terrorism: Understanding the Linkages and Relationships

This section evaluates organised crime actors, the illegal economy, and their connection to terrorism and crime.²⁷ Diverse types of criminal actors participate in a variety of illegal and unlawful activities that occur all over the world, outside the jurisdiction of the law and the authorities, in order to obtain illicit financial gains.²⁸

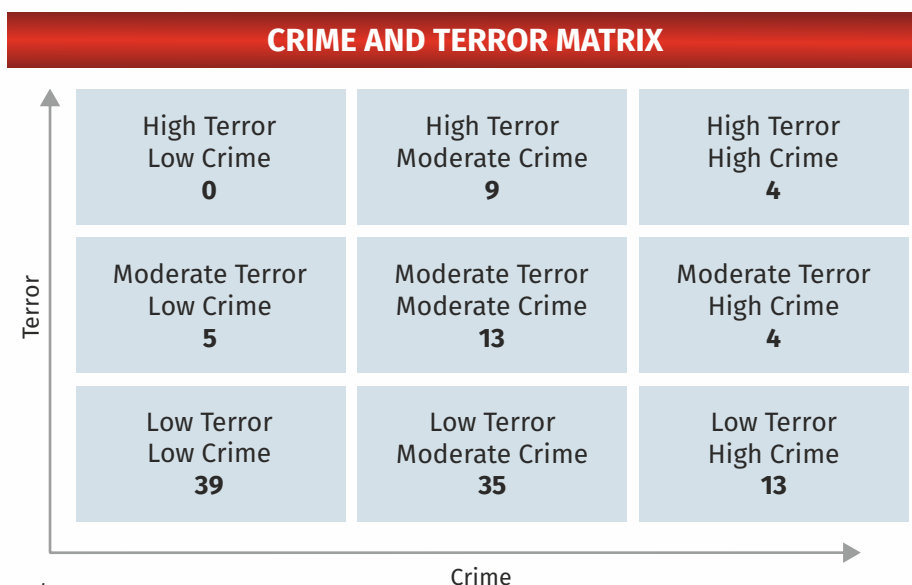
As previously mentioned, the GFI assessed the annual size of the transnational illegal economy in 2017 to be between \$1.6 and \$2.2 trillion.²⁹ Given the considerable amount of illicit financial flows (IFFs) generated by the illegal economy as a whole, it is inevitable that various criminal actors, organised crime groups, and terrorist organisations will use these flows to finance their criminal and terrorist activities.

2.1 ASSESSMENT AND BENCHMARKING TERROR AND CRIME

The Global Terrorism Index (GTI) and Crime Index (CI) indices have been used in this report to assess and benchmark the intensity of terror and crime of 122 countries. Both crime and terrorism indices are available for the previous ten years and cover all major economies. We have classified terror based on the GTI which is based on a scale of 10,

countries with a score greater than 6 as high terror, between 4-6 as moderate terror and those below 4 as low terror. Crime in terms of CI, which is based on a scale of 100, countries with scores up to 40 are low crime and those between 40-60 as moderate crime and those above 60 as high crime.

► The matrix below shows 39 countries have low terrorism and crime intensities (lower left corner), and 4 countries have high terrorism and crime intensities (right top corner).



Source: TARI Research

²⁷ Please refer to Annexure- 1 Research and Methodology for more details

²⁸ UN ODC. Transnational Organized Crime: The Globalized Illegal Economy. <https://www.unodc.org/toc/en/crimes/organized-crime.html>.

²⁹ GFI (2017) Transnational Crime and the Developing World. Global Financial Integrity. <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

The matrix highlights two important insights regarding the connection between terrorism and crime:

- ▶ In countries with low levels of terrorism (a total of 87), the vast majority (74 countries, or more than 85%) have only low to moderate levels of crime.
- ▶ In contrast, all high-threat nations exhibit moderate to high levels of crime. This indicates that crime contributes considerably to the increased prevalence of terrorism in these nations.

2.2 BENCHMARKING SOCIO-ECONOMIC COSTS CONTAINING TERRORISM AND CRIME

The socio-economic impact of terror and crime is quite significant for countries where the intensity of terror and crime is high. The data analysis of terror fatalities and intentional homicide provides good insight into the high cost paid by high-terror and crime countries. Further, the economic analysis gives an insight onto the significant cost of terror and violence containment in high-terror and crime countries.

The social cost of high crime in countries is

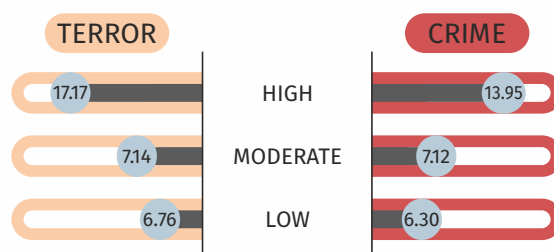
quite significant and devastating for human life. The data on intentional homicide on account of crime from World Development Indicators³⁰ accounts for the impact of high crime. On average, intentional homicide between 2018 and 2020 is 16.75 times higher in high-crime countries, and 4.45 times higher in moderate-crime countries in comparison to low-crime countries.

The impact of terror, violence, and crime is not limited to social or human aspects but has a significant bearing on the economic aspect which is borne by the entire country. The levels of terrorism, violence, and crime throughout the world have a considerable effect on their respective economies. In terms of purchasing power parity (PPP), the economic effect of violence on the world economy in 2022 was US\$17.5 trillion.³¹

The total cost of high terror and crime countries is quite significant. The data for the Economic Value of Peace 2021³² highlighted the total average cost of violence (per cent of the GDP).

- ▶ is nearly 2.5 times higher for high-terror countries in relation to low-terror countries, and
- ▶ 2 times higher for high-crime countries in relation to low-crime countries.

Average Total Economic Cost of Violence (% of GDP) - 2021



Source: TARI Research, Economic Value of Peace 2021

³⁰ World Development Indicators, World Bank

³¹ Institute for Economics & Peace. Global Peace Index 2023: Measuring Peace in a Complex World, Sydney, June 2023

³² Institute for Economics & Peace. Economic Value of Peace 2021: Measuring the global economic impact of violence and conflict, Sydney, January 2021.

2.3 ILLEGAL ECONOMY: LINKAGES AND RELATIONSHIPS WITH TERROR & CRIME

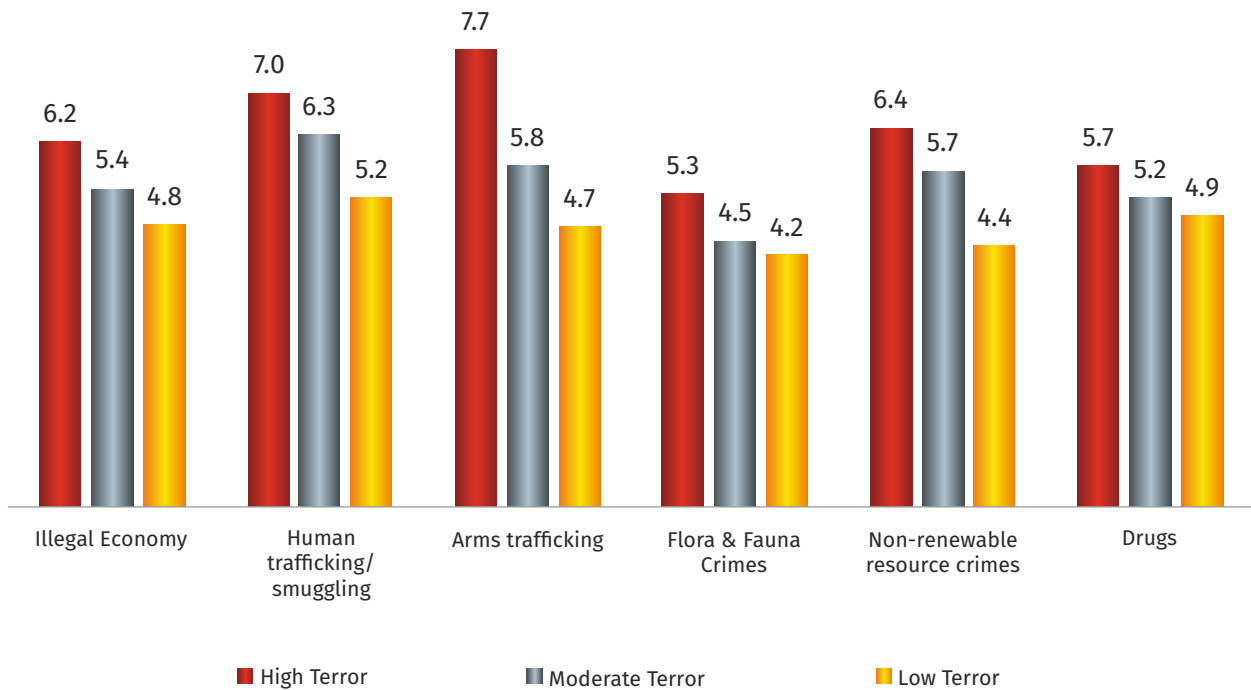
This part of the report analyses linkages between different components of the illegal economy from the Global Organised Crime Index (GOCI) score and terror (GTI classification) and crime (crime index classification). We also establish an empirical relationship

between the overall illegal economy and terror and crime.³³

2.3.1 TERROR AND ILLEGAL ECONOMY: LINKAGE AND RELATIONSHIP

Illegal economy exists in all countries, regardless of the level of terrorism. Every component of the illegal economy grows in tandem with the level of terrorism, showing the linkage between the illegal economy and terrorism.

Terror and Illegal Economy



Source: TARI Research, GTI and GOCI

The above graph illustrates the following insights:

- ▶ Countries with a high level of terrorism observe an increase in illegal activities, particularly human trafficking, arms trade, and resource exploitation e.g., flora and fauna crimes etc.

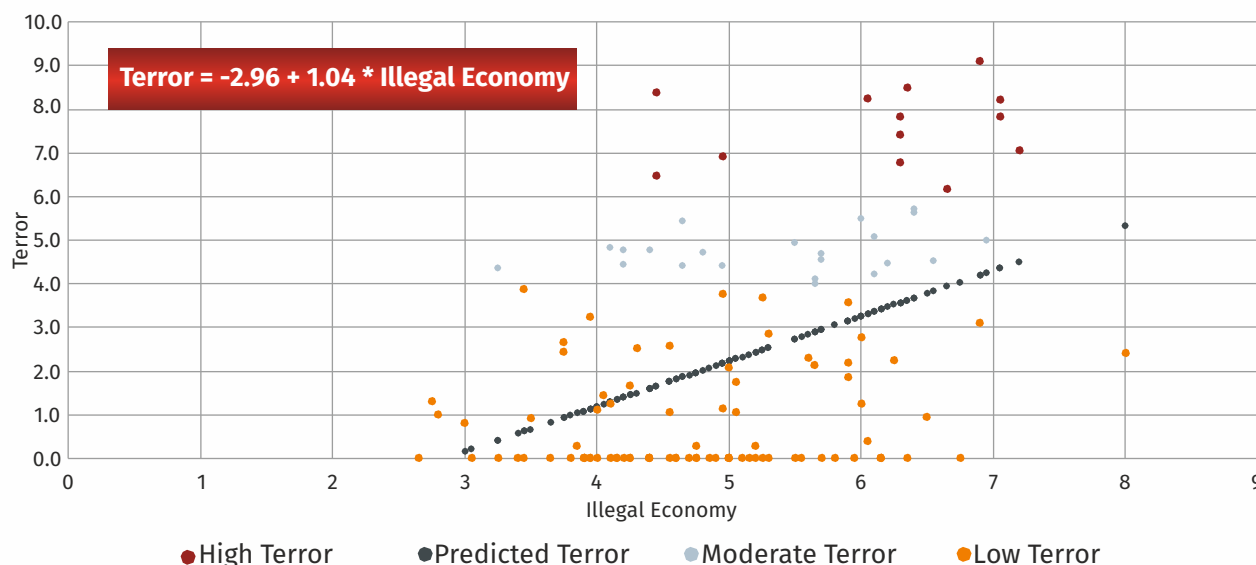
- ▶ Flora and fauna and narcotics-related illicit activities remain consistent across terrorism levels.

- ▶ The drug economy encompasses various types of drugs with varying effects across all levels of terrorism.³⁴

³³ Please refer Annexure-1 Research and Methodology for more details

³⁴ Please refer Annexure-1 Research and Methodology and Section 4.2 for more details

Terror and Illegal Economy : Relationship



Source: TARI Research, GTI and GOCI

The graph shows how the illegal economy and terrorism are linked in 122 different countries included in this study. Here are the key points:

- ▶ Our analysis shows that these two aspects have a strong relationship ($r = 0.44$), which means they are linked in a clear and important way. r squared = 0.19 shows that the illegal economy is a good predictor of terrorism.
- ▶ This means that as a country's illegal market economy grows, we can expect a

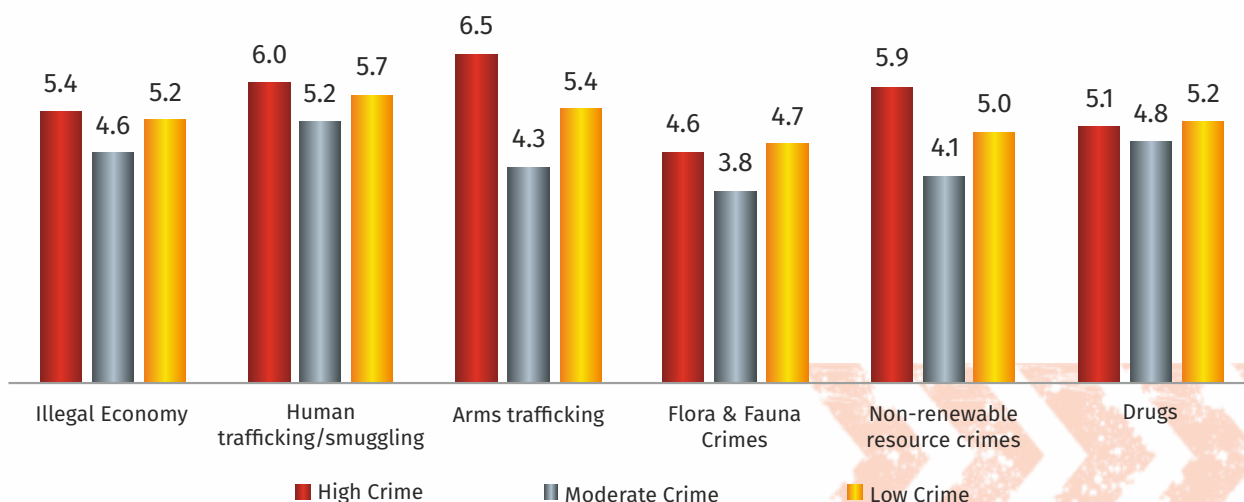
corresponding increase in terrorism levels.

- ▶ To put it more simply, when the score for the illegal economy goes up by 1 point, the score for the Global Terrorism Index (GTI) tends to go up by 1.04 points.

2.3.2 CRIME AND ILLEGAL ECONOMY: LINKAGE AND RELATIONSHIP

The following graph provides the linkage between illegal economy levels in countries with varying levels of crime intensity.

Crime and Illegal Economy



Source: TARI Research, Crime Index and GOCI

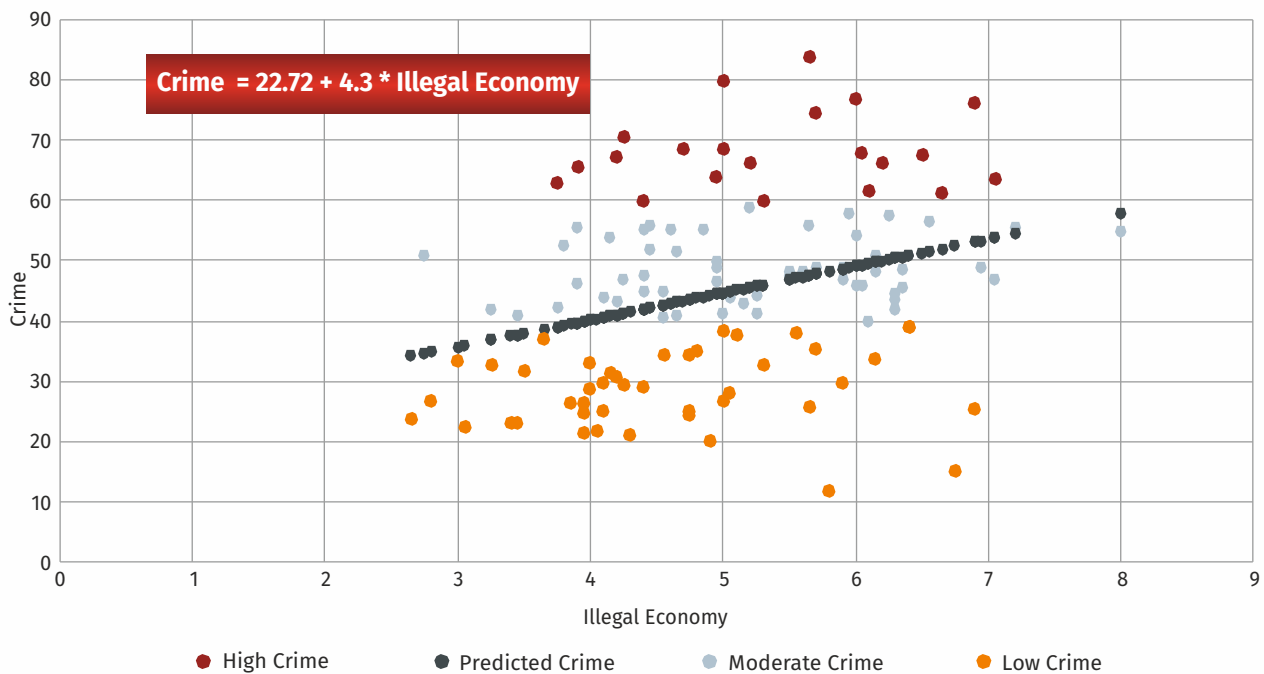
The derived insights are:

- ▶ Illegal economies exist in all countries, regardless of crime levels.
- ▶ Overall, the illegal economy and various criminal markets show relatively low influence in moderate crime countries compared to low crime countries. Further, they do not significantly increase as we move to high crime countries.

- ▶ Moderate Crime-Illegal Economy Linkage: High-crime countries exhibit significantly more arms trafficking and non-renewable resource-related illegal activities e.g. gold, oil, precious stones etc., compared to low-crime nations, suggesting a moderate connection between crime and the illegal economy.

The graph shows the relationship between the illegal economy and terrorism in 122 different countries included in this study.

Crime and Illegal Economy : Relationship



Source: TARI Research, GTI and GOCI

Here are the most important insights from the relationship between the illegal economy and crime:

- ▶ We observe a moderate relationship ($r = 0.30$) between these two variables.
- ▶ Nonetheless, it is essential to recognise that the illegal economy is not as effective at predicting crime as it is terrorism ($r\ squared = 0.10$).
- ▶ Putting it in another way, when the illegal economy score increases by 1 point, the crime index score also increases by 4.03 points.

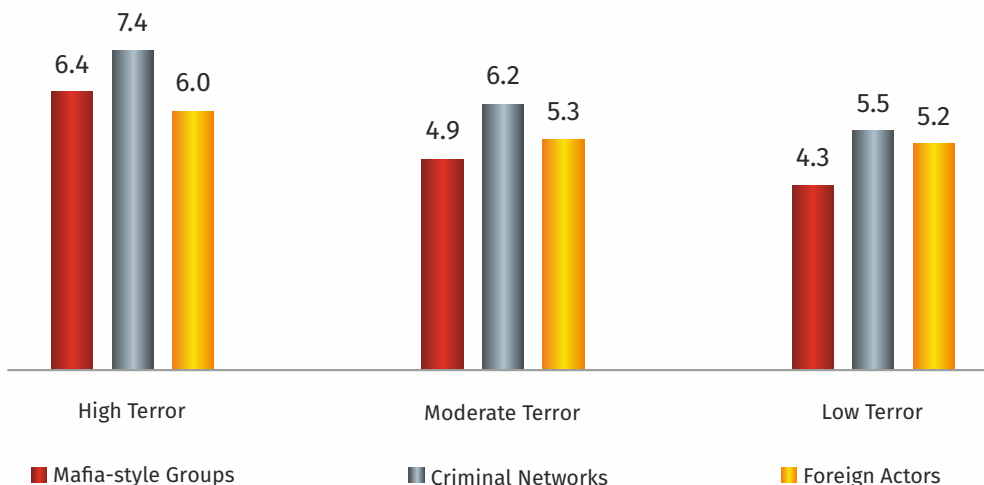
Based on data and our empirical model, there is a stronger link between the illegal economy and terrorism than there is with crime. This is explained by the localized perception of crime rates, which is impacted by elements like government and law enforcement, among other things. In contrast, terrorism crosses international borders and is more likely to be associated with transnational networks that profit from criminal operations like the trafficking of drugs and weapons.

2.4 ORGANISED CRIME ACTORS AND TERROR: LINKAGE AND RELATIONSHIPS

types of organised criminal actors and the intensity of terrorism in different countries. We look at insights into how the prevalence of criminal actors varies in high, moderate, and low-terror countries.

This part analyses linkages between different

Terror and Organised Crime Actors



Source: TARI Research, GTI and GOCI

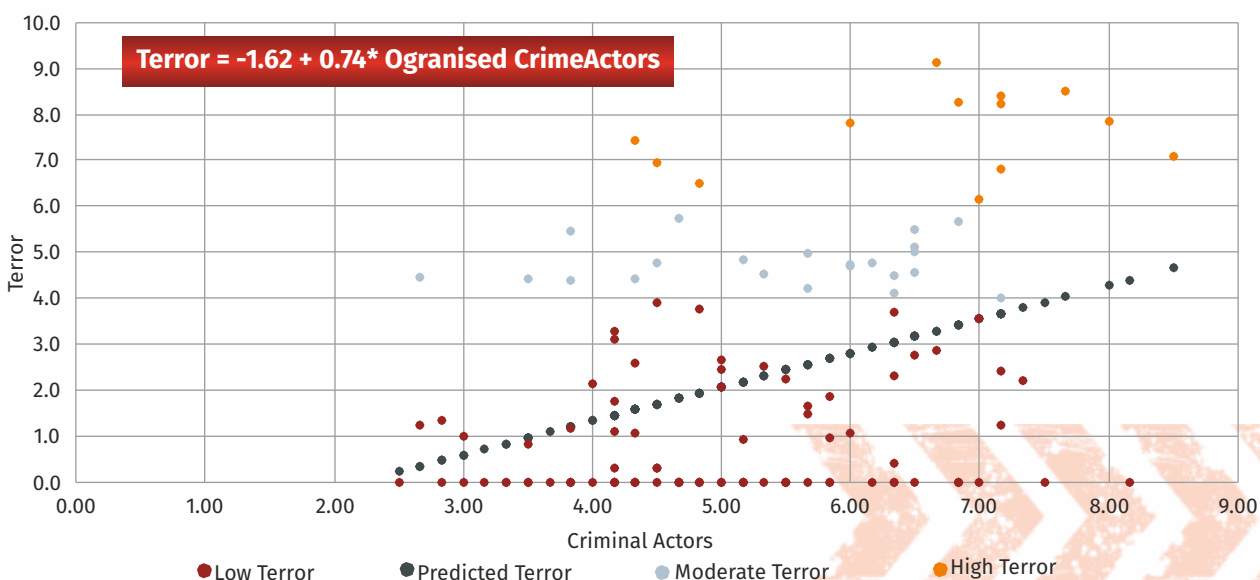
The graph above represents the following insights:

- ▶ The graph above highlights that high-terror countries observe heightened criminal activity across all types of criminal actors, both internal and external.
- ▶ Criminal networks and mafia-style groups

play a significant role, and foreign actors are also more active in high-terror countries compared to low- and moderate-terror nations.

The following graph shows the relationship between the organised actors and terrorism in 122 different countries included in this study.

Terror and Organised Crime Actors : Relationship



Source: TARI Research, GTI and GOCI

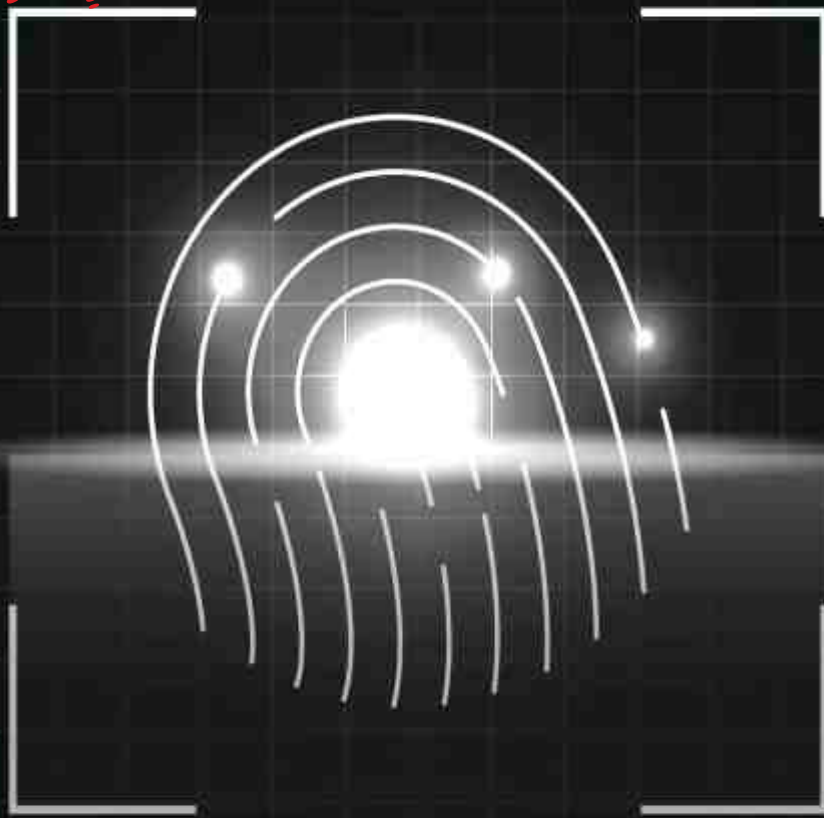
The key insights from the above relationship are:

- ▶ We observe a strong linkage between them ($r = 0.38$). Importantly, the presence of criminal actors is quite good at predicting terrorism ($r^2 = 0.145$).

The relationship highlights that when the overall organised actors score (the average score of the three organised crime actors) increases, we may witness an increase in terrorism levels as well, as the GTI score may increase by about 0.74 points.

Trade based Money Laundering, Counterfeiting/Illicit Goods and Terrorism: Linkage, Relationship and Evidence

3



3

Trade based Money Laundering, Counterfeiting/ Illicit Goods and Terrorism: Linkage, Relationship and Evidence

This section focuses on the evaluation and comparison of trade-based money laundering (TBML) and counterfeiting/illicit goods, as well as their potential connection and empirical correlation with the intensity of terrorism. We also aim to identify specific instances in order to gather evidence that demonstrates the potential connection between trade-based money laundering, counterfeiting, and terrorism.³⁵

3.1 TRADE BASED MONEY LAUNDERING (TBML) : ESTIMATES

The framework developed by the United Nations Office on Drugs and Crime (UNODC) and the United Nations Conference on Trade and Development (UNCTAD) on illicit financial flows (IFFs)³⁶ emphasis that IFFs arise as a consequence of unlawful commercial activities and tax evasion. This occurs when legal companies, arrangements, and individuals intentionally circumvent established laws and regulations in order to conceal their income and reduce their tax obligations.

Such illicit activities encompass several forms of wrongdoing, such as market manipulation, tax evasion, competition offences, and other transgressions outlined in the International Classification of Crime for Statistical Purposes (ICCS). Most of these

operations do not garner notice, since they are either covert or operate inside in the realms of the shadow, underground, or unofficial economies, which have the potential to contribute to illicit financial flows (IFFs).³⁷

In this context, trade-based money laundering (TBML) has emerged as a growing technique used by criminal organisations to legitimise the proceeds of their illegal activities. The Financial Action Task Force (FATF) defines TBML³⁸ as "the process of disguising the proceeds of crime and moving value through cross-border trade transactions in order to legitimise their illicit origins." Over 80% of IFFs are accompanied by commercial mis-invoicing, according to Global Financial Integrity (GFI).³⁹ Consequently, addressing these problems becomes crucial for pursuing and attaining the SDGs.

In 2019, the WTO estimated that the total value of illicit trade, which includes trade-

³⁵ Please refer to Annexure- 1 Research and Methodology for more details

³⁶ UNODC/UNCTAD (2018) SDG indicator 16.4.1 metadata. UNSTATS. <https://unstats.un.org/sdgs/metadata/files/Metadata-16-04-01.pdf>

³⁷ As highlighted earlier IFFs can also be generated from legal economic activities through aggressive tax avoidance that may not entirely illegal. Please refer UNODC/UNCTAD. 2018

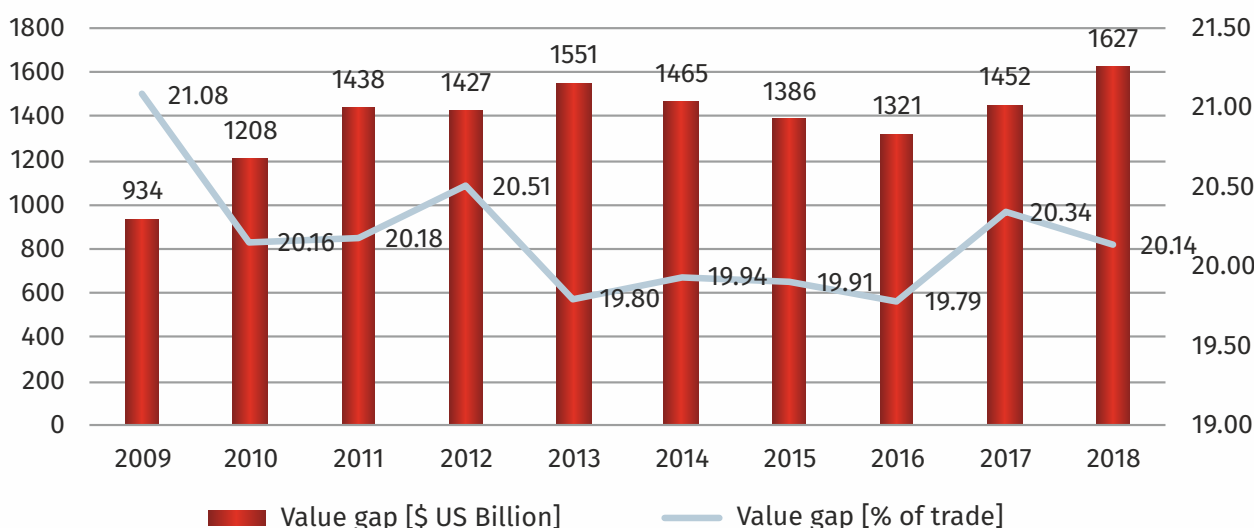
³⁸ Trade-Based Money Laundering. <https://www.fatf-gafi.org/en/publications/Methodsand Trends/Trade-based money laundering.html>.

³⁹ GFI (2017). Illicit Financial Flows to and from Developing Countries:2005-2014. Washington DC: Global Financial Integrity. <https://gfintegrity.org/report/illicit-financial-flows-to-and-from-developing-countries-2005-2014/>

based money laundering (TBML), was US\$ 535 billion, or 2.8% of the total value of global merchandise trade.⁴⁰ A recent WTO report highlights that the value of global merchandise trade rose 12 percent to US\$ 25.3 trillion in 2022.⁴² Considering the previous estimate of 2.8%, trade-based money laundering (TBML) or illicit trade could be valued at US\$ 772 billion in 2022.

According to the research paper titled "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018" published by Global Financial Integrity (GFI) in 2021, it was estimated that the total value discrepancy resulting from trade mis-invoicing over a span of ten years, from 2009 to 2018, for these 134 developing countries aggregated to a substantial amount of US \$13.8 trillion.⁴²

Illicit Financial Flows - Value Gap [2009-2018]



Source: TARI representation of GFI estimates

The 2021 research by Global Financial Integrity (GFI) examines the phenomenon of trade mis-invoicing across 134 developing nations and their trading partners for the period of 2009 to 2018. The analysis emphasises a significant increase in absolute trade value discrepancies. Trade discrepancy is the difference, or "value gap," between what any two countries had reported on their trade with one another. This observation indicates an upward trajectory in illegal financial flows associated with trade mis-voicing. Nevertheless,

the proportion of the trade value gap in relation to total trade during the same time frame has experienced a slight decrease and maintained a rather consistent level.

These estimates highlight the significant extent of trade mis-invoicing in developing nations on a worldwide scale. Trade mis-invoicing emerges as a significant concern, given the substantial sums involved, reaching billions of dollars. Additionally, it is worth noting that trade mis-invoicing can result in severe economic ramifications, resulting in substantial revenue deficits that could have otherwise been directed toward

⁴⁰ WTO (2021). Tackling illicit trade in medical products: Better international cooperation for better health. World Trade Organization. https://www.wto.org/english/res_e/publications_e/tacklinkillici22_e.html

⁴¹ WTO (2023) Global Trade Outlook and Statistics. World Trade Organization. https://www.wto.org/english/res_e/booksp_e/trade_outlook23_e.pdf

⁴² GFI (2021) Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018. Global Financial Integrity. <https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>

critical public services and infrastructure advancements.

3.1.1 TRADE BASED MONEY LAUNDERING AND TERROR : RELATIONSHIP

We provide empirical evidence of the relationship between terrorism and illicit financial flows, specifically trade-based money laundering, using data from the

Global Financial Integrity (GFI) report 2021⁴³. Our analysis also integrates control variables, including merchandise trade as a percentage of GDP, GDP per capita, rule of law, and trade across borders scores. The following table illustrates the empirical relationship between terrorism and illicit financial flows based on data for the 76 developing nations for the period 2017-2019.

Empirical Model between Terror (GTI Score) and TBML (IFF)							
GTI SCORE	Coef.	St. Err.	t-value	p-value	[95% Confidence Interval]		Sig
TBML IFF	0.84	0.104	8.07	0	0.635	1.045	***
Merchandise Trade	-0.025	0.005	-5.43	0	-0.035	-0.016	***
GDP per Capita	0	0	-3.01	0.003	0	0	***
Rule of Law	-0.01	0.009	-1.11	0.267	-0.029	0.008	
Trade Across Borders	-0.035	0.01	-3.63	0	-0.054	-0.016	***
Constant	0.267	1.265	0.21	0.833	-2.225	2.759	
R-squared			0.412		Number of orbs		228
F-test			37.165		Prob > F		0
Note: *** coefficients statistically significant at 5 percent significance level							

Source: TARI Research

Terror(GTI Score)= 0.267

- + 0.84* Illicit financial flows (log abs trade gap – US \$ Million)
- 0.025* Merchandise Trade (% of GDP)
- 0.0000373* GDP per capita (US\$ per capita)
- 0.01*Rule of law (Index score)
- 0.035* Trade Across Border (Index score of ease of doing business across borders) + error

Our Model has a statistically significant and strong predictive relationship with terrorism (r = 0.412).

- ▶ All independent variables except the Rule of Law are highly predictive of the GTI score and are statistically significant.
- ▶ Terrorism is more prevalent in nations with high levels of TBML (trade-related illicit financial flows). In particular, the level of terrorism tends to increase by

0.0084 points when illicit financial flows increase by one million dollars, holding other factors constant.

- ▶ Greater trade openness and higher income levels among the population deter terrorist activity, which is supported by statistically significant negative correlations between higher GDP per capita and higher merchandise trade as a percentage of GDP with terrorism (GTI Score).

⁴³ GFI (2021)Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018. Global Financial Integrity. <https://gfiintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>

- ▶ Additionally, trade across borders scores and the rule of law are important contributors to lowering levels of terrorism across nations (GTI Score), with greater enforcement and ease of doing business lowering the financial incentives for TBML.

3.1.2 KEY INDUSTRIES THAT ARE IMPACTED BY THE TBML AND ITS LINKAGE WITH TERROR

According to the World Customs Organization's (WCO) 2022 Illicit Trade Report, roughly two-thirds of all excise seizures involved tobacco products, and a little less than one-third involved alcoholic beverages. This disparity is attributable to

the prevalence of illegal trade in these two industries. This persistently high volume of seized counterfeit tobacco and alcohol products demonstrates the persisting and expanding problem of illicit trade in these items, which provides a lucrative opportunity to generate illegal profits. This provides an indication of the scope of the issue.⁴⁴

Illicit alcohol and tobacco products constitute significant segments within the broader illegal market. According to a 2022 case study conducted by the Transnational Alliance to Combat Illicit Trade (TRACIT) on illicit trade, the estimated annual value of these critical commodities ranged from US\$ 284 billion to US\$ 616 billion.⁴⁵

Seizures Cases - Alcohol / Tobacco			
Year	2019	2020	2021
Cigarettes	157,178	58,694	53,892
Other tobacco products	18,617	13,961	17,151
Alcohol	34,675	17,138	20,460

Source: Illicit Trade Report 2022, WCO

The decision to engage in smuggling or illicit trade is frequently influenced by price arbitrage and product size. Due to the lucrative risk-reward returns they offer items of high-value & low-volume which are attractive to illicit actors because they are easy to smuggle but yield enormous illicit profits.

The illicit alcohol and tobacco trade is a major global threat that is exploited by both organised crime and terror groups, who use illicit profits to fund their operations. According to the FATF, the low risk of detection associated with smuggling activities and the low likelihood of tying these activities to terrorist groups or individuals exacerbate this vulnerability.⁴⁶

Alcohol and tobacco products have attracted the attention of terrorist and organised crime groups. In consequence, these groups have emerged as significant contributors to illicit financial flows through the sale of these products. A 2018 report by Euromonitor International estimated that illicit alcohol consumption in 24 Latin American, African, and Eastern European countries generated black-market revenues of US\$ 19.4 billion, comprising 42.3 million hectolitres. The profitability gap between illicit and legal alcohol has fuelled the vast scale and magnitude of the illicit alcohol trade, attracting organised crime groups as significant illicit players.⁴⁷

⁴⁴ WCO (2022) Illicit Trade Report 2022. World Customs Organization. <https://www.wcoomd.org/en/media/newsroom/2023/june/the-world-customs-organization-releases-the-illicit-trade-report-2022.aspx>.

⁴⁵ Second UNCTAD Illicit Trade Forum. (2022). https://unctad.org/system/files/non-official-document/DITC2022_Contribution_ITF_TRACIT_en.pdf

⁴⁶ Illicit Tobacco Trade. <https://www.fatf-gafi.org/en/publications/MethodsandTrends/IllicitTobaccoTrade.html>

⁴⁷ Euromonitor (2018) Size and Shape of the Global Illicit Alcohol Market. Euromonitor, 24 Oct. 2018, <https://www.euromonitor.com/whitepaper/global-illicit-alcohol-market>.

Nexus between Illicit Alcohol and Tobacco Trade with Terror and Organised Crime

A case study of five European Union nations (Greece, Italy, Poland, Romania, and Spain) confirmed the predominance of organised criminal groups (OCGs) in the illicit alcohol, tobacco, and pharmaceutical underground economies.⁴⁸ In 2014, Europol and Eurojust published a second study highlighting the use of trade-based money laundering fraud schemes involving alcoholic beverages by multiple organised crime groups to generate illegal financial gains.⁴⁹

Cigarettes are among the most heavily taxed products, so consumers prefer contraband cigarettes because they are less expensive than legal cigarettes. Global estimates place illicit cigarette consumption at 600 billion sticks, or 10% of the total cigarette market.⁵⁰

There is evidence of ties between Al-Qaeda in the Islamic Maghreb (AQIM) affiliates and other Islamist groups that used cigarette smuggling in the Sahel region to fund their militant activities.⁵¹ The FATF also notes that the Real IRA inundated Ireland with illegal cigarettes and counterfeit brands, using cigarette smuggling as its primary source of revenue to finance its operations.⁵²

In conclusion, the global challenge of illicit trade, specifically in sectors like alcohol and tobacco, is underscored by the prevalence of trade-based money laundering. The clandestine trade not only generates significant profits but also supports criminal groups and even funds terrorist activities. The low likelihood of detection makes this issue even more alarming, which intensifies the urgency for governments and policymakers to fully comprehend its far-reaching implications.

3.2 COUNTERFEITING/ILLCIT GOODS - LINKAGE AND RELATIONSHIP WITH TERROR AND CRIME

The General Trade-Related Index of Counterfeiting for Economies [GTRIC-e] index on counterfeiting from the OECD/EUIPO 2021 report, focused on the infringement, through counterfeiting and piracy, of trademarks,

copyrights, patents, and design rights, to the extent that they involved physical products is based on international trade flows and indicates the likelihood that an economy will export counterfeited goods. We call these “illicit goods” for this report and the GTRIC-e Index does not include goods counterfeited or illicit that are produced and consumed in a country.

According to the Global Financial Integrity 2017 report, the trade of counterfeit and pirated goods is identified as the most valuable form of illicit trade. This trade is estimated to be worth between US\$ 923 billion and US\$ 1.13 trillion, making it a significant contributor to transnational crime, accounting for more than half of such activities.⁵³ According to the data and methodology used by OECD/EUIPO, it is estimated that in 2019, the trade of counterfeit and pirated products amounted to approximately US\$ 464 billion, which accounts for approximately 2.5% of global trade.⁵⁴

⁴⁸ *On Tap Europe: Organised Crime and Illicit Trade in Tobacco, Alcohol and Pharmaceuticals*. Available at: <https://www.rusi.org>
<https://www.rusi.org>

⁴⁹ *Europol and Eurojust support successful action against alcohol carousel fraud (2014)*. Available at : <https://www.europol.europa.eu/media-press/newsroom/news/europol-and-eurojust-support-successful-action-against-alcohol-carousel-fraud>. November 13, 2014

⁵⁰ S Dutta (2019), *Confronting Illicit Tobacco Trade: A Global Review of Country Experiences, Technical Report of the World Bank Group Global Tobacco Control Program*

⁵¹ "Notorious Algerian Terrorist Mokhtar Belmokhtar Could Still Be Alive." *Council on Foreign Relations*, <https://www.cfr.org/blog/notorious-algerian-terrorist-mokhtar-belmokhtar-could-still-be-alive>.

⁵² FATF, *Illicit Tobacco Trade*. <https://www.fatf-gafi.org/en/publications/MethodsandTrends/IllicitTobaccoTrade.html>.

⁵³ *Global Financial Integrity (2017). Transnational Crime and the Developing World (Washington, D.C: Channing May, 2017)*. Available at: <https://gfindegrity.org/report/transnational-crime-and-the-developing-world/>

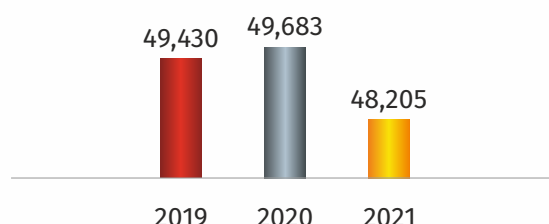
⁵⁴ *OECD/EUIPO (2021). Global Trade in Fakes: A Worrying Threat, Illicit Trade*, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

The revised estimate of counterfeit or IPR-infringing items is significantly higher, leading to significant consequences. According to the International Chamber of Commerce (ICC), the value of the global counterfeit trade is projected to reach approximately US\$4 trillion by 2022.⁵⁵

The increase in global counterfeit seizures is

a clear indication of the rapid expansion of the counterfeiting trade. According to the 2021 World Customs Organisation report, there has been a consistent and high number of counterfeit intellectual property rights (IPR) seizures from 2019 to 2021. This indicates that counterfeiting is a widespread and persistent issue.⁵⁶

Counterfeit (IPR) Seizures - Number of Cases



Source: TARI Research, Illicit Trade Report 2022, World Customs Office (WCO)

According to the World Customs Organization's report in 2020, a total of 2.3 million illicit item seizures were reported across ten countries. The number of non-medical counterfeit items in 2021 reached 46.3 million, which represents a 21% increase compared to the previous year. In 2022, there was a slight decline in the number of seizures, with a total of 43.7 million. Furthermore, the OECD/EUIPO⁵⁷ has consistently reported more than 130,000 customs seizures of counterfeit and pirated products between 2017 and 2019.

The escalating frequency of international seizures, coupled with the substantial rise in the monetary worth of counterfeit goods, underscores the alarming growth of illicit trade in counterfeit products and the resulting illicit financial flow (IFF) it generates.

3.2.1 COUNTERFEITING, ILLICIT GOODS AND TERROR: LINKAGE AND RELATIONSHIP

We have compared the crime and terror indices of these economies to determine

their relationship. In 2017-19, the average GTRIC-E score across the 20 benchmarked countries was 0.77.⁵⁸

The connection between countries that engage in the trade of counterfeit goods (GTRIC-E score) and criminal activity is unclear. As there is no obvious connection between crime and counterfeiting/illicit goods, we will only evaluate the connection between counterfeiting/illicit goods and terrorism moving forward.

Below is the dashboard of the top 10 countries with (GTRIC-e Score 2017-19) from OECD/EUIPO 2021 report with GTI scores for the same countries for the same period. Looking at the top 10 countries in illicit goods, one can easily see that it includes the top four countries with high levels of GTI scores indicating an intricate relationship between counterfeiting/illicit goods and terrorism. The relative likelihood of exporting counterfeited products was observed to be significantly higher in high terror and moderate

⁵⁷ OECD/EUIPO (2021). Global Trade in Fakes: A Worrying Threat, Illicit Trade, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

⁵⁸ OECD/EUIPO (2021). Global Trade in Fakes: A Worrying Threat, Illicit Trade, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

countries score compared to the low terror countries.

Here is a dashboard showcasing the top 10

countries, based on the GTRIC-e Score from the OECD/EUIPO 2021 report. The GTI scores for these countries during the same period are also included.

Provenance economy	Country Code	Avg GTRIC-e Score 2017-19	Avg GTI Score 2017-19
Hong Kong (China)	HKG	1	0
Syrian Arab Republic	SYR	0.998	7.9
China	CHN	0.998	5
Turkey	TUR	0.996	7.4
Dominican Republic	DOM	0.984	0
Pakistan	PAK	0.955	8.3
Georgia	GEO	0.933	1.2
Lebanon	LBN	0.872	5
Senegal	SEN	0.831	2
Afghanistan	AFG	0.761	9

Source: TARI Research, GTI, OECD/ EUIPO, 2021

The following are key insights for this benchmarking:

- ▶ The top four countries with a high GTI score are also among the top 10 countries in terms of trade of illicit goods /counterfeiting, indicating a complex relationship between such goods and terrorism.
- ▶ The relative likelihood of exporting counterfeit goods was observed to be significantly greater in high and moderate-terror countries compared to low-terror countries.

Evidence on Nexus between High Counterfeiting/Illicit Goods and Terrorism

The Syrian Arab Republic, categorized as having high crime and high terror levels, also reported the second-highest prevalence of counterfeiting, with a GTRIC-e score of 0.998. Evidences shows that counterfeited production and trafficking of false Captagon, a narcotic product, by groups in Syria used for financing and fuelling the conflict and violence.⁵⁹

The above linkage between counterfeiting/illicit goods and terrorism is also confirmed through the empirical relationship between them. The following graph estab-

lishes an empirical relationship between the average GTRIC-e score⁶⁰ and average GTI score based on data from 119 countries between 2014-16.

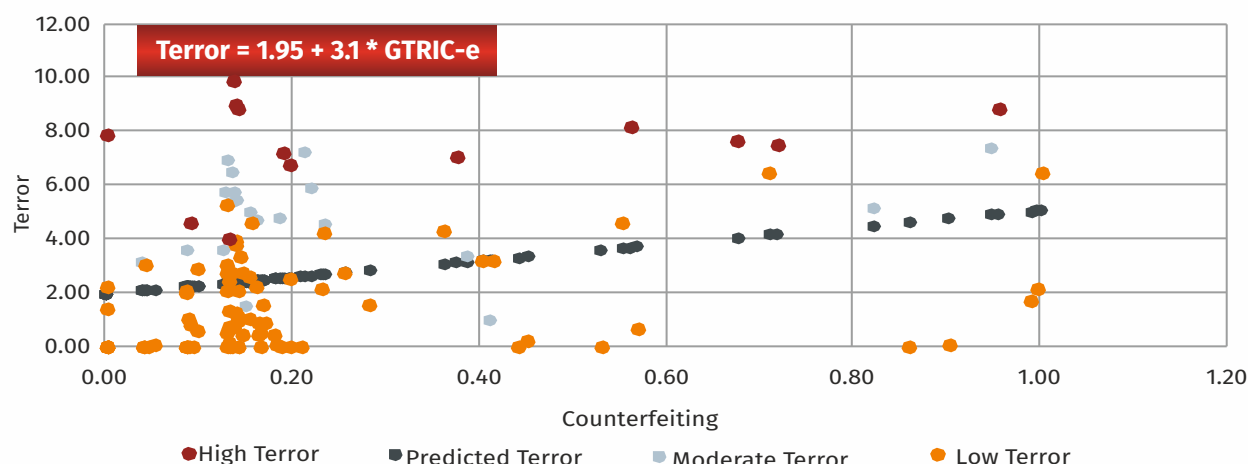
⁵⁹ Counterfeiting and Terrorism Report (2016). Unifab. Available at : https://www.unifab.com/wp-content/uploads/2016/06/Rapport-A-Terrorisme-2015_GB_22.pdf

⁶⁰ OECD/EUIPO (2019), Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade, OECD Publishing, Paris/European Union Intellectual Property Office. <https://doi.org/10.1787/g2g9f533-en>

The empirical relationship between counterfeiting/Illicit goods and terrorism confirms the connection. The graph below establishes an empirical correlation between the average

GTRIC-e score⁶¹ and the average GTI score using data from 119 countries between 2014 and 2016.

Terrorism and Counterfeiting : Model



Source: TARI Research, OECD/EUIPO 2019

The empirical relationship offers the following insights:

- ▶ Based on the available data, there is a moderate positive correlation ($r = 0.28$) between terror and counterfeiting. Additionally, counterfeiting demonstrates a moderate level of predictability (r squared = 0.08) in relation to the power of terror.
- ▶ The presence of high counterfeiting rates contributes to an increase in illicit financial flows, which in turn raises the likelihood of funding illegal activities. There is a correlation between organised crime groups in high-terror countries and their involvement in counterfeiting product trade.

- ▶ This relationship is demonstrated by an average increase of 0.1 in the GTRIC-e score, which subsequently raises the GTI score by 0.31 points.

3.2.2 KEY COUNTERFEITED/ILLICIT PRODUCTS TRADE AND TERROR: LINKAGE AND RELATIONSHIP

The 2021 report from OECD/EUIPO⁶² emphasises the GTRIC-p⁶³ score for various product categories. These include perfumery and cosmetics (score of 33), articles of leather (score of 42), clothing knitted or crocheted (score of 61), footwear (score of 64), watches (score of 91), toys and games (score of 95), jewellery (score of 71), and tobacco (score of 24). The scores for these products are either 1 or very close to 1. This suggests that organised criminal groups are inclined to counterfeit these products in

⁶¹ OECD/EUIPO (2019), *Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade*, OECD Publishing, Paris/European Union Intellectual Property Office. <https://doi.org/10.1787/g2g9f533-en>

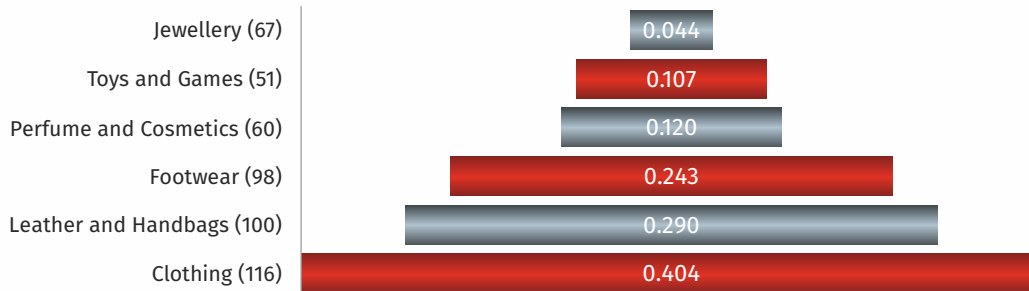
⁶² OECD/EUIPO (2021), *Global Trade in Fakes: A Worrying Threat, Illicit Trade*, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

⁶³ GTRIC-p score the relative likelihood for products in one category to be counterfeit in comparison with another and sensitive product infringements are in relation to the volume of imports of the products for each reporting economy in a given product category

order to make substantial financial profits. Upon conducting a more in-depth examination of the data presented in the OECD/EUIPO 2021⁶⁴ report regarding key industries, along with its relationship to the GTI score, several valuable insights emerge.

The graph indicates a correlation between products such as clothing, leather goods, handbags, and footwear, which are frequently counterfeited. Countries with high terrorism intensity have higher propensity to export these counterfeited products.

Correlation Between Terror and Counterfeiting for Key Industries



Source: TARI Research, GTI, OECD/ EUIPO,2021

In the table below, the GTRIC score for the top countries with high GTRIC scores for key products with high correlations with terrorism is displayed. The OECD and EUIPO emphasise that these economies have a

high GTRIC score due to the high relative value of confiscated goods (measured in terms of trade flows) and the low absolute value (measured in US dollars) of the seized goods.⁶⁵

Relative likelihood of an Economy being the source of counterfeited product: 2017-19 GTRIC					
Counterfeit leather articles and handbags		Counterfeit footwear		Counterfeit clothing	
Afghanistan	1	Hong Kong (China)	1	Hong Kong (China)	1
Hong Kong (China)	1	Guinea	0.9999	Nigeria	1
Iraq	1	Venezuela	0.9995	Senegal	1
Nigeria	1	Singapore	0.9992	Iraq	1
Senegal	1	Afghanistan	0.9990	Cameroon	1
Venezuela	1	Nigeria	0.9985	Iran	1
Cameroon	1	UAE	0.9963	Afghanistan	1
Lao DPR	1	Turkey	0.9863	Algeria	1
Jordan	1	Bahrain	0.9761	Syrian Arab Republic	1
Bahrain	0.999	Senegal	0.9605	Azerbaijan	0.997
Turkey	0.999	Ghana	0.9573	Uganda	0.992
Egypt	0.998	Lebanon	0.9522	Turkey	0.944
Iran	0.981	Cameroon	0.9004	Venezuela	0.943

Source: TARI Research, GTI, OECD/ EUIPO, 2021

⁶⁴ OECD/EUIPO (2021), Global Trade in Fakes: A Worrying Threat, Illicit Trade, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

⁶⁵ OECD/EUIPO (2021), Global Trade in Fakes: A Worrying Threat, Illicit Trade, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

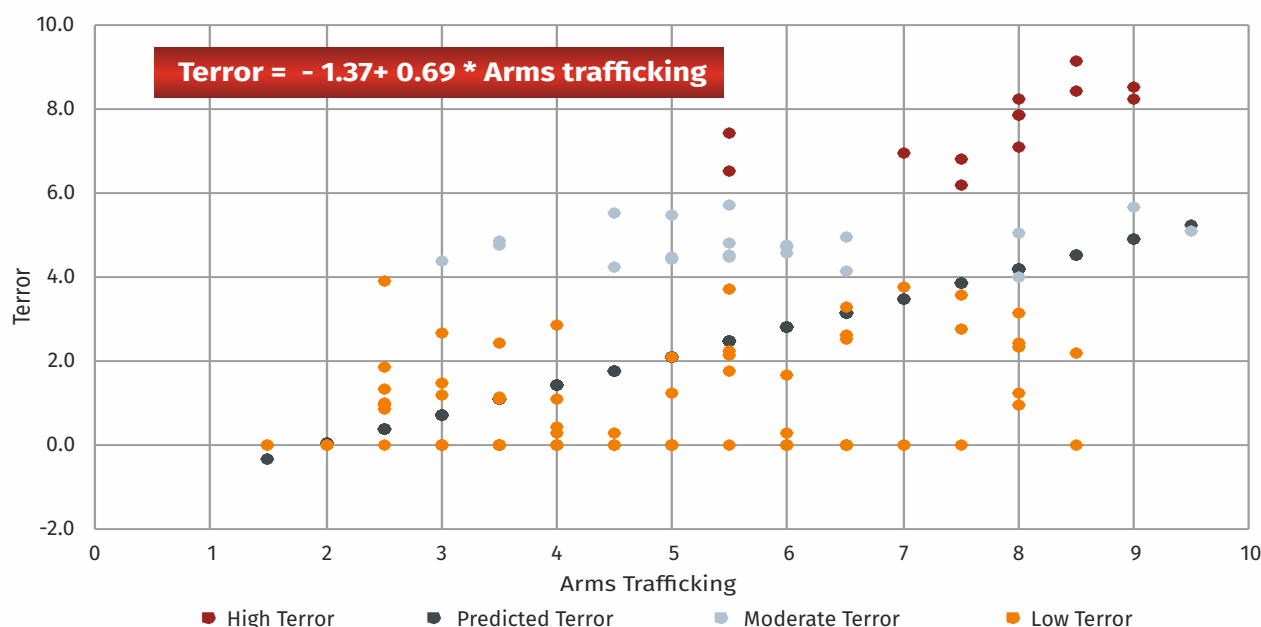
Significant linkages have been identified over the past few decades, establishing the nexus between counterfeiting, organised crime, and terror. A 2015 report by unifab⁶⁶ highlights that proceeds from counterfeiting were a significant source for funding of the terrorist attack that happened in Paris 2015. Louis L Shelly, in her paper, shed light on this nexus and highlighted that West Asia (Middle East), a region considered to have high consumption of counterfeited products, various terrorist organizations such as Hezbollah, Islamic State (IS), Hamas, and Al-Qaeda have been linked to the trade of counterfeit goods.⁶⁷

The illicit trade of counterfeit and contraband cigarettes has also played a major role in funding the terror attacks in the West African region.⁶⁸ Evidence suggests that North African terror groups were involved in

a billion-dollar contraband tobacco trade.⁶⁹ Al-Qaeda in the Islamic Maghreb [AQIM] was found to be capitalising on cigarette smuggling and counterfeiting.⁷⁰

Global trade of counterfeiting and illicit goods has become a significant international threat, with consequences that go beyond just violating intellectual property rights. Criminal groups and terror organisations rely on these illicit activities as a lucrative source of income. Its expansion infiltrates both businesses and countries, posing a threat to trade, national security, and the safety of individuals. The connection between counterfeited illicit goods, organised crime, and terrorism has created a complex network that presents a major challenge to the innovation-driven global economy.

Terror and Arms Trafficking : Relationship



Source: TARI Research, GTI and OCI

⁶⁶ Counterfeiting and Terrorism Report (2016). Unifab. Available at: https://www.unifab.com/wp-content/uploads/2016/06/Rapport-A-Terrorisme-2015_GB_22.pdf

⁶⁷ Shelley, Louise (2012). The Diverse Facilitators of Counterfeiting: A Regional Perspective. *Journal of International Affairs*, 66(1), 19-37

⁶⁸ Barazza, Stefano. "JIPLP: Editorial: Counterfeiting and Terrorism - What is the Link?" *JIPLP*, <http://jiplp.blogspot.com/2016/06/editorial-counterfeiting-and-terrorism.html>.

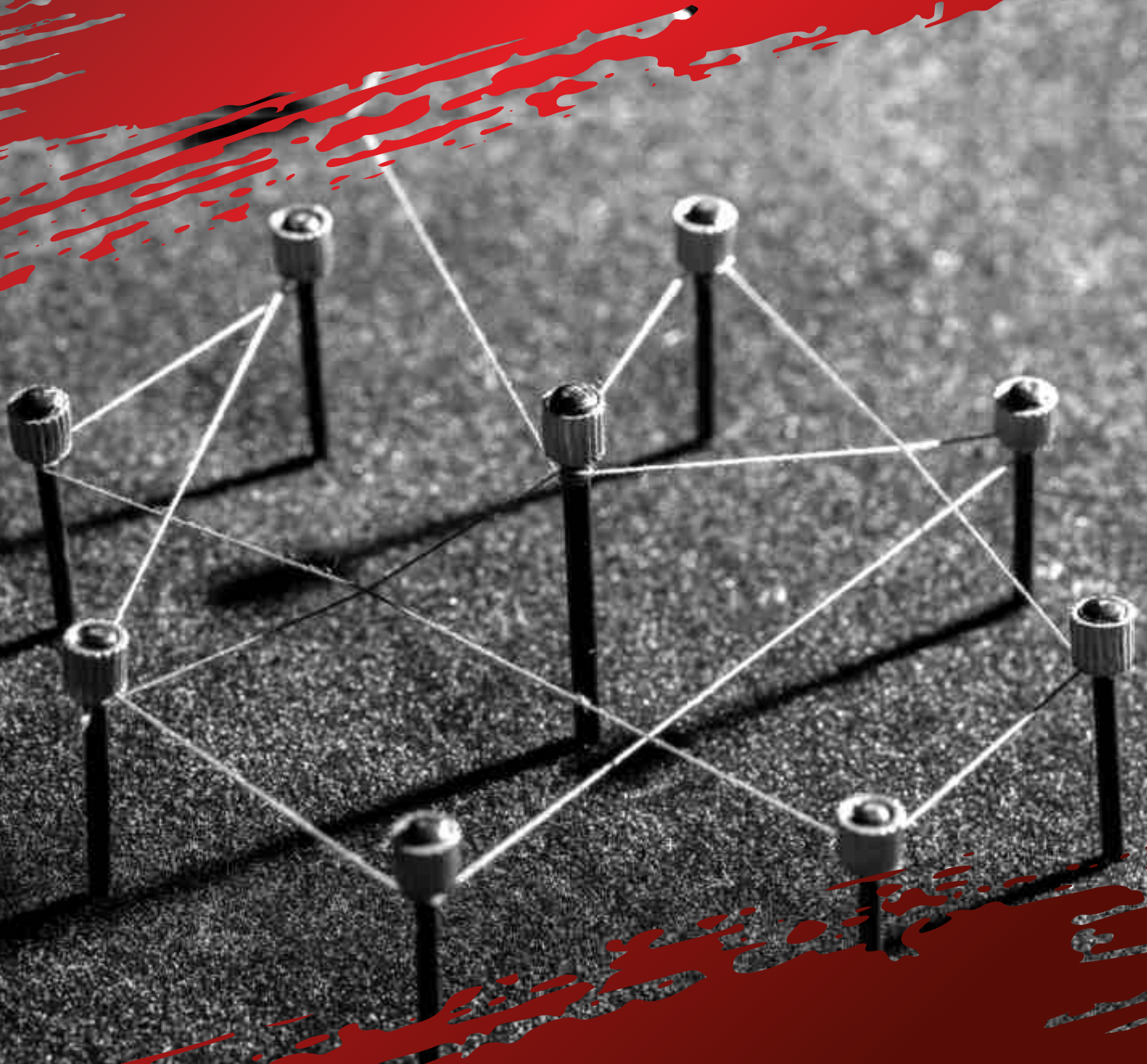
⁶⁹ Institute for Economics and Peace - Analysing Peace and Quantifying its Economic Value. <https://www.economicsandpeace.org/>.

⁷⁰ UNODC (2019) Module 16 Linkages Between Organized Crime and Terrorism. UNITED NATIONS Vienna, 2019. https://www.unodc.org/documents/e4j/FINAL_Module_16_Linkages_between_Organized_Crime_and_Terrorism_14_Mar_2019.pdf



Arms and Drug Trafficking, Terrorism and Crime: Understanding the Linkages, Relationship and Evidences

4



4

Arms and Drug Trafficking, Terrorism and Crime: Understanding the Linkages, Relationship and Evidences

Arms and drug trafficking are significant components of the overall illicit economy. According to a 2017 report by the Global Financial Integrity (GFI) on transnational crime, the estimated annual value of these transnational illegal activities is between US\$ 427.7 billion and US\$ 655.5 billion, or approximately 30 percent of the illicit economy.⁷¹

This section aims at evaluating and benchmarking arms and drugs illicit trade, and assess their linkage and empirical relationship with terror and crime.⁷²

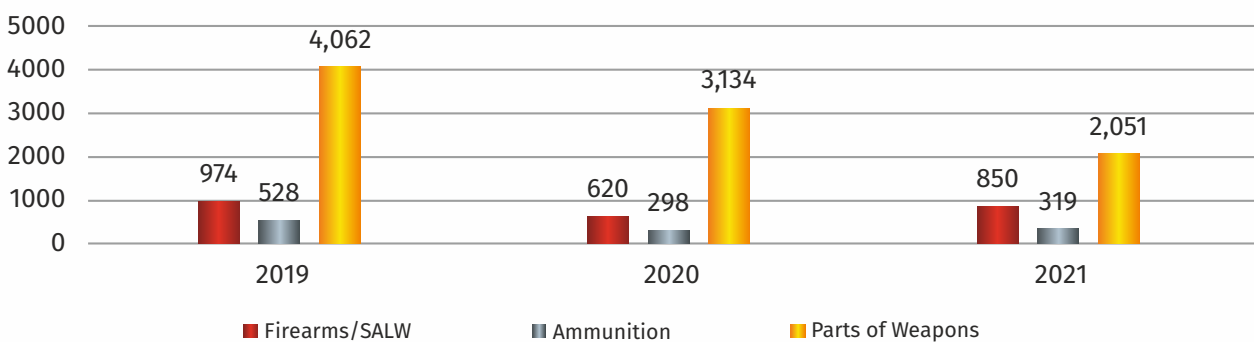
4.1 ARMS TRAFFICKING - LINKAGE AND RELATIONSHIP WITH TERROR AND CRIME

Arms trafficking was ranked as the third most pervasive unlawful market hurting countries worldwide in the Global Organised Crime Index [GOCI] 2021.⁷³ Small arms and light weapons (SALWs), their parts and accessories, and ammunition all contribute

significantly to the spread of armed conflict and act as a source of income and a threat multiplier for terrorist groups that operate independently or cooperatively on a national, regional, and international scale.

The trends in arms trafficking seizures demonstrate and support the prevalence of illegal weapons in circulation and their use in the most violent crimes, furthering the influence of terrorist organisations and organised crime around the world.⁷⁴

Arms Trafficking - Seizures Cases (2019-2021)



Source: TARI Research, Illicit Trade Report 2021, WCO

⁷¹ Global Financial Integrity (2017). *Transnational Crime and the Developing World* (Washington, D.C: Channing May, 2017). Available at : <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

⁷² Please refer to Annexure- 1 Research and Methodology for more details

⁷³ The Global Organized Crime Index 2021. Global Initiative, <https://globalinitiative.net/analysis/ocindex-2021>.

⁷⁴ Terrorism Arms Crime Nexus | Office of Counter-Terrorism. <https://www.un.org/counterterrorism/cct/terrorism-arms-crime-nexus>.

⁷⁵ Firearms Module 7 Key Issues: Firearms Trafficking as a Cross Cutting Element Present in Many Other Crimes. // www.unodc.org.

The above graph highlights that firearms/SALW (Small Arms and Light Weapons) and Ammunition seizures declined between 2019 and 2020; however, they showed an upward trend in 2021, whereas parts of weapons continued to observe a declining trend from 2019 to 2021.⁷⁶

The 2022 World Customs Organization Illicit Trade Report shows 2,518 weapon seizures, including 773,035 rounds of ammunition (up 182% from 2021), 7,335 firearms (up 83% from 2021), and 56,496 firearm accessories (up 46% from 2021).⁷⁷

Arms trafficking has become a significant source of revenue. These illegal weapons, whether created illegally, repurposed from previous battles, or stolen from official inventories, enable terrorist organisations and criminal actors to establish dominance, pose a threat to entire communities, and

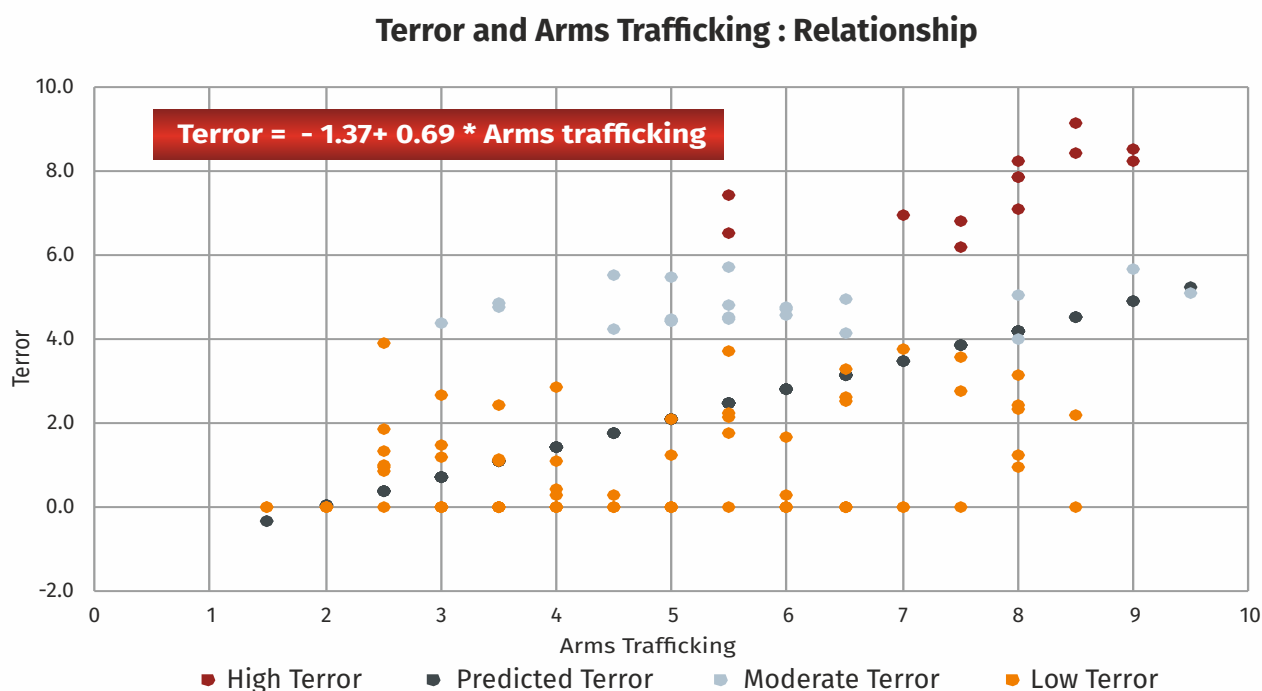
commit a variety of crimes, including homicide, drug trafficking, robbery, and poaching.

Proliferation of the arms trade fuels terrorism, criminal activity, and other acts of violence, endangering peace, security, and sustainable development. It also intensifies conflict and supports and extends other unlawful markets.

In the following subsections, we use secondary data and anecdotal evidence to evaluate the relationship between terrorism, crime, and arms trafficking.

4.1.1 TERROR AND ARMS TRAFFICKING: RELATIONSHIP AND EVIDENCE

The following graph shows the empirical relationship between terrorism and arms trafficking based on data from 122 countries.



Source: TARI Research, GTI and OCI

⁷⁶ Illicit Trade Report (2021). Available at: <https://www.wcoomd.org/en/media/newsroom/2022/june/the-wco-issues-its-2021-illicit-trade-report.aspx>. World Customs Organization.

⁷⁷ Illicit Trade Report (2022). Available at: <https://www.wcoomd.org/en/media/newsroom/2023/june/the-world-customs-organization-releases-the-illicit-trade-report-2022.aspx>. World Customs Organization.

Key Insights from this relationship:

- ▶ Data shows that terror and arms trafficking have a significant correlation between them ($r = 0.53$), and arms trafficking does a good job of predicting terror ($r \text{ squared} = 0.28$).
- ▶ Countries with a high level of arms trafficking are likely to have a high level of terrorism, as the relationship demonstrates that a one-point increase in the arms trafficking score results in a 0.69-point increase in the GTI score

According to the Global Terrorism Index report, this unsettling correlation is most pronounced in countries with a high terrorism rate, such as Afghanistan, Iraq, Syria, Somalia, and Colombia.⁷⁸ Interestingly, these same nations feature prominently in the

Global Organised Crime Index report for 2021 due to their involvement in arms trafficking.⁷⁹ This correlation illustrates the complex relationship between international arms trafficking and terrorism.

Diverse groups and organisations all over the world are becoming increasingly aware of and alarmed by the growing connection between terrorism and organised crime, specifically arms trafficking.⁸⁰ Terror groups and factions in West Africa have also been identified as engaging in illicit activities besides drug trafficking, such as arms trafficking, human trafficking, etc., which has become a common ground for numerous terrorist organisations.⁸¹ The following case from the high-terrorism West African Sahel region provides strong evidence of a link between arms trafficking and terrorism.

Evidence: Arms Trafficking and Terrorism in Sahel Region⁸²

Arms trafficking was found to be the second most pervasive criminal market across Africa. Within the Central African region, Sahelian countries including Chad and Central African Republic were observed to be driving the arms trafficking.⁸³

The Sahel region witnessed an increase of over 2000 percent in terror-related deaths between 2007 and 2022, with firearms being the primary weapon used in 70 per cent of the attacks compared to explosives.⁸⁴ In 2022, alone, more than 9300 lost their lives due to violent incidents in the SAHEL countries. As these incidents continue to rise, so have the business opportunities for Arms traffickers in the SAHEL region.

Evidence suggests extensive arms trafficking to SAHEL, with routes passing through France, and Turkey via Nigeria. These illegal firearms include legacy firearms, as well as those diverted from national armed forces through theft or purchase from corrupt officials and other channels.⁸⁵ This influx of illegal procured weaponry has aggravated the security situation in the SAHEL region and accelerated the activities of terror groups.

⁸² Sahel region encompasses 12 countries stretching from Senegal on the Atlantic coast to Eritrea on the Red Sea coast in Northeast Africa. According to GTI 2023 The Sahel is the most impacted area of the world, representing 43 per cent of global terrorism deaths. More details at: <https://www.visionofhumanity.org/maps/global-terrorism-index/>

⁸³ The Global Organized Crime Index. Global Initiative, <https://globalinitiative.net/analysis/ocindex-2021/>.

⁸⁴ Global Terrorism Index | Countries Most Impacted by Terrorism." Vision of Humanity, 2022, <https://www.visionofhumanity.org/maps/global-terrorism-index/>.

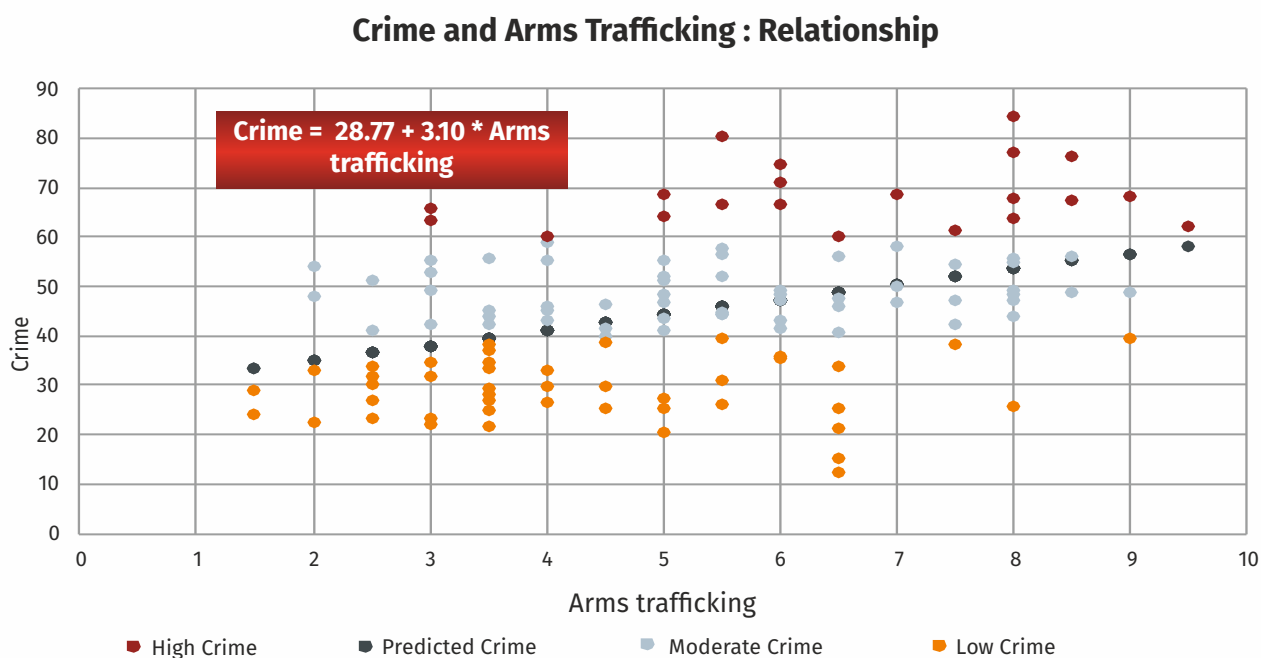
⁸⁵ Transnational Organized Crime in the Sahel." United Nations?: Office on Drugs and Crime, http://www.unodc.org/unodc/en/data-and-analysis/Tocta_Sahel.html.

4.1.2 CRIME AND ARMS TRAFFICKING: RELATIONSHIP AND EVIDENCE

A significant portion of the contemporary landscape of organised crime relies heavily on illegal firearms. Despite the Arms Trade Treaty of 2014, the small arms survey revealed that 857 million civilians possessed firearms, of which only 12 percent were

officially registered, indicating a global increase in their use.⁸⁶

The following graph shows the empirical relationship between crime and arms trafficking based on data from 122 countries. The linkage between arms trafficking and crime is also validated by the empirical relationship between them.



Source: TARI Research, Crime Index and GOCI

Key insights from this relationship include:

- ▶ Data shows that crime and arms trafficking have a significant correlation between them ($r = 0.41$), and arms trafficking also does a good job of predicting crime (r squared = 0.16).
- ▶ Countries with a high degree of crime are more likely to have a high level of arms trafficking, as the relationship shows that a one-point rise in the arms trafficking score results in a 3.10-point increase in the Crime Index score.

This is evident in nations with high crime rates, organised criminal markets, and

mafia-style organisations. Latin America is recognised as one of the most violent regions in the world, with the highest homicide rates in 2017 attributable to the growing availability of firearms. In Jamaica, Brazil, Venezuela, and Mexico,⁸⁷ where the high prevalence of organised crime correlates with rampant arms trafficking, this relationship between violence and arms proliferation is quite apparent, highlighting the consistent overlap between high-crime countries and significant arms trafficking. They also had the highest rate of gun-related homicides per 1,000 residents, according to reports.⁸⁸

⁸⁶ Global Firearms Holdings. Available at :<https://www.smallarmssurvey.org/database/global-firearms-holdings>.

⁸⁷ The Global Organized Crime Index." Global Initiative, <https://globalinitiative.net/analysis/ocindex-2021/>.

⁸⁸ Arms Trafficking and Organized Crime." Global Initiative, <https://globalinitiative.net/analysis/arms-trafficking-and-organized-crime/>.

Evidence: Organised Crime and Arms Trafficking in Mexico

Mexico, a country with a well-consolidated weapons market and a significant channel for arms flow, has led to lethal consequences concerning gun and criminal violence.⁸⁹ Gun-related killings in Mexico rose from 15 percent before 2000 to 70 % in 2021. The spread of illegal firearms throughout Mexico enabled smaller gangs to compete with rivals and security forces leading to the transformation in the criminal landscape. From a drug market controlled by one or two criminal organizations in the late- 1990s, the area has become much more fragmented, diverse, and violent, with 37 cartels presently identified by the government.⁹⁰

Although to a lesser extent than in other regions, firearms are seen as the foundation of organised crime in Europe, as they are in other parts of the world. In order to intimidate and threaten their victims, 60% of criminal networks in Europe frequently used firearms as a part of their violent criminal activities.⁹¹ European countries were identified as being impacted by the link and interdependence between the gun market and the drug market, specifically the cocaine trade.

These occurrences and reports highlight the perilous intersection between terrorism, organised crime, and the trafficking of weapons. A serious threat to peace, security, and sustainable development is posed by the influx of illegal weapons, which magnifies the presence of criminal and terrorist organisations.

4.2 DRUGS TRAFFICKING - RELATIONSHIP WITH TERROR AND CRIME

Global drug trafficking, estimated to be worth 650 billion dollars, has been on the rise due to

the increasing number of drug consumers.⁹² It unleashes a tidal wave of negative effects that extend far beyond health problems and addictions, fostering the growth of organised crime and terrorism and plunging the affected nations into insecurity.

The below seizure statistics illustrate the complexity and secrecy of the underground drug market, how it continues to be a major revenue source for organised crime groups and terrorist organisations, and how it is constantly evolving, highlighting the market's pervasiveness.

Cannabis remained the most widely produced drug in the world, according to the World Drug Report 2023, with cannabis seizures in 2020 estimated at approximately 6,900 tonnes. Due to the legalisation of cannabis for non-medical purposes, the number of cannabis trafficking seizures decreased between 2015 and 2019. However, there was an increase in cannabis use during the pandemic, which is consistent with the increase in seizures beginning in 2020.⁹³

Other illicit drug seizures increased by 77.29 percent from 2019 to 2021, indicating a significant diversification and expansion of the illicit drug market. Cocaine seizures

⁸⁹ *Global Organised Crime Index (2021)*. Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

⁹⁰ *Arms Trafficking and Organized Crime*." Global Initiative, <https://globalinitiative.net/analysis/arms-trafficking-and-organized-crime/>

⁹¹ *Serious and Organised Crime Threat Assessment (SOCTA)*." Europol, <https://www.europol.europa.eu/publications-events/main-reports/socta-report>

⁹² *Transnational Crime and the Developing World*. Global Financial Integrity, <https://gfin integrity.org/report/transnational-crime-and-the-developing-world/>

⁹³ *World Drug Report 2022 & 23*." United Nations?: Office on Drugs and Crime, <https://www.unodc.org/unodc/en/data-and-analysis/world-drug-report-2022.html>.

increased steadily from 2019 to 2021, while seizures involving psychoactive substances increased significantly between 2019 and 2020 but declined in 2021, and seizures

involving new psychoactive substances surged between 2019 and 2020 and continued to rise in 2021.

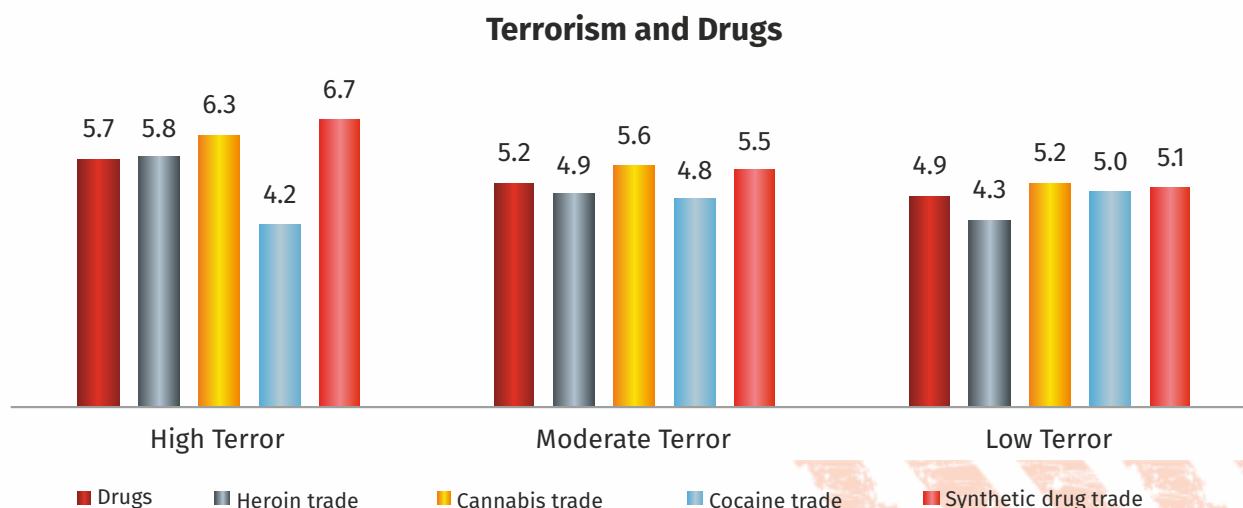
Narcotics Seizure Cases 2019 to 2021			
Narcotics Substances	2019	2020	2021
Cocaine	5,334	5,463	5,662
Psychotropic Substance	10,508	13,212	9,569
NPS	1,908	2,261	3,197
Marijuana/Hashish/Cannabis	54,973	47,043	52,068
Methamphetamine/Amphetamine	7,456	8,375	7,828
Heroin/Opioids	3,646	5,249	3,996
Chemical Precursors	256	274	490
Other illicit drugs	38,239	47,440	67,801
Captagon	115	30	132

Source: TARI Research, Illicit Trade Report 2021, WCO

These patterns reveal an unsettling link, implying that drug trafficking may be a lucrative avenue for criminal and terrorist organisations to participate in, particularly with the goal of earning illegal revenue and laundering money.

4.2.1 DRUG ECONOMY AND TERROR: LINKAGE, RELATIONSHIP AND EVIDENCE

The Global Organised Crime Index [GOCI] 2021⁹⁴ provides the level of the illegal drug economy and benchmarks of different countries on a scale of 10. The following graph shows the linkage between terrorism and drug trafficking based on data from 122 countries.



Source: TARI Research, Crime Index and GOCI

⁹⁴ Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

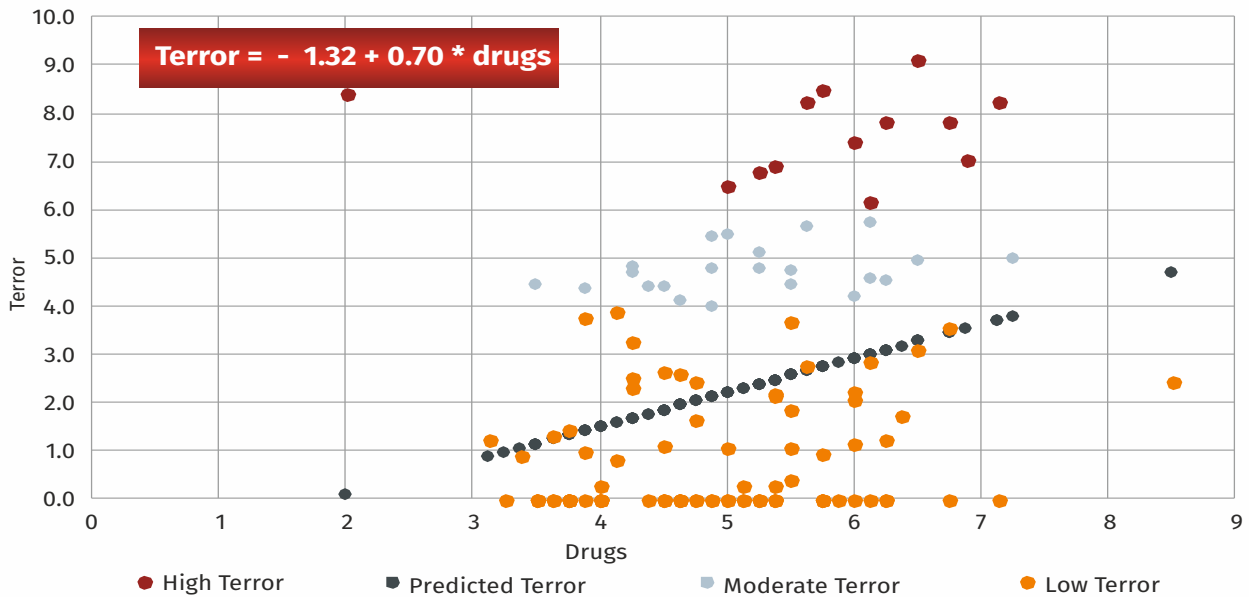
The above graph sheds light on the following key observations:

- ▶ The drug market, including synthetic drugs, cannabis trade, heroin, and cocaine trade, exists in all countries, irrespective of terrorism levels.

- ▶ The synthetic drug, cannabis, and heroin trades are closely linked to terrorism, with their prevalence rising as terrorism intensity increases.

The above linkage between narcotics and terrorism is validated by the empirical relationship between them.

Terror and Drugs : Relationship



Source: TARI Research, GTI and GOCI

The relationship provides the following insights:

- ▶ Data shows a moderate correlation of $r = 0.29$ between terror (GTI score) and drugs illegal economy score.
- ▶ Drugs illegal trade has a moderate, but a statistically significant empirical relationship with terror (r squared = 0.08).
- ▶ **A one-point increase in the drugs score corresponds to a 0.70-point increase in the GTI score, suggesting that countries with a substantial illicit drug economy have a significant presence of terrorism.**

The drug trade has emerged as one of the most prominent alternatives, providing

terrorist organisations with lower risks and substantial profits. This worrying trend has evolved over time, with multiple terrorist organisations assuming central roles in coordinating the drug trade network.

The United Nations Office on Drugs and Crime [UNODC] illuminates the intricate relationship between terrorism and drug trafficking, revealing a troubling story. In this context, the illegal drug trade serves as a conduit for terrorist groups like Boko Haram and its West African branches. This troubling link was revealed in 2017, when Boko Haram was discovered to be engaged in the transportation of heroin and cocaine across the area, emphasising the deep linkages between terrorism and drug trafficking.⁹⁵

⁹⁵ Illicit Drug Financing of Terrorism" | Institute for Defence Studies and Analyses. 2020, <https://idsa.in/system/files/jds/14-2-2020-illicit-drug-financing-of-terrorism-ychandra>

Evidence: Terrorism and Drug Economy

The unsettling reality of the drug economy and involvement of terrorist organisations can be found in two high terror countries: Afghanistan and Colombia.

Approximately 86% of the world's opium cultivation took place in Afghanistan and a very large part of opium poppy cultivation in Afghanistan in regions were under the control of the Taliban. The Taliban's association with the opium economy indicated a strong correlation between the trade in illicit drugs trade related activities and terrorism. Between 2000 and 2015, when the Taliban was profiteering from the drug trade and assuming greater control over the regions in Afghanistan where opium was cultivated, it was responsible for 73% of all terrorism-related deaths in Afghanistan and approximately 13% of all terrorism-related deaths worldwide. [UNODC]

For example, in Afghanistan Taliban's annual income solely from drug trade was as large as US \$400 million per annum.⁹⁶ Compounding this worrisome scenario, the potential exports of opiates from Afghanistan gave rise to significant inward Illicit Financial Flows (IFFs), averaging between US\$1300 and US \$2233 million throughout 2018, 2019, and 2021.⁹⁷

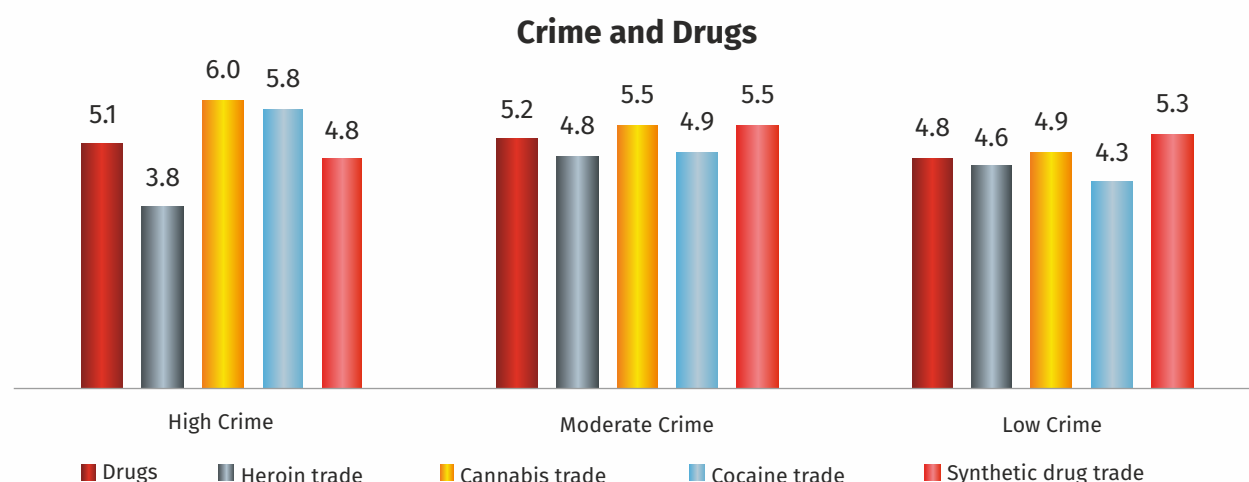
The complicated nexus between drug economy and terrorism is quite intertwined and go beyond national boundaries. Of 2013, a staggering \$1.25 billion of cocaine was transported from West Africa to Europe. This episode sparked worries about Al-Qaida in the Islamic Maghreb (AQIM), well-known for its terrorist actions deeply related to narcotics trafficking for possible participation in this transaction.⁹⁸

This clearly demonstrated the symbiotic

nature of terrorism and the drug trade. The study "Illicit Drug Financing of Terrorism" provides substantial evidence of the drug economies and its relationship with terrorism.⁹⁸

4.2.2 DRUG ECONOMY AND CRIME: LINKAGE, RELATIONSHIP AND EVIDENCE

The following graph shows the empirical relationship between crime and the drug economy for 122 countries for 2021.



Source: TARI Research, Crime Index and GOCI

⁹⁶ Illicit Drug Financing of Terrorism" | Institute for Defence Studies and Analyses. 2020, <https://idsa.in/system/files/jds/14-2-2020-illicit-drug-financing-of-terrorism-ychandra>

⁹⁷ First-Ever Official Data on Illicit Financial Flows Now Available | UNCTAD. 8 June 2023, <https://unctad.org/news/first-ever-official-data-illicit-financial-flows-now-available>.

⁹⁸ Organized Crime Module 16 Key Issues: Terrorism and Drug Trafficking. //www.unodc.org.

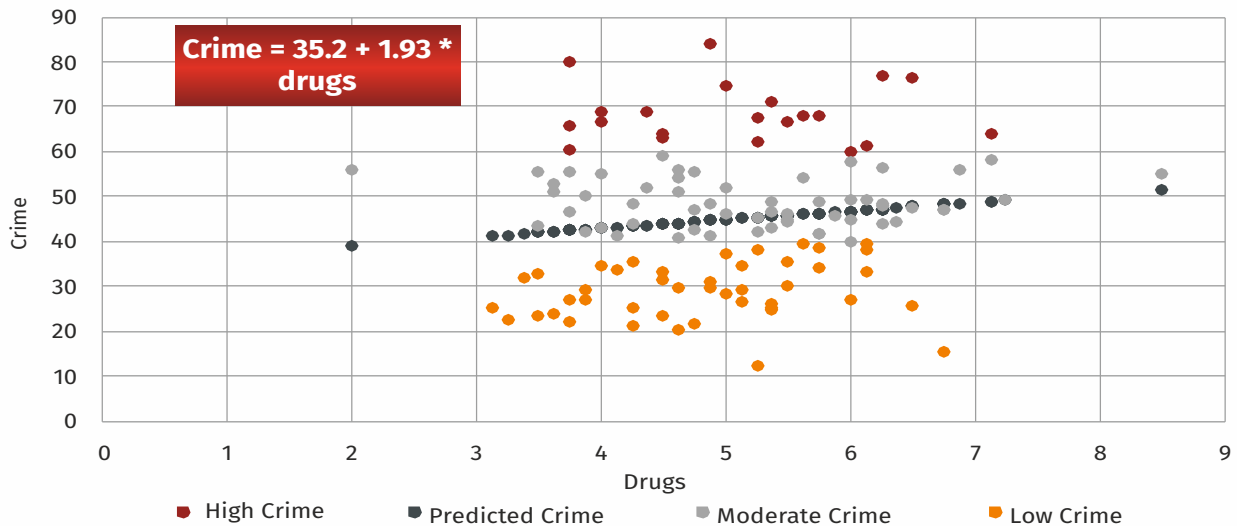
⁹⁹ Illicit Drug Financing of Terrorism" | Institute for Defence Studies and Analyses. 2020, <https://idsa.in/system/files/jds/14-2-2020-illicit-drug-financing-of-terrorism-ychandra>

The following are significant findings from the above graph:

- ▶ The drug market, which includes synthetic substances, cannabis, and heroin, exists in all regions, regardless of the level of crime.
- ▶ There is a strong linkage between the cannabis and cocaine trades with crime intensity, with both drug trades exerting considerable influence in nations with a high crime rate.

The following graph demonstrates the empirical relationship between crime and narcotics for 122 countries. However, the empirical relationship between crime and drugs is not statistically significant. **Crime and cannabis trade have a moderate correlation, with $r = 0.26$ indicating that countries with high crime rates also have significant cannabis trade.**

Crime and Drugs : Relationship



Source: TARI Research, Crime Index and GOCI

The Global Organised Crime Index (GOCI) 2021¹⁰⁰ shows how organised crime and the drug economy are linked and how violent crime is rising. According to GOCI, the global drug economy is centred on America.

Cocaine is the most prolific illegal market in this large environment, with a continental average of 7.41—unmatched among all 10 illicit markets and continents.

Evidence: Drug Economy, Organized Crime and Violence in Latin America

Latin American countries such as Columbia, Peru, and Bolivia have earned the dubious distinction of being the world's greatest cocaine producers due to their geographical location as well as critical exit sites for cocaine bound for Europe and the United States.¹⁰¹

Country	Type of Flow	Year Range	Amount (US\$ Million)
Peru	Inward IFFs - Cocaine Trafficking	2015-2017	\$1,482
Mexico	Inward IFFs - Drug Trafficking	2015-2018	\$12,084
Colombia	Cocaine Trafficking	2015-2019	\$1,152 - \$8,619

Source: TARI Research, UNODC Estimates

¹⁰⁰ The Global Organized Crime Index 2021. Global Initiative, <https://globalinitiative.net/analysis/ocindex-2021/>.

¹⁰¹ First-Ever Official Data on Illicit Financial Flows | UNCTAD. 8 June 2023. Available at: <https://unctad.org/news/first-ever-official-data-illicit-financial-flows-now-available>.

The results show that drug-related activity has a huge economic impact on the region. In recent decades, Paraguay and Argentina have seen record drug production and profitable new narcotic trafficking routes, which have helped boost the illicit drug market. Cocaine and coca cultivation in northern and western South America fuels criminal cartels and regional violence.¹⁰²

Estimates and instances of the drug economy highlight the complex relationship between terrorism and drug trafficking, emphasising the challenges faced by affected regions. The use of statistics and intricate networks uncovers a troubling reality: criminal organisations have extensive involvement in drug trafficking on a

global scale. Drug trafficking is widely recognised as the most notorious criminal activity due to the substantial amounts of illicit revenue it generates. This lucrative trade not only attracts various organised crime groups but also terror organisations,¹⁰³ making them significant players in the world of drug trafficking.

¹⁰² *The Global Organized Crime Index 2021. Global Initiative. Available at: <https://globalinitiative.net/analysis/ocindex-2021>*

¹⁰³ *Organized Crime Module 3 Key Issues: Drug Trafficking. //www.unodc.org*



**INDIA - TERRORISM, ORGANISED CRIME, AND
ILLEGAL ECONOMY: UNDERSTANDING THE
LINKAGES, RELATIONSHIP AND EVIDENCES**

5



5

INDIA - TERRORISM, ORGANISED CRIME, AND ILLEGAL ECONOMY: UNDERSTANDING THE LINKAGES, RELATIONSHIP AND EVIDENCES

Based on UNDOC estimates, when the Indian economy surpassed the \$3 trillion mark in 2021, the quantum of money laundering in India can be estimated at US\$ 159 billion, or about 5% of the GDP, showing the magnitude of the problem.¹⁰⁴

Further drawing from FICCI CASCADE-TARI's earlier research report¹⁰⁵, there is a concerning trend in the rise of illicit markets in India, as well as the emergence of non-market actors involved in these activities, which pose significant risks, particularly when such markets are run and fuelled by players linked to incidents of terrorism and crime, creating a looming threat to global security.

Our previous sections presented evidence that highlights a concerning narrative and a strong positive link and relationship between organised crime actors, and the illegal economy, including trade-based money laundering, counterfeiting, arms and drug trafficking, and terrorism and crime.

Observations indicate that these illegal activities contributed to the generation of substantial financial resources that can be used to finance and sustain terrorist and criminal acts.

This section sheds light on the worrisome prevalence of illegal economic activities in India by comparing India's data to that of 122 other countries included in the study. It attempts to provide evidence of the connection and relationship between illegal economic activities and instances of trade-based money laundering intertwined with terrorism and crime.¹⁰⁶

5.1 ILLICIT FINANCIAL FLOWS IN INDIA- A FUEL FOR TERROR AND CRIMINAL ACTS

Money laundering through trade is a significant contributor to illicit financial flows in India. It entails concealing the proceeds of illegal activities and transferring their value through legitimate business transactions in order to legitimise their illegal origins. TBML

is accomplished by misrepresenting the value, quantity, or quality of imports /exports.

In recent years, illicit financial flows in India have attracted a great deal of attention as a major concern. Typically, these illicit transfers involve the movement of funds across international borders as a result of activities such as money laundering, tax evasion, mis-invoicing, misdeclaration, corruption, and other unlawful practices.

¹⁰⁴ UN ODC. Available at: <https://www.unodc.org/unodc/en/money-laundering/overview.html>; higher level estimate at 5 percent for India

¹⁰⁵ TARI and FICCI CASCADE (2022). *Illicit Market: Threat to Our Nation*. Available at: <https://www.ficcicascade.in/wp-content/uploads/2022/10/illicit-market-report-2022-NEW-LAYOUT-1.pdf>

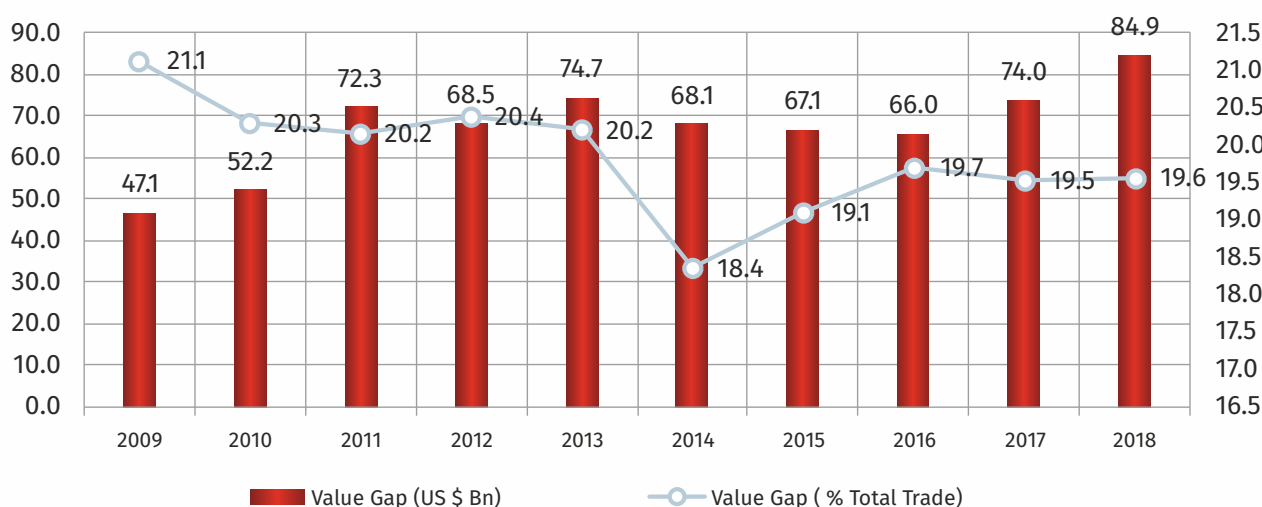
¹⁰⁶ Please refer to Annexure- 1 Research and Methodology for more details

The report titled 'India: Potential Revenue Losses Associated with Trade Mis-invoicing' by GFI presents a comprehensive analysis of the prevailing patterns of mis-invoicing in India throughout the year 2016. India has documented an approximate total potential revenue loss of US \$13 billion, encompassing both mis-invoiced imports and exports. The situation was worsened by a financial loss of \$9 billion resulting from the practices of import mis-invoicing. The uncollected value-added tax (VAT) amounted to a total

of \$3.4 billion. The projected amount for customs charges is approximately \$2 billion, while the anticipated sum for corporate income tax is forecast to be \$3.6 billion.¹⁰⁷

For the 2009-2018 period, the total aggregate value gap of mis-invoicing amounts to over \$674.9 billion. From the analysis, it is noted that the trajectory of the value gaps as the percentage of the trade has declined marginally. India was one of the five largest economies in 2018, with a value gap of US \$84.9 billion.¹⁰⁸

Illicit Financial Flows - Value Gap India (2009-2018)



Source: TARI representation of GFI estimates

The mean percentage of trade value discrepancies throughout the period from 2009 to 2018 was 19.8 percent. Given the current increase in trade and business prospects, it is probable that the trade deficits will continue to widen. The prevalence of different actors with incentives to partake in tax evasion and other unlawful financial practices is expected to rise. Therefore, it is of utmost significance to comprehend the intricacies of this unlawful commerce, as it has the potential to inadvertently contribute to the facilitation of illicit activities, including terrorism and criminal behaviour.

The data provided by the Directorate of Revenue Intelligence (DRI) vividly illustrates India's substantial trade gap and highlights growing illicit trade. This information emphasises not only the magnitude of these gaps but also the susceptibility of India's economy to tax evasion. Such evidence is of utmost importance because it provides a compelling demonstration of the alarming increase in trade-based money laundering and the methods used to facilitate it.

The Directorate of Revenue Intelligence (DRI) reports a rise in import commercial fraud in the country. Smuggling in India

¹⁰⁷ GFI (2019). India: Potential Revenue Losses Associated with Trade Misinvoicing, Global Financial Integrity, June 2019

¹⁰⁸ GFI(2021).Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018. Global Financial Integrity. <https://gointegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>

Report 2021-22¹⁰⁹ identified 437 instances of duty evasion totalling Rs. 3,924 Crore, which was a 40% increase from Rs. 2,810 Crore in 2020-21.

TBML Model - Empirical Implications for India

- ▶ As India strives to transform its economy into a US\$ 5 trillion-dollar powerhouse in the coming years, the current trade composition at 30% would make the trade value at US \$ 1.5 trillion. This puts India in a precarious position, with an impending surge in trade activities that could inadvertently foster the proliferation of illicit financial flows.
- ▶ Currently the illicit trade gap as estimated by GFI is 20%, which translates

into nearly US\$ 300 billion when we reach the 5 trillion-dollar economy.

- ▶ The convergence of trade-based money laundering with terrorism (as highlighted by our empirical TBML model - which shows that a 1 million US Dollar rise in trade gap translates in 0.0084 points increase in GTI score) raises significant concerns for our national security.

It is important to note that the convergence of trade-based money laundering with terrorism and various forms of organised crime has raised significant concerns for national security, economic stability, and the overall rule of law. The subsequent pieces of evidence shed light on the extent and pervasiveness of the issues in India.

Evidence on Trade Based Money Laundering and Terrorism

This case highlights the complicated relationship between illicit financial flows, trade-based money laundering, and terrorist financing. The accused individuals utilized trade as a vehicle to both generate funds through fraudulent practices and funnel money into terrorist activities.

NIA filed a chargesheet against three accused persons in the cross-border LoC trade and terror funding case. NIA revealed a complex web of illicit financial flows orchestrated through the cross LoC trade. The accused individuals, Tanveer Ahmad Wani and Peer Arshad Iqbal were identified as Cross-LoC traders who operated multiple trade firms registered under their own names, as well as under the names of friends, relatives, and employees. The case pointed to their involvement in raising significant funds through trade-based money laundering and fraudulent trade practices.

The funds generated through these fraudulent trade practices were allegedly used to promote and support terrorist activities of terrorist organizations such as Hizbul Mujahideen (HM) and Jaish-e-Mohammad (JeM).

Source: NIA Case Number: RC-17/2016/NIA/DLI

The dynamic and rapidly expanding economy of India, coupled with its extensive trade network, makes it vulnerable to trade-based money laundering. Criminal organisations and terrorist groups seek to exploit these vulnerabilities in order to finance

their operations, launder the proceeds of various illegal activities, and evade detection by law enforcement. In India, it is crucial to investigate the connections between trade-based money laundering, terrorism, and crime. The challenges posed

¹⁰⁹ Directorate of Revenue Intelligence. (2022, December). Smuggling in India Report 2021-2022. Retrieved August 20, 2023, from https://dri.nic.in/writereaddata/2021_2022%20REPORT%20FINAL_14.pdf

by the value gaps not only impede the country's economic growth, but the evidence also demonstrates that the funds can be used to finance terrorist and criminal activities.

5.2 COUNTERFEITING/ILLICIT GOODS IN INDIA: BENCHMARK AND EVIDENCE

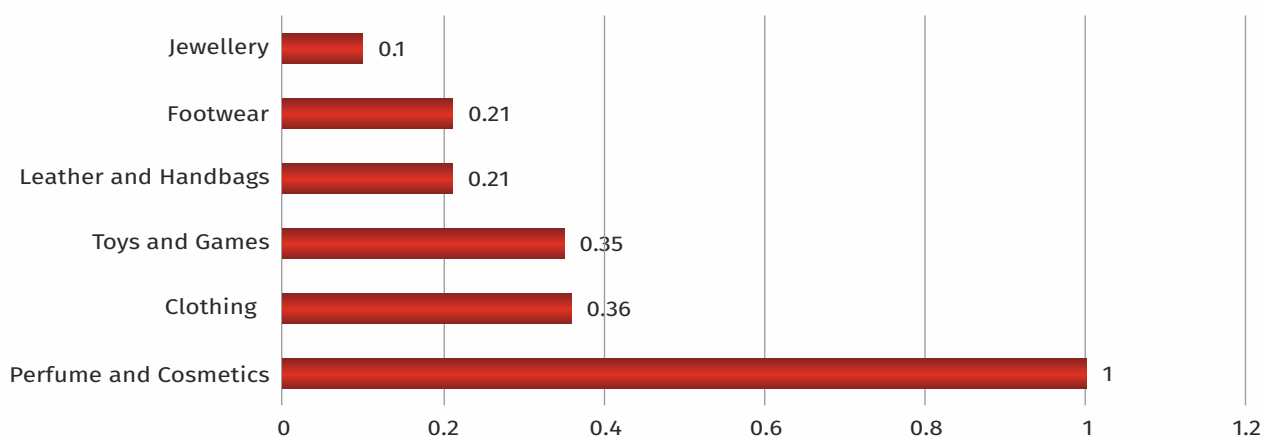
Our previous section highlighted a significant connection between the trade in counterfeit goods and organised crime and terrorism, as it is frequently undervalued and underestimated in comparison to other criminal activities such as drug and arms trafficking.¹¹⁰

The OECD/EUIPO 2021¹¹¹ report, which assesses countries using the GTRIC-e score (measuring the propensity to export coun-

terfeit products), ranks India at 24th place with a moderate score of 0.447 for the period of 2017-19. India has improved its score from earlier years, with an average score of 0.718 for 2014-16.¹¹²

Perfume and cosmetics in India have the highest propensity for counterfeiting/illicit goods. Notably, products like toys, games, clothing, leather goods, handbags, and footwear have relatively low counterfeiting indices. Additionally, studies by the European Union Intellectual Property Office (EUIPO) and the OECD reveal that China and India (accounting for 78% and 11% of global seized value, respectively) are major hubs and the primary sources of counterfeit perfumes and cosmetics.¹¹³ This is further substantiated by the FICCI CASCADE report 2022 on Illicit Markets in India, which underscores that household and personal goods hold the highest illicit market share, nearly 35 percent.¹¹⁴

Key Counterfeited Products - India(GTRIC-p Indices 2017-19)



Source: TARI Research, OECD/EUIPO 2021

¹¹⁰ Gomez, C. (2017). *Understanding the links between counterfeiting and terrorism*. *Revue internationale et strategique*, 107(3), 32-40.

¹¹¹ OECD/EUIPO (2021), *Global Trade in Fakes: A Worrying Threat, Illicit Trade*, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

¹¹² OECD/EUIPO (2019), *Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade*, OECD Publishing, Paris/European Union Intellectual Property Office. <https://doi.org/10.1787/g2g9f533-en>

¹¹³ OECD/EUIPO (2021), *Global Trade in Fakes: A Worrying Threat, Illicit Trade*, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

¹¹⁴ TARI and FICCI CASCADE (2022). *Illicit Market: Threat to Our Nation*. Available at: <https://www.ficcicascade.in/wp-content/uploads/2022/10/illicit-market-report-2022-NEW-LAYOUT-1.pdf>

The complex informal economy in India, which includes malls, stores, local kirana shops, and even street vendors, provides a fertile nurturing ground for counterfeit operations. Typically, this is accompanied by a deficient regulatory framework and legal infrastructure to combat counterfeiting. In addition, the lack of consumer awareness contributes to the market's prevalent problem.¹¹⁵

While there has been significant evidence of linkages between counterfeiting and terrorism in the global scenario, there is no recent evidence in India to confirm the linkage of counterfeiting with terrorism. However, anecdotal links between counterfeiting and terrorism is evident from the case of the "D-Company," involved in various criminal activities including counterfeiting, acting as a potential nexus between illicit trade and extremist connections.¹¹⁶

Counterfeiting or Illicit Goods in India has three notable risks, namely, financial ramifications, potential threats to public health and safety, and the emergence of intellectual property dilemmas. The heightened susceptibility of India to these risks can be attributed to several factors, including its expansive consumer market, regulatory weaknesses observed in certain sectors, and its significant role as a manufacturing hub. It is imperative to acknowledge and mitigate these risks in order to protect the economy and ensure the welfare of the population.

The Counterfeiting/ Illicit Goods and Terrorism Model: Empirical Implications for India

▶ The data presented in previous sections indicate a moderate correlation ($r = 0.28$) between terrorism and counterfeiting,

with counterfeiting showing moderate predictability in fuelling terrorism.

- ▶ Our model, which is broadly applicable for the Indian context as well, has an intrinsic relationship, which is that for every 0.1-point increase in the GTRIC-e score, there is a corresponding rise of 0.31 point in the Global Terrorism Index (GTI) score.
- ▶ This index does not include smuggling and other illicit trade practices, which when taken together will enhance the country's risk of terrorism.
- ▶ India, which has one of the biggest informal economies, thus has a heightened risk of terrorism since terror groups are more inclined to engage in the illicit trade of counterfeit products.

Expanding our perspective to India, a country characterised by its substantial informal market, we can derive insights into the potential implications of these findings. India is more susceptible to counterfeiting and illicit financial flows due to the sizeable informal market that exists there. Therefore, it raises the question of whether India has a greater propensity for terrorist activities, as a result of these illicit financial channels created by counterfeiting.

The presence of a significant informal economy in India contributes to an elevated probability of the production and trade of counterfeit or illicit goods. The increased level of risk is a matter of concern due to its potential contribution to the financing of terrorist activities within the nation. This aligns with the observed correlation between counterfeiting/illicit goods and the involvement of organised crime groups in acts of terrorism.

¹¹⁵ Harjani, Lokesh. "Why India Ranks among the Top Five Countries for Counterfeit Products and How to Combat It." *The Times of India. The Economic Times - The Times of India*, <https://timesofindia.indiatimes.com/blogs/voices/why-india-ranks-among-the-top-five-countries-for-counterfeit-products-and-how-to-combat-it/>.

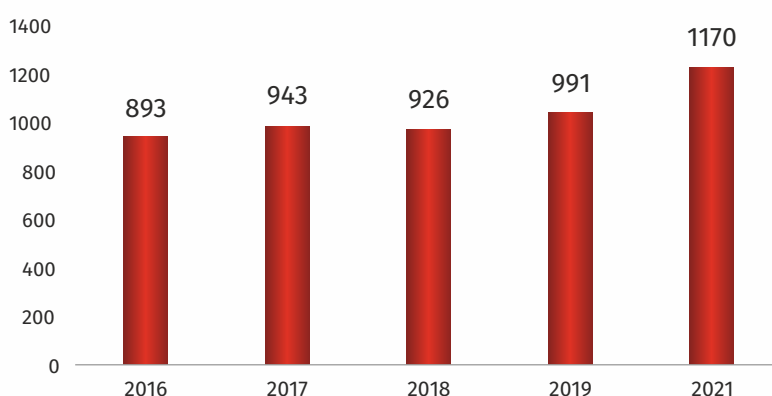
¹¹⁶ *Global terrorism index 2023: Institute for Economics & Peace. Global Terrorism Index 2023: Measuring the Impact of Terrorism, Sydney, March 2023. <http://visionofhumanity.org/resources>*

5.3 TERROR AND CRIME IN INDIA

The issue of addressing both terrorism and crime has gained significant attention due to the growing emphasis on security concerns. It is important to note that dealing with these challenges has resulted in a considerable economic cost. In 2021 it is

estimated at US \$1170 billion at purchasing power parity (PPP),¹¹⁷ which accounts for approximately 6% of the country's GDP and violence per capita impact is estimated at US \$841 at PPP. It is estimated that nearly 80% of such containment costs relate to security and as the economy grows (along with it the illegal economy), India's cost of addressing terror and crime will be significant.

Economic Impact of Violence for India (Billions PPP)



Source: TARI Research, Economic Value of Peace 2021, Global Peace Index 2023

India has made good progress in addressing security concerns, as evidenced by its improved scores in the Global Terrorism Index (GTI) and crime index. In 2021, India achieved a GTI score of 7.43 and a crime index score of 44.7, reflecting positive developments in these areas compared to the levels observed in 2016.¹¹⁸ India has made notable progress in enhancing its counter-terrorism efforts and implementing effective crime prevention measures. This is evident through the decrease in both terror incidents and fatalities from 2016 to 2020, as well as the recent reduction in crime cases in 2021.

The terrorism and crime indices' scores illuminates India's inherent vulnerability to acts of terrorism, juxtaposed with a comparatively moderate incidence of criminal activities. These outcomes can be attributed to a multitude of factors, encompassing the prevalence of a clandestine economic system, its strategic geographical location, and the nation's profound cultural heritage.

One possible factor contributing to these scores could be the presence of low-intensity conflicts in specific border regions, although it is important to note that the most of the population resides in other areas. As a result, the impacts of these conflicts remain primarily confined to specific regions and do not pose an immediate threat to the overall safety of the general public. Considering the significant population size, it is noteworthy that crime rates remain relatively low, indicating the nation's commendable efforts in maintaining effective control over criminal activity.

This serves as a testament to the effectiveness of its rule of law and the diligent work of its law enforcement agencies. This positive development showcases India's commitment to ensuring the well-being and security of its citizens.¹¹⁹

¹¹⁷ Global Peace Index 2023. (n.d.). <https://www.visionofhumanity.org/wp-content/uploads/2023/06/GPI-2023-Web.pdf>; oThe ratio to PPP to economy at current prices is roughly 3:1 in terms of this report

¹¹⁸ Institute for Economics & Peace. Global Terrorism Index 2022: Measuring the Impact of Terrorism, Sydney, March 2022. [http://visionofhumanity.org/resources;Crime Index by Country 2021. https://www.numbeo.com/crime/rankings_by_country.jsp?title=2021.](http://visionofhumanity.org/resources;Crime%20Index%20by%20Country%202021)

¹¹⁹ Crime Index by Country 2021. [https://www.numbeo.com/crime/rankings_by_country.jsp?title=2021.](https://www.numbeo.com/crime/rankings_by_country.jsp?title=2021)

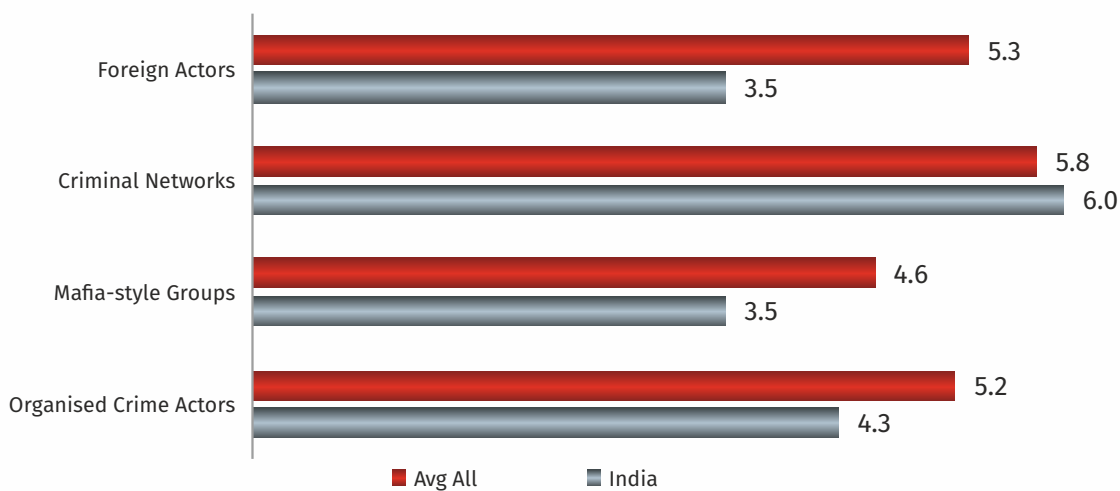
5.4 ORGANISED CRIME AND ILLEGAL ECONOMY IN INDIA

The Global Organised Crime Index (2021) data and India's benchmarking with 122 countries reveal that the aggregate prevalence score of organised crime actors in India is low, at 4.3 on a scale of 1-10, compared to the average benchmark of 5.2 for 122 countries.¹²⁰

The criminal network has a significant

influence in India with a score of 6, which is higher than the average score of 5.8 for 122 countries, and the GOCI 2021 report highlights that in the Indian context, criminal networks play a significant role in India's organised crime scenario, have a widespread presence across the country, and are involved in a variety of illicit activities, including but not limited to drug and human trafficking and the illegal trade in wildlife products.¹²¹

Organised Crime Actors: India vs Average All (122 Countries)



Source: TARI Research, GOCI 2021

The landscape of the illegal economy in India is highlighted by an overall score of 6.3, which is higher than the average score of 122 countries. This indicates that the various criminal markets and illegal economies have a significant impact on the overall economic structure of India. The illegal markets for non-renewable resources and flora and fauna crime are significant in India, primarily

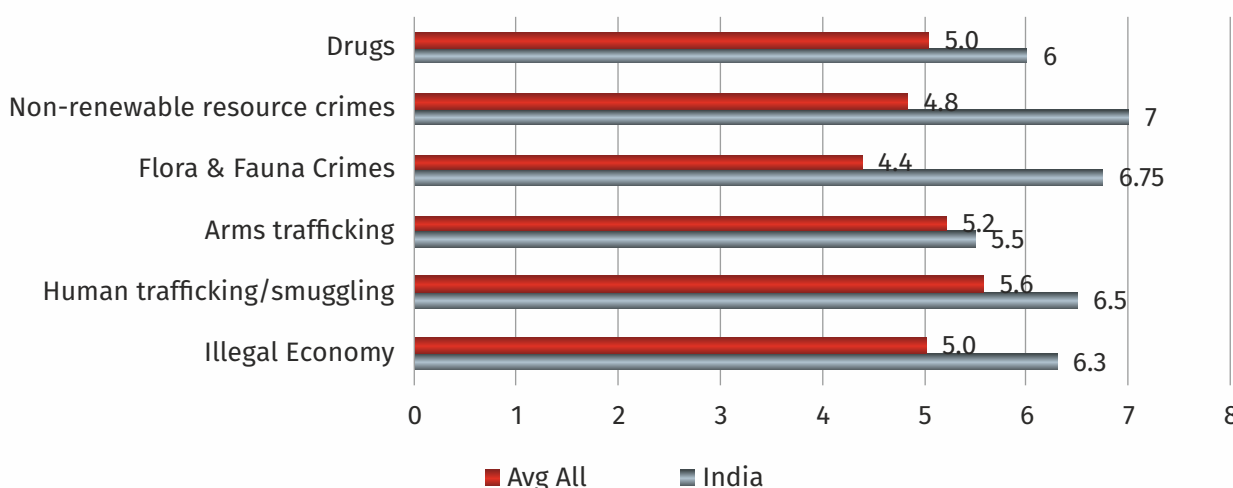
because of its abundant natural resources.¹²² The country's porous boundaries also contribute to the illicit trade of these resources. In a similar vein, India has exhibited a notable propensity for human smuggling and trafficking, surpassing the benchmark average score of 5.6. However, please note that these components of illegal economy are not under our scope of study.

¹²⁰ Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

¹²¹ Criminality in India." The Organized Crime Index, <https://ocindex.net/>

¹²² Directorate of Revenue Intelligence. (2022, December). Smuggling in India Report 2021-2022. Retrieved August 20, 2023, from https://dri.nic.in/writereaddata/2021_2022%20REPORT%20FINAL_14.pdf

Illegal Economy in India vs Average All (122 Countries)



Source: TARI Research, GOCI 2021

This suggests that although there are fewer criminal actors, they are widespread and engage in a variety of unlawful activities, including drug and human trafficking and the illegal trade in wildlife products. This apparent contradiction may be attributable to the efficacy of criminal networks in India, which enables them to generate substantial illicit financial flows despite their small numbers.

5.5 ARMS TRAFFICKING IN INDIA: BENCHMARK AND EVIDENCE OF TERROR FINANCING

In the international context, India's score of 5.5 is marginally higher than the average benchmark score of 5.2. This observation suggests that the proliferation of armaments continues to pose a substantial and intricate obstacle within the security framework of India, which is shaped by a multitude of circumstances and regional dynamics that add to the intricacy of the issue. It is important to comprehend the precise elements and area intricacies that contribute to this widespread occurrence in order to effec-

tively tackle and alleviate the related security hazards.

India encounters significant challenges with the proliferation and accessibility of firearms, hence potentially impacting the nation's security and overall stability. This phenomenon is evident in the statistics pertaining to the confiscation of firearms in India, as well as in the comprehensive analysis of crime trends presented in the Crime in India 2021 Report published by the National Crime Records Bureau (NCRB). There has been a notable rise in instances of arms-related seizures in comparison to the preceding year.

In the year 2021, a total of 74,482 instances were officially recorded under the Arms Act. These cases resulted in the confiscation of 84,623 firearms, which included various types such as licenced, factory-made, unlicensed, improvised, crude, and country-made weaponry. Furthermore, it is worth noting that law enforcement organisations seized a total of 86,572 units of ammunition during the aforementioned year. It is also worth mentioning that a total of 45,492 instances pertaining to the possession and distribution of illicit and unauthorised firearms were documented throughout the year 2021.¹²³

¹²³ Crime in India – 2021. (n.d.). In National Crime Records Bureau. Retrieved August 11, 2023, from <https://ncrb.gov.in/sites/default/files/CII-2021/CII%202021%20SNAPSHOTS%20STATES.pdf>

Empirical Relationship between Arms Trafficking, Terror and Crime: Implications for India

- ▶ Our data analysis demonstrates a global link between terrorism and arms trafficking, and the same is true for India. The substantial predictive power of the model (r-squared = 0.28) supports the notion that arms trafficking can be a significant factor in the intensity of terrorism.
- ▶ When the score for arms trafficking increases by one unit, the score for the Global Terrorism Index (GTI) tends to increase by 0.69 points, illustrating their close relationship.
- ▶ In the instance of India, where arms trafficking is prevalent, there is a greater likelihood of encountering terrorist-related activities. The prevalence of illicit arms in circulation may attract and empower terrorist groups to gain access to illicit arms, thereby enhancing their capacity to commit terrorist acts.
- ▶ Our empirical relationship between crime and arms trafficking demonstrates a strong correlation between the two, with $r = 0.41$, and arms trafficking has greater predictive ability than crime.
- ▶ Countries with a high degree of crime are more likely to have a high level of arms trafficking, as the relationship indicates that a one-point rise in the arms trafficking score results in a 3.10-point increase in the Crime Index score.
- ▶ India has a moderate level of crime which suggests that it may experience some impact from arms trafficking, as the arms trafficking increases, there is a tendency for crime to rise as well.

The evidence presented below suggests a distinct connection between India's illegal arms trade and criminal activities, including terrorism. While the scope and nature of these cases and instances can vary, the following illustrates the intricate relationship between illicit financial activities and the trafficking of arms.

Evidence on Nexus between Arms and Drugs Trafficking and Terrorism

NIA in coordination with Punjab and Haryana Police busted a Terrorist-Gangster-Drugs Nexus case named Operation Dhvast and raided 324 locations and seized a huge cache of arms and ammunition in eight states namely Punjab, Delhi, Haryana, UP, Rajasthan, Maharashtra, Gujarat, Chandigarh and Madhya Pradesh. Communication devices and currency worth Rs. 39, 60,000 in cash were seized in the raids.

This nexus has been linked to targeted killings, extortion, and terror funding. The investigations by NIA also revealed that these conspiracies have been conspired in the jails of different states and been executed by an organised network internationally.

This case highlights the complicated web of conspiracies, revealing that these plots were devised within correctional facilities across various states. Disturbingly, these schemes were executed by a well-organized network with international reach, exposing the threat posed by their criminal endeavours.

The "Operation Dhvast" case serves as a stark reminder of the gravity of arms trafficking in India. It exposes the extent to which criminal elements exploit vulnerabilities within the system.

This section emphasises the close relationship between arms trafficking and terrorism in India. It is also essential to note that, although conflicts do not begin due to the proliferation of arms, the persistence of many of these conflicts is a result of the easy

availability of these weapons.¹²⁴ Combating this extensive proliferation of firearms is essential, as its unregulated continuation poses a formidable obstacle for authorities attempting to prevent these weapons from falling into the wrong hands.

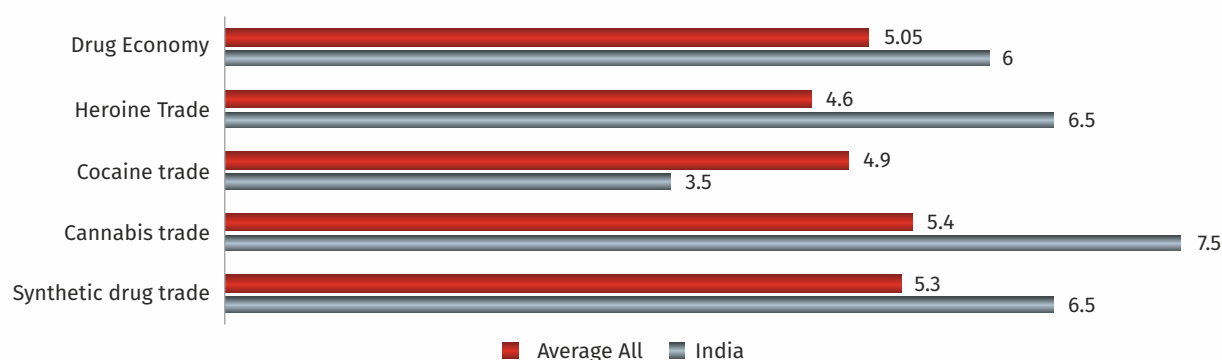
¹²⁴ Siyech, M. S. (2022). *Arms smuggling in India: exploring links between crime and terrorism*. *Studies in conflict & terrorism*, 45(5-6), 445-462. . doi:10.1080/1057610x.2019.1678875

5.6 DRUG ECONOMY INDIA: BENCHMARK AND EVIDENCE ON LINKAGES

India's strategic location positions it near major drug-producing regions, including the Golden Triangle (Myanmar, Laos, and Thailand) and the Golden Crescent (Afghanistan, Pakistan, and Iran). This location has been associated with activities that may involve the transportation and distribution of controlled substances. Furthermore, due to its coastal location, India is susceptible to maritime trafficking routes across the Indian Ocean, which unfortunately includes drug trafficking, particularly transits originating from Afghanistan.¹²⁵

India's drug economy offers an interesting perspective when compared to the average of all countries, indicating that the illicit drug trade in India is notably more prevalent. In the Indian context, Cannabis is perceived to have a relatively higher score of 7.5, compared to the benchmark average of 5.4, indicating its significant presence in comparison to other countries. This dominance is supported by the significantly high rate of cannabis seizures. In a similar vein, the synthetic drug trade and the heroin trade both had scores of 6.5, which exceeded the benchmark averages of 5.3 and 4.6 respectively.¹²⁶

Illicit Drug Economy - India vs All Average



Source: TARI Research, GOCI

The noticeable increase in the illicit drug trade in India has become more apparent in recent years. The provided table highlights the notable rise in drug seizures reported by

the Government of India, while also shedding light on the considerable expenses associated with enforcing measures to combat the illicit drug trade.¹²⁷

	2006-2013	2014-22	The Significant Rise
Total cases	1,257	3,172	152% more cases registered
Total arrest	1,363	4,888	260% Increase
Seized Drugs (KG)	1.52 Lakh KG	3.33 Lakh KG	More than doubled
Seized Drugs (crore)	768 crores	20 thousand crores	25 times more

Source: Government of India

¹²⁵ International Narcotics Control Board . (2022). Report of the International Narcotics Control Board for 2022. Retrieved August 18, 2023, from <https://www.incb.org/incb/en/publications/annual-reports/annual-report-2022.html>

¹²⁶ Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

¹²⁷ Union Home Minister Shri Amit Shah chaired a meeting 'Drug Trafficking and National Security' in Guwahati, Assam <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1866137>

Empirical Relationship between Drugs Trafficking and Terrorism: Implications for India

- ▶ Our data analysis shows a moderate correlation between terrorism and drug trafficking worldwide, and this also holds true for India ($r = 0.29$), which links terrorism and drugs. This suggests a connection between narcotics-related activities and terrorism. Additionally, drugs emerge as a statistically significant predictor of terrorism intensity, with $r^2 = 0.08$.
- ▶ Our model suggests that a one-point rise in the drugs score corresponds to a 0.70-point increase in the Global Terrorism

Index (GTI) score, indicating that countries with a substantial illicit drug economy tend to have a higher level of terrorism.

- ▶ For India, this implies that drug trafficking may contribute to a higher terrorism risk. To address this, India should focus on countering both narcotics and terrorism concurrently through a comprehensive approach tailored to its unique circumstances and challenges.

National Investigation Agency (NIA) investigation and chargesheets also highlight nexus between drug economy with terrorism, often referred to narco-terrorism. One of the cases as evidence is provided below.

Evidence on Narco-Terrorism

In 2020, the National Investigation Agency (NIA) seized a property in Amritsar, Punjab, belonging to two brothers, Bikramjit Singh (aka Bikram Singh) and Maninder Singh, as part of a "Pakistan-sponsored" narco-terror case.

Both brothers were previously apprehended by the NIA. This property, now attached under the Unlawful Activities (Prevention) Act, is linked to a case that involves smuggling substantial drug quantities from Pakistan into India, using the guise of rock salt exports. The relationship between drug trafficking and terror financing is particularly alarming, as it highlights the ways in which illegal enterprises can contribute to destabilizing security situations.

The NIA has lodged four chargesheets against 13 suspects in connection with this case, which was initiated on May 8, 2020. The allegations highlight that the profits from the drug trade were exploited to establish assets in Punjab and support Hizbul-Mujahideen terrorists in the Kashmir valley.

The relationship between the profits generated from the drug trade and the establish-

ment of assets within Punjab serves as a reminder of the financial motivation driving such illicit enterprises.

Source: NIA Case Number: RC-23/2020/NIA/DLI

These activities related to illegal drugs are believed to have a complex connection with terrorism and crime. The funds generated through certain illicit activities have been identified as a potential source of funding for

various organisations and operations. An environment that is susceptible to illegal drug activities can have negative implications for the security and social stability of a nation due to the associated financial implications.

5.7 CONCLUSIONS

Based on the evidence and our empirical model, it is evident that there is a strong correlation between illicit financial flows from illegal activities, terrorism, and crime. It is important to note that the presence of significant illegal markets in India increases the country's vulnerability to terrorism and criminal activities.

As a result, there has been an increase in the economic expenses related to managing these illegal economies and addressing illicit financial flows. Additionally, there has been a heightened focus on combating terrorism

and criminal activities. Hence, it is of utmost importance to evaluate the extent of illicit financial flows and establish efficient measures to eradicate unlawful activities, particularly those related to drug and arms trafficking, that support and finance criminal and terrorist operations.

India's growing prominence in global trade has inadvertently exposed it to potential risks associated with trade-based illicit financial flows. The report highlights that certain financial activities may have negative effects on the country's economic progress, and may also inadvertently contribute to supporting terrorism and criminal endeavours.



RECOMMENDATIONS AND WAY FORWARD

6






RECOMMENDATIONS AND WAY FORWARD

Given the sizeable amount of illicit financial flows (IFF) generated from the overall illegal economy, it becomes imperative to recognise that these illicit funds serve as lucrative conduits for organised crime and terrorist groups and are instrumental in financing their activities. Prominent organisations like the United Nations, WTO, and GFI have sounded the alarm about the colossal scale of transnational illicit financial flows, demanding immediate action.

The complex challenges posed by crime and terrorism have emerged as a critical global concern. These challenges transcend across borders, having negative ramifications for societies, economies, and security at various levels.¹²⁸

The G20 New Delhi Leaders Declaration¹²⁹ has recognized this and unitedly agreed to “Strongly condemn all terrorist acts against critical infrastructure, including critical energy facilities, and against other vulnerable targets. All acts of terrorism are criminal and unjustifiable, regardless of their motivation, wherever, whenever and by whomsoever committed. Effective counterterrorism measures, support for the victims of terrorism and the protection of human rights are not conflicting goals, but complementary and mutually reinforcing.”

Preventing, containing, and addressing the consequences of terror and violence incurs significant costs, diverting both public and private resources away from more productive endeavours and towards protective measures. The Agenda of United Nations places significant emphasis on addressing illicit financial flows (IFFs) as a top priority, which is reflected in their SDG target 16.4 which aims to “significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets, and combat all forms of organized crime by 2030”.

These illicit flows are not merely economic hurdles but also obstruct **the attainment of the SDGs**. Thus, it becomes an essential component of financing global efforts to accomplish the Sustainable Development Goals (SDGs).¹³⁰

The standard of living and money production have significantly improved in countries where terrorism and crime are low or non-existent. The findings of the Global Peace Index Report 2023¹³¹ show that an increase of one index point in the positive peace index (PPI) is associated with an average tenfold rise in US\$ GDP per capita.

As the Indian economy surpassed the \$3 trillion mark in 2021, Based on the UNODC estimates, the money laundering problem in India can be valued at US\$ 159 billion, underscoring its magnitude. Based on the conclusion and insights from the previous section, it is quite evident

¹²⁸ United Nations Department of Economic and Social Affairs Sustainable Development. (n.d.). Transforming our world: the 2030 Agenda for Sustainable Development. Retrieved August 25, 2023, from <https://sdgs.un.org/2030agenda>

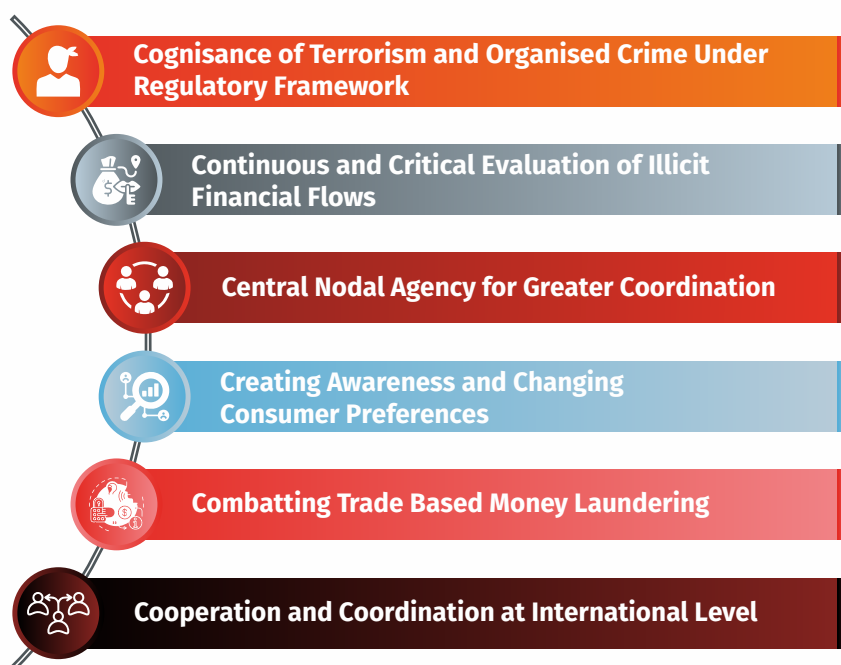
¹²⁹ G20 New Delhi Leaders' Declaration. https://www.mea.gov.in/bilateral-documents.htm?dtl/37084/G20_New_Delhi_Leaders_Declaration.

¹³⁰ DG Indicators - SDG Indicators. <https://unstats.un.org/sdgs/metadata/?Text=&Goal=&Target=16.4>.

¹³¹ Global Peace Index 2023. (n.d.). <https://www.visionofhumanity.org/wp-content/uploads/2023/06/GPI-2023-Web.pdf>

that the illicit activities of terrorist organisations and criminal networks pose significant challenges to global economies and security.

To address these threats, a multi-disciplinary approach is essential, involving policy recommendations that span across various domains. This study suggests the 6 Cs as a policy recommendation and way forward for this issue:



Source: TARI Research

6.1 COGNISANCE OF TERRORISM AND ORGANISED CRIME UNDER REGULATORY FRAMEWORK

India recognises the impact and ramifications of terror and organised crime and defines them in the proposed law, **Bharatiya Nyaya Sanhita 2023**.¹³² This bill also imposes severe punishment for those involved in these acts.

The proposed Bill defines terrorism as "an act that intends to threaten the unity, integrity, and security of the country, to intimidate the general public or disturb public order. Terrorist acts include: (i) using firearms, bombs, or hazardous substances (biological or chemical) to cause death, danger to life, or spread a message of fear, (ii) destroying

property or disrupting essential services, and (iii) activities included in the treaties listed in the Second Schedule of the Unlawful Activities (Prevention) Act, 1967 such as unlawful seizure of aircraft or taking of hostages." The bill also defines organised crime, which includes various activities like

- (i) a continuing unlawful activity such as kidnapping, extortion, contract killing, land grabbing, financial scams, and cybercrime,
- (ii) carried out by use of violence, intimidation, or other unlawful means,
- (iii) to obtain material or financial benefit, and
- (iv) carried out by individuals acting singly or jointly, as members of or on behalf of a crime syndicate.

¹³² *Bharatiya Nyaya Sanhita 2023*. Available at: <https://prsindia.org/billtrack/the-bharatiya-nyaya-sanhita-2023>

While the socio-economic impact of terror, violence, and crime is globally recognised, there is no internationally acknowledged consensus on how to label an act of terrorism, resulting in a multitude of alternative definitions and typologies.

Considering this, it is important to make cognisance of a universal definition of both terrorism and organised crime and bring them under a regulatory landscape to effectively address the issue. Recognising the actors and players involved in these activities would be the first step towards controlling these activities which impose a significant toll on society and the economy.

6.2 CONTINUOUS AND CRITICAL EVALUATION OF ILLICIT FINANCIAL FLOWS

Across the world, economies grapple with a range of transnational criminal activities, including the illegal trade in flora and fauna, counterfeiting, drug trafficking, weapon smuggling, and human trafficking, resulting in trillions of dollars at stake.¹³³ The WTO estimates and the GFI report emphasize the significant size and scale of illicit financial flows (IFFs), such as trade-based money laundering and other transnational crimes.

These illicit economies present unique challenges, obstructing both accurate assessment and effective countermeasures. Nations face formidable difficulties in quantifying the magnitude of the IFF problem, largely due to the absence of tracking mechanisms and the clandestine nature of these activities.

The undeniable links between IFFs, criminal and terrorist activities have made them a pressing concern for global economies and security. Despite commendable efforts by organisations such as UNCTAD and UNODC to establish a statistical framework for assessing of the magnitude of IFFs, accurately measuring their true impact remains a daunting challenge.¹³⁴

To address this complex issue in the Indian context and on a global scale, continuous and critical evaluation is paramount. Establishing a dedicated Government Statistical Unit for collecting and analysing information is crucial.¹³⁵ This specialised unit would clarify complex statistical concepts, continually assess data availability, and advance robust measurement methodologies. By doing so, it can provide a more accurate quantification of IFFs within the Indian landscape and how these IFFs support criminal and terrorist activities, both globally and within India.

Beyond quantification, gaining a nuanced understanding of the complex connections between organised crime, the underground economy, and illegal money movements is essential for accurate estimation. This knowledge enhances our ability to combat these issues effectively on a broader scale and allows India and the global community to tailor their strategies to address unique challenges. These measures align with India's commitment to Sustainable Development Goal 16.4.1,¹³⁶ representing a significant step towards mitigating the impact of illicit financial flows on economic stability and global prosperity through continuous and critical evaluation.

¹³³ GFI (2017) *Transnational Crime and the Developing World. Global Financial Integrity*. <https://gfintegrity.org/report/transnational-crime-and-the-developing-world/>

¹³⁴ UNCTAD and UNODC (2020) *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. https://Sdgpulse.Unctad.Org/Illicit-Financial-Flows/#Ref_5SQZVCD6.

¹³⁵ UNCTAD and UNODC (2020) *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. https://Sdgpulse.Unctad.Org/Illicit-Financial-Flows/#Ref_5SQZVCD6.

¹³⁶ United Nations Department of Economic and Social Affairs Sustainable Development. (n.d.). *Transforming our world: the 2030 Agenda for Sustainable Development*. Retrieved August 25, 2023, from <https://sdgs.un.org/2030agenda>

6.3 CENTRAL NODAL AGENCY FOR GREATER COORDINATION

The World Customs Organization (WCO) highlights that¹³⁷ "illicit trade involves money, goods or value gained from illegal and otherwise unethical activity. It encompasses a variety of illegal trading activities including human trafficking, environmental crime, illegal trade in natural resources, intellectual property infringements, trade in certain substances that cause health and safety risks, smuggling of excisable goods, trade in illegal drugs, and a variety of illicit financial flows."

To effectively combat illicit trade and organised crime, it is crucial to improve inter-agency coordination through the implementation of a well-defined and flexible framework that addresses the specific challenges associated with these issues. India has several enforcement agencies, such as the Central Board of Direct Taxes (CBDT), the Central Board of Indirect Taxes and Customs (CBIC), the Central Bureau of Investigation (CBI), the National Investigation Agency (NIA), and more. However, these agencies often work independently, resulting in limited sharing of intelligence and fragmented efforts.

In order to effectively address the issue of the illegal economy and combat illicit trade, it is crucial to adopt a comprehensive and impactful approach. To address these gaps between agencies and ensure national security, it is crucial for the Ministry of Home Affairs (MHA) to play a central role. India should consider establishing a central coordination agency, similar to the Indian Cyber Crime Coordination Centre (I4C), to build upon its success. This agency would consist of experts from different agencies,

working together to effectively address cybercrime. However, it is equally important to acknowledge that success relies on smooth collaboration among various government stakeholders.

In conclusion, the implementation of a Central Nodal Agency, the promotion of inter-agency cooperation, and the substantial improvement of efforts to combat illicit activities and money laundering form a comprehensive approach. This approach not only enhances national security but also aligns with global initiatives to counter the financing of terrorism and safeguard human rights.

6.4 CREATING AWARENESS AND CHANGING CONSUMER PREFERENCES

India faces a complex challenge due to its extensive informal economy and illicit markets, which contribute significantly to illicit financial flows (IFFs). The TARI and FICCI CASCADE 2022 report estimated the value of illicit markets in five key industries at rupees two lakh sixty thousand crores in the fiscal year 2019-20.¹³⁸ The presence of such markets poses a significant security risk, as proceeds often benefit organised crime and fuel other illicit activities.

Raising consumer awareness about illicit products and their potential risks to health, safety, and society is a crucial strategy in combating illicit markets and empowering them to make more informed decisions. The 'Counterfeit: Don't Buy into Organised Crime' campaign by the United Nations Office on Drugs and Crime (UNODC) is an excellent example of the kind of awareness initiatives that should be actively pursued.

¹³⁷ WCO (2013) *Illicit Trade Report 2012*, World Customs Organization. http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/enforcement-and-compliance/activities-and-programmes/illicit-trade-report/itr_2012_en.pdf?db=web, p. 2.

¹³⁸ TARI and FICCI CASCADE (2022). *Illicit Market: Threat to Our Nation*. Available at: <https://www.ficcicascade.in/wp-content/uploads/2022/10/illicit-market-report-2022-NEW-LAYOUT-1.pdf>

At the national level, it is important to have coordinated efforts among various stakeholders, such as industry bodies, consumer bodies, enforcement agencies, and governments. These efforts should aim to raise consumer awareness and help them distinguish between licit and illicit products, as well as change their behaviour by highlighting the negative impacts associated with illicit products.

Strict enforcement action is another crucial aspect of changing consumer behaviour towards illicit products. This measure serves to safeguard the authenticity of legitimate products and innovations, while also impeding the illicit economy and disrupting its intricate financial networks. Enforcement plays a crucial role in addressing this issue, as it requires the implementation of more stringent legal frameworks, enhanced coordination among law enforcement agencies, and the application of punitive measures to deter individuals engaged in this criminal activity.

By effectively addressing the significant issues associated with counterfeiting through these comprehensive measures, we cannot only strengthen our financial systems but also disrupt the financial foundations that support various criminal activities, such as terrorism.

6.5 COMBATTING TRADE BASED MONEY LAUNDERING

The Smuggling in India Report 2021-22 revealed a 40% increase in import commercial fraud cases from the previous year, with

437 cases totalling ₹ 3,924 crores.¹³⁹ With growing international trade and India on a trajectory to become a US \$5 trillion economy, the Trade-Based Money Laundering (TBML), poses a serious threat to India's ability to combat organised crime and address security concerns.

The World Custom Report emphasizes the importance of empowering customs authorities to combat TBML, a global trade crime. It emphasises on¹⁴⁰ :

- ▶ The need for financial, human resources, and technological capabilities to effectively fulfil their duties,
- ▶ Access to foreign exchange transaction databases for trade valuation accuracy,
- ▶ Promoting mutual accountability and information sharing between businesses and customs,
- ▶ Strengthening customs-business partnerships like the WCO Authorized Economic Operators Programme, and
- ▶ Facilitating beneficial ownership information exchange with tax authorities and customs-to-customs collaboration.

Illicit trade often intersects with the legitimate economy, impacting sectors like transportation, finance, and professional services. Blockchain technology can help identify irregularities and suspicious trading activities, potentially financing terrorist activities. Blockchain's immutable and transparent nature makes it a reliable source of transaction and supply chain data, making it difficult for unauthorised individuals to tamper with records, ensuring information integrity.¹⁴¹

¹³⁹ Directorate of Revenue Intelligence. (2022, December). *Smuggling in India Report 2021-2022*. Retrieved August 20, 2023, from https://dri.nic.in/writereaddata/2021_2022%20REPORT%20FINAL_14.pdf

¹⁴⁰ World Customs Organization. <https://www.wcoomd.org/en/topics/enforcement-and-compliance/resources/publications.aspx>

¹⁴¹ Shelley, Louise I (2012). *The Diverse Facilitators of Counterfeiting: A Regional Perspective*. *Journal of International Affairs*, 66 (1),19-37

It is crucial to address TBML effectively in order to not only prevent the financing of terror and organised crime groups but also to protect the integrity of global trade and financial systems.

- ▶ cross border information exchange,
- ▶ seamless international collaboration,
- ▶ the enhancement of enforcement capabilities, promotion of transparency, advocacy for policy reforms, and research.

6.6 COOPERATION AND COORDINATION AT INTERNATIONAL LEVEL

The G20 New Delhi 2023 summit emphasised the need to work collaboratively, which was highlighted in the New Delhi Declaration that recognised a ‘holistic approach on the basis of international law can effectively counter terrorism. Efforts to increase the effectiveness of international cooperation should be strengthened to deny terrorist groups safe haven, freedom of operations, movement and recruitment, as well as financial, material or political support.¹⁴²

In the realm of global economies and their inter-connectedness, there arises a critical need for a united front, an international coalition comprised of governments, industry leaders, civil society stakeholders, and esteemed academics.¹⁴³ This coalition holds the key to shaping a comprehensive strategy, one methodically designed to unveil and disrupt the clandestine world of illicit financial flows (IFFs), including money laundering and tax evasion. At its heart, this strategy relies on pivotal components:

The New Delhi Declaration of G20¹⁴⁴ has given a clarion call for the requirement of a "Financial Action Task Force (FATF) and FATF Style Regional Bodies and encourage others to do the same, including for the next round of mutual evaluations." The New Delhi declaration also acknowledged the efforts made by FATF in recovering criminal proceeds. Specifically, it highlighted the organization's work in revising its standards on asset recovery and strengthening global asset recovery networks. In their declaration, all G20 nations emphasize their commitment to the timely and global implementation of the revised FATF Standards. These standards aim to enhance transparency regarding the beneficial ownership of legal persons and legal arrangements. The objective is to make it more challenging for criminals to conceal and launder their illicitly acquired funds.

Through these determined efforts, the coalition is well-prepared not only to curtail illicit financial flows (IFFs) but also to enhance the resilience of financial systems and safeguard critical government revenue streams.

¹⁴² G20 New Delhi Leaders' Declaration. https://www.mea.gov.in/bilateral-documents.htm?dtl/37084/G20_New_Delhi_Leaders_Declaration.

¹⁴³ Shelley, Louise I (2012). *The Diverse Facilitators of Counterfeiting: A Regional Perspective*. *Journal of International Affairs*, 66 (1),19-37

¹⁴⁴ G20 New Delhi Leaders' Declaration. https://www.mea.gov.in/bilateral-documents.htm?dtl/37084/G20_New_Delhi_Leaders_Declaration.



ANNEXURE – I

RESEARCH METHODOLOGY

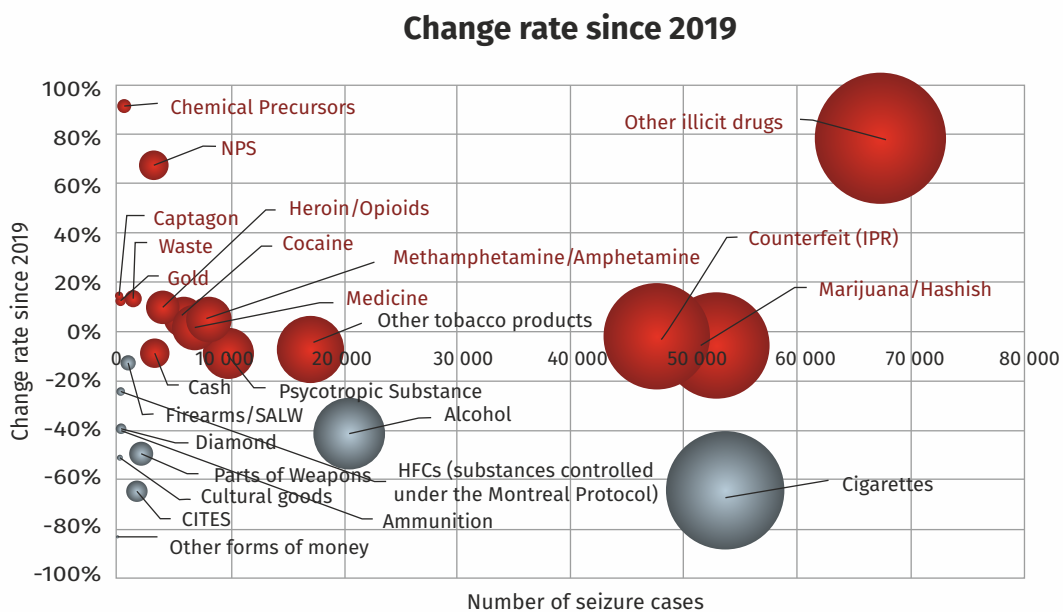


ANNEXURE – I

RESEARCH METHODOLOGY

Illicit trade and illicit financial flows continue to be a complex issue for researchers and policymakers around the world, fraught with a number of obstacles. Due to the fact that illegal traders operate outside of the law, it is extremely difficult to estimate the harm caused by these activities. The United Nations Office on Drugs and Crime, the United Nations Conference on Trade and Development, and the Organisation for Economic Co-operation and Development (OECD) all concur that illicit trade or IFF occurs in a variety of ways and is intentionally concealed, making its estimation a difficult task. In addition, as highlighted by the UNODC and UNTACD definitions, an acceptable definition and statistical approach for illicit trade or IFF are still in the process of development.¹⁴⁵ We do not intend to measure the illicit trade, or IFF.

Thus, seizures of the illegal economy and the illicit trade of legal goods can serve as surrogate indicators for quantifying, measuring, and understanding the magnitude of overall illicit financial flows. Incorporating seizure data from the recent World Customs Organization (WCO) Illicit Trade Report 2021, these essential elements of the illicit economy are also confirmed.¹⁴⁶ A large number of seizures suggests a greater financial incentive and propensity for illicit trade or an illegal economy that generates substantial illicit financial flows that fuel organised crime or terrorism. The following image depicts large narcotics seizures, which indicate the scope of the illicit economy. Similarly, large seizures of cigarettes, counterfeit goods, and alcohol indicate a propensity for illegal financial gain.

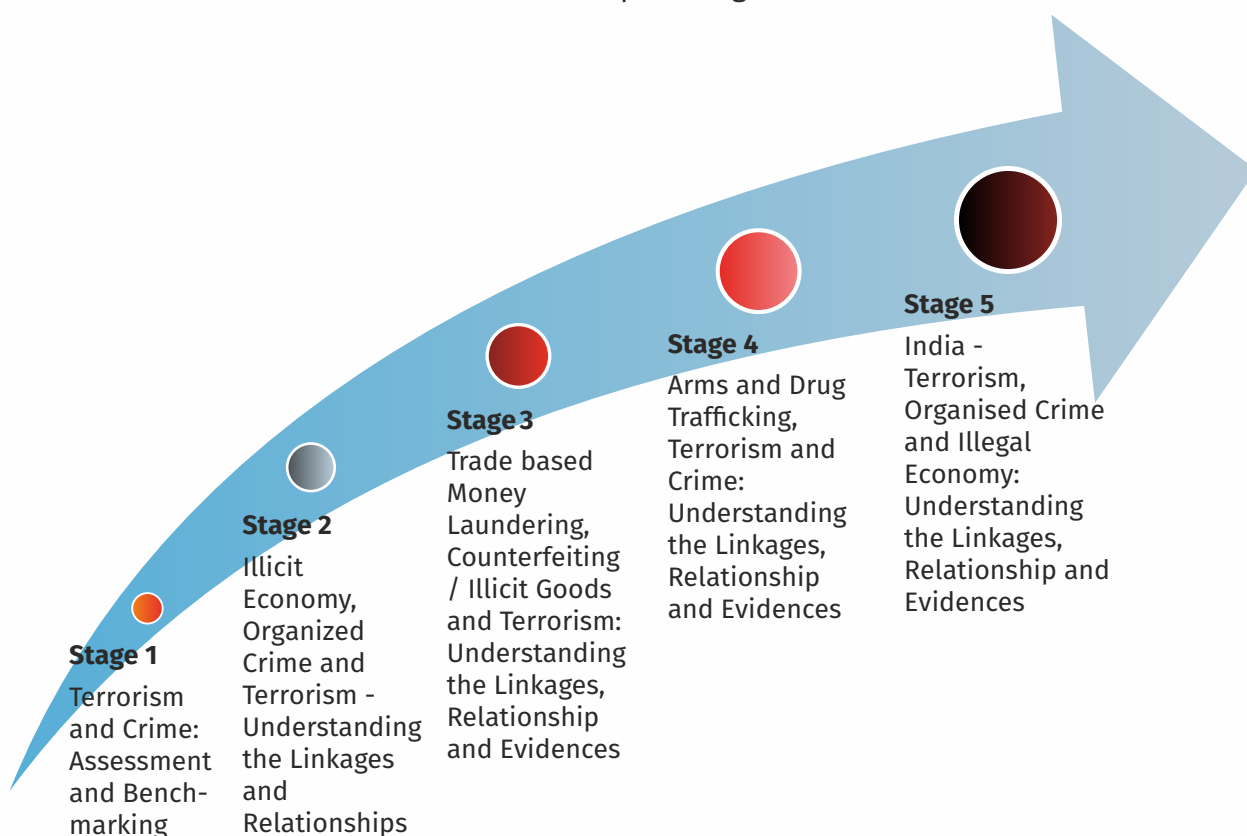


Source: Illicit Trade Report 2021, WCO

¹⁴⁵ UN ODC (2020). *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*. October 2020

¹⁴⁶ *Illicit Trade Report (2021)*. Available at : <https://www.wcoomd.org/en/media/newsroom/2022/june/the-wco-issues-its-2021-illicit-trade-report.aspx>. World Customs Organization.

The purpose of this annexure is to provide detailed information regarding the various stages of research as shown below in order to accomplish its goals.



Source: TARI Research

I. TERRORISM AND CRIME : ASSESSMENT & BENCHMARKING

In the first phase of research, terror and crime in the 122 benchmarked nations are evaluated and compared. We rely on the secondary data sources to assess intensity of terror and crime, assess relationships and their impact. This is accomplished using the Global Terrorism Index (GTI) and Crime Index (CI) indices.

Both crime and terrorism indexes are accessible for the most recent ten years and encompass all significant economies. The Global Terrorism Index (GTI) is a thorough investigation that examines the effects of terrorism on 163 nations, or 99.7% of the

world's population. The Crime Index evaluates and covers 144 nations worldwide. The key advantage of utilising these indices in our research is that they provide 10 years of data and cover the majority of economies, both of which are crucial for empirical modelling.

The Institute for Economics and Peace (IEP), which compiles the Global Terrorism Index (GTI), accepts Terrorism Tracker's terminology and definitions. To produce a more evenly distributed index, the GTI uses a logarithmic banding system between 0 and 10 with 0.5 intervals and a base 10 logarithmic scale. Please consult the Global Terrorism Index 2023 for more information about the GTI.¹⁴⁷

¹⁴⁷ Global Terrorism Index | Countries Most Impacted by Terrorism." Vision of Humanity, 15 Oct. 2020, <https://www.visionofhumanity.org/maps/global-terrorism-index/>

Numbeo's crime index is an estimate of the overall crime rate in a particular city or nation. The Crime Index considers survey responses regarding general perceptions of crime levels, perceived safety, specific crime concerns, property crimes, and violent crimes. The crime index (CI) presents data on a scale ranging from 0 to 100, enhancing the user experience and facilitating meaningful comparisons by facilitating a clear and straightforward understanding of the data. Please visit the Numbeo website for additional details on the crime index.¹⁴⁸

In our analysis, we included 122 nations across all major economies that are included in both the GTI and the Crime Index. Based on the GTI and Crime Index, we divided both crime and terrorism into three categories: High, Moderate, and Low.

This classification aids in our comprehension of the severity of crime and terrorism as well as their socio-economic effects. Additionally, it aids in drawing factual connections between trade-based money laundering, counterfeiting, and criminal economies.

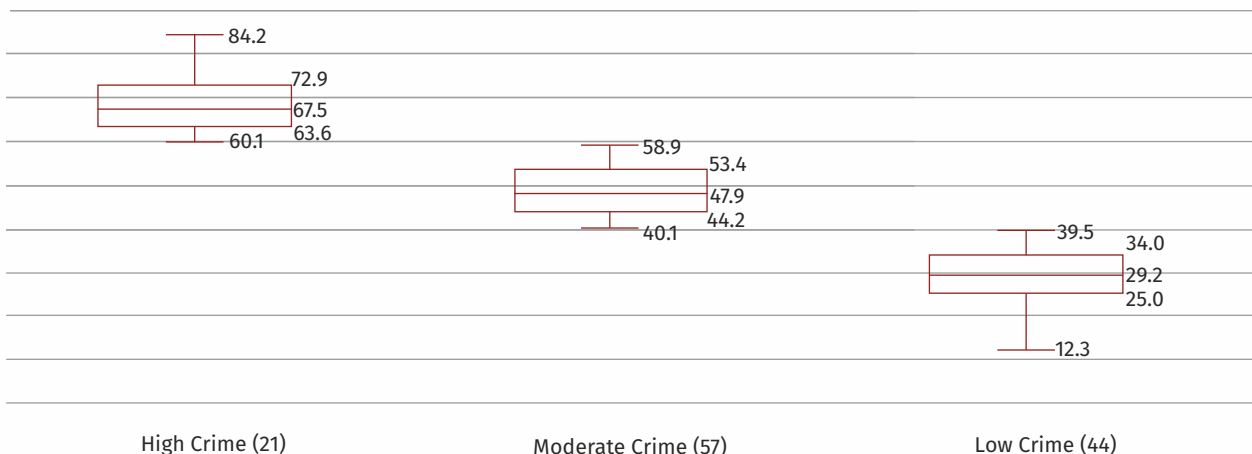
Terror and Crime Indices	Classification	Scale
Global Terrorism Index	High Terror	Greater than 6
	Moderate Terror	Between 4 to 6
	Low Terror	Less than 4
Crime Index	High Crime	Greater than 60
	Moderate Crime	Between 40 to 60
	Low Crime	Less than 40

Source: TARI Research, Global Terrorism Index and Crime Index

The analysis of terror countries shows that out of 122 countries, 13 are high-terror-intensity countries with a GTI score over 6. The median GTI score of these higher terror

countries is 7.8, with Kenya having a minimum score of 6.2 and Afghanistan having a maximum score of 9.1 among high terror countries in 2021.

Crime Intensity 2021 (Crime Index Score)



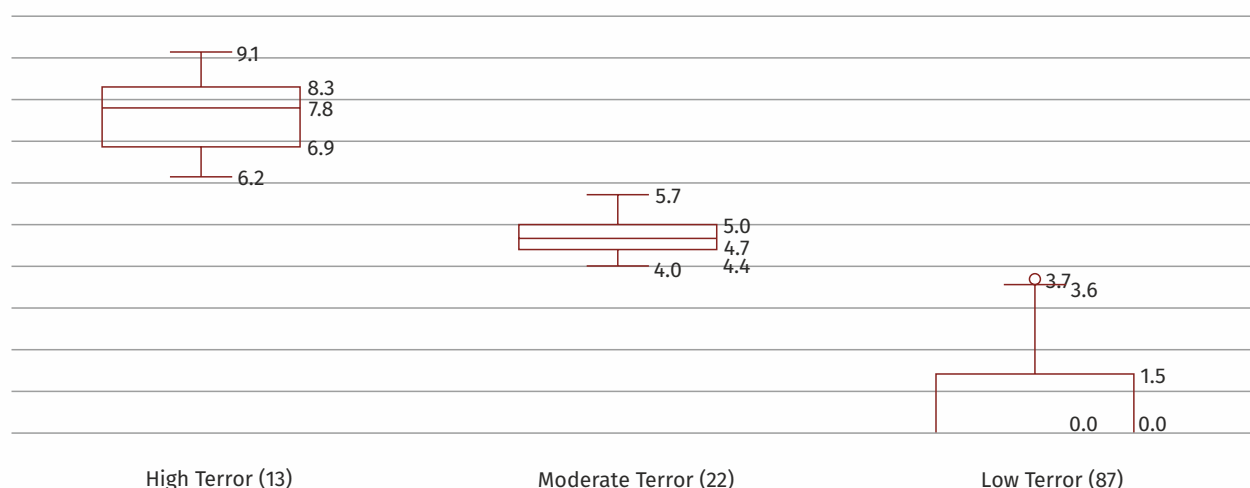
Source: TARI Research, Crime Index 2021

¹⁴⁸ Crime Index, Available at: https://www.numbeo.com/crime/rankings_by_country.jsp

A large number of countries, specifically 87, are low-terror countries with GTI scores less than 20. Although the median GTI score of these 87 countries is 1.5, it is worth noting that 50 of them have a GTI score of 0. With a median score of 4.7, there are 22 countries with moderate terror. The box plot of terror countries reveals a large variation in GTI between high- and low-terror countries when compared to moderate-terror countries.

Looking at crime in countries, the crime index analysis shows that 21 of the 122 countries have high crime rates, with a crime index score of more than 60. In 2021, the median crime index score of these high-crime countries is 67.5, with the Dominican Republic having a minimum score of 60.1 and Venezuela having a maximum score of 84.2.

Terror Intensity 2021 (GTI Score)



Source: TARI Research, Global Terrorism Index 2022

In comparison to terrorism, crime intensity is fairly distributed among all countries. There are 57 countries with moderate crime and 44 countries with low crime based on the crime index for 2021. The moderate crime countries have a median score of 47.9, while the low crime countries have a median score of 29.2. The two MENA countries, namely, the UAE and Qatar, have a crime index score less than 20, with Qatar having the lowest crime score of 12.3 in 2021.

2. ILLICIT ECONOMY, ORGANIZED CRIME AND TERRORISM - UNDERSTANDING THE LINKAGES AND RELATIONSHIPS

The second stage of research involves evaluating organised crime actors and the illegal economy's linkage and relationship with terror and crime. Our assessment and benchmark of illegal economy and organised crime actors is based on evaluation and indices as per the Global Organised Crime Index (herein GOCI) Report 2021.¹⁴⁹

¹⁴⁹ Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

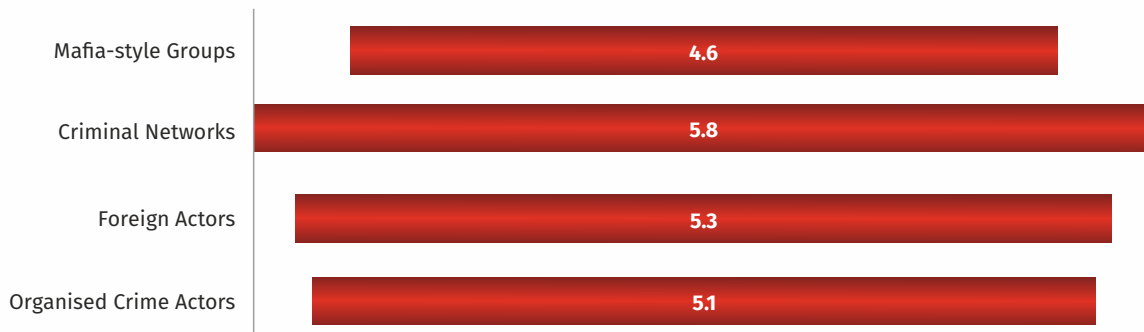
Our evaluation and benchmark of the illicit economy and organised crime actors are based on evaluations and indices from the Global Organised Crime Index report for 2021.¹⁵⁰ The GOCI report highlights that the index scores for each components are derived using a numerical scale ranging from 1 to 10. In the context of criminality, a score of 1 represents the most favourable situation, indicating the absence or minimal influence of a particular market or actor type, or the lack of evidence or information supporting its existence. On the other hand, a score of 10 represents the most severe scenario, where criminality pervades all aspects of society without exception. On a scale from 1 to 10, the overall score of organised crime actors and the illegal economy is the average score of its components.

We analyse three types of organised crime actors, namely, mafia-style groups, criminal networks, and foreign actors, as provided by

the Global Organised Crime Index (GOCI) 2021.¹⁵¹ The GOCI also takes into account another type of criminal actor, state-embedded actors; however, this type of criminal actor is inconsistent with the definition of terrorism adopted by the GTI, so we exclude these actors from our analysis.

The overall score for organised crime actors is 5.1 in 122 benchmarked countries for year 2021. Criminal Network is the most notable criminal actor, with a score of 5.8. According to the Global Organised Crime Index (GOCI) 2021 study, criminal networks serve as conduits for unlawful transfers in all areas, both within and across national borders. Foreign actors include all actors who perform outside of their native country. Mafia-style groups have the lowest score and include organised criminal groups with territorial control that are in decline due to the globalisation of the criminal economy.¹⁵²

Organised Crime Actors - 2021



Source: TARI Research, Global Organised Crime Index, 2021

The illegal economy is one of the key components of the non-overserved economy as per the international standards on national accounts, namely, SNA 2008 and

the European Commission.¹⁵³ Illegal economy includes those activities that generate goods and services but are forbidden by the legal framework of a country and are often

¹⁵⁰ Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

¹⁵¹ Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

¹⁵² Global Organised Crime Index (2021). Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

¹⁵³ SNA (2008). The 2008 System of National Accounts. Available at : <https://unstats.un.org/unsd/nationalaccount/sna2008.asp>; Eurostat (2014). Essential SNA: Building the Basics. Manuals and Guidelines. Luxembourg.

confused by other components of non-observed economy: underground economy, informal economy, and statistical underground.¹⁵⁴

The following shows the illegal economy and its sub-components (along with their

definition in GOCI 2021) in 122 countries in 2021. The score for the illegal economy is the average of the scores for each of the components listed. With a mean score of 5 on a scale of 10, the aggregate illegal economy in these nations is average.¹⁵⁵

Illegal Economy Components	GOCI Score	GOCI Definition
Human trafficking	5.9	Involves a form of coercion, deception, abduction or fraud, and is carried out for the purpose of exploitation, regardless of the victim's consent
Human smuggling	5.3	Includes all stages of the illicit activity, including producing, procuring, providing or possessing fraudulent travel or identity documents when committed for the purpose of enabling the smuggling of migrants. Human smuggling can become human trafficking when exploitation is implicated.
Arms trafficking	5.2	involves the import, export, acquisition, sale, delivery, movement or transfer of arms, their parts and components and ammunition across national borders, as well as intentional diversion of firearms from legal to illegal commerce, without involving the movement of items across physical borders
Flora crimes	4.1	Involves the illicit trade as well as possession of species covered by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), as well as other species protected under national law.
Fauna crimes	4.7	Involves fauna species that reflect the poaching, illicit trade in and possession of species covered by CITES, as well as any other species protected by national law.
Non-renewable resource crimes	4.8	Illicit extraction, smuggling, mingling, bunkering or mining of natural resources and covers any illicit activities related to the trade of such products, including price mis-invoicing.
Heroin trade	4.6	Covers the production, distribution and sale of heroin.
Cocaine trade	4.9	Covers production, distribution and sale of cocaine and its derivatives
Cannabis trade	5.4	Covers illicit cultivation, distribution and sale of cannabis oil, resin, herb or leaves
Synthetic drug trade	5.3	Covers other illicit drug markets, the production, distribution and sale of synthetic drugs

Source: TARI Research, GTI, OECD/ EUIPO, 2021

The average score for human trafficking and human smuggling is substantially higher than the average for the illegal economy as a whole. Similarly, arms trafficking scored 5.2, slightly above the average score of 5,

indicating that it is the third most prevalent illegal market worldwide. The category of narcotics includes heroin, cocaine, cannabis, and synthetic substances. In particular, cannabis, with a score of 5.4, and

¹⁵⁴ OECD, IMF, ILO, and CIS STAT (2002). *Measuring the Non-Observed Economy - a Handbook*.

¹⁵⁵ *Global Organised Crime Index (2021)*. Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>

synthetic drugs, with a score of 5.3, substantially contribute to the illegal economy.

With average scores of 4.1 and 4.7, respectively, the contribution of flora and fauna crime to the illicit economy's criminal market is relatively lower. Similarly, crimes involving non-renewable energy with a score below the average of 5 contribute little to the illicit economy as a whole.

For this study, we have clubbed illegal

economy components for ease of understanding and analysis in: **Human trafficking/smuggling, Arms trafficking, Flora & Fauna Crimes, Non-renewable resource crimes and Drugs.** Based on assessment and evaluation of illegal economy and organised crime actors in the 122 benchmark countries, we adopt following research approach methodology to assess their linkage and relationship with terror and crime. The finding of analysis are presented in the section 2 of the report.



Source: TARI Research

3. TRADE BASED MONEY LAUNDERING, COUNTERFEITING / ILLICIT GOODS AND TERRORISM: UNDERSTANDING THE LINKAGES, RELATIONSHIP AND EVIDENCES

The third phase of this research concentrates on assessing and evaluating counterfeiting and trade-based money laundering, two sources of IFF, and determining their connection and relationship with terrorism.

The evaluation and benchmarking of counterfeiting are based on the GTRIC (General Trade-Related Index of Counterfeiting) index provided in the OECD and EUIPO 2021 study.¹⁵⁶ The GTRIC-p (general trade-related index of counterfeiting for products) index for product counterfeiting and the GTRIC-e (general trade-related index of counterfeiting for economies) index for counterfeiting by economies. The matrix below lists the top 20 economies and products according to these two indices.

¹⁵⁶ OECD/EUIPO (2021), *Global Trade in Fakes: A Worrying Threat, Illicit Trade*, OECD Publishing, Paris, <https://doi.org/10.1787/74c81154-en>.

Counterfeiting Index 2017-19			
Counterfeiting Index by Countries		Counterfeiting Index by Products	
Provenance Economy	GTRIC-e	Harmonised System Code (HS Code)	GTRIC-p
Hong Kong (China)	1	Perfumery and cosmetics (33)	1
Syrian Arab Republic	0.998	Articles of leather; handbags (42)	1
China (People's Republic of)	0.998	Clothing, knitted or crocheted (61)	1
Turkey	0.996	Footwear (64)	1
Dominican Republic	0.984	Watches (91)	1
Pakistan	0.955	Toys and games (95)	1
Georgia	0.933	Jewellery (71)	1
Lebanon	0.872	Tobacco (24)	0.997
Senegal	0.831	Other made-up textile articles (63)	0.858
Afghanistan	0.761	Arms and ammunition (93)	0.82
Singapore	0.758	Clothing and accessories, not knitted or crocheted (62/65)	0.787
Benin	0.727	Musical instruments (92)	0.656
UAE	0.72	Knitted or crocheted fabrics (60)	0.633
Morocco	0.694	Optical; photographic; medical apparatus (90)	0.596
Cambodia	0.684	Electrical machinery and electronics (85)	0.53
Bangladesh	0.661	Furniture (94)	0.503
Curaçao	0.635	Miscellaneous articles of base metal (83)	0.373
Panama	0.616	Miscellaneous manufactured articles 66/67/96)	0.313
Tokelau	0.58	Printed articles (49)	0.273

Source: Global Trade in Fakes (2021), OECD/EUIPO

The GTRIC-p (General Trade-Related Index of Counterfeiting for Products) index shows how likely it is that products in one category are fake compared to products in other categories. It is based on a customs data system that includes the 96 two-digit product modules that make up the HS. Each reporting economy's share of the total imports of these products is used to calculate how much each of these modules is worth. This shows how sensitive product

infringements are in relation to how much each reporting economy imports of a certain type of product.

The GTRIC-e index, which stands for "General Trade-Related Index of Counterfeiting for Economies," measures how likely it is for one economy to export fake goods compared to other economies. A "provenance economy" is an economy that fake goods pass through on their way from one econ-

omy to another before they reach their final destination economy. Similar to how the GTRIC-p is calculated, the propensity for a certain origin economy is found by matching the weighted average of its seizure percentages to its share of all imports.

The data on IFF for trade-based money laundering (TBML) comes from the Global Financial Integrity (GFI) report of 2021,¹⁵⁷ which looks into the issue of trade mis-invoicing in 134 developing countries in a study called "Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018".

GFI looked at international trade statistics in the United Nations Comtrade database and at the bilateral trade data for each of the 134 developing countries for each year over the ten-year period of 2009-2018 in order to determine the extent of trade mis-invoicing activities occurring within the global commercial trading system. They examined the bilateral trade statistics with a group of 36 advanced economies as well as the trade with all of their international trading partners in order to identify the

differences, or "value gaps," between what any two countries had reported on their trade with one another. Value disparities, often referred to as mismatches, in global trade transactions reveal that developing countries are not recovering the full amount of trade-related taxes and penalties that are owed, potentially leading to substantial revenue losses. Even though they are only estimates of trade mis-invoicing, these value disparities demonstrate the severity of the problem.

The results are shown in two different ways: first, in US dollars, and second, as a percentage of all trade. Trade mis-invoicing can be done for a number of purposes, such as avoiding taxes or customs fees, laundering illegally obtained money, avoiding currency regulations, or hiding earnings abroad. Trade mis-invoicing involves either overcharging or undercharging the claimed value of the supplied products.¹⁵⁸ The four main categories of trade mis-invoicing activities are broken out in the graph below; two of them cause illicit financial inflows into nations and two of them cause illicit financial outflows from countries.



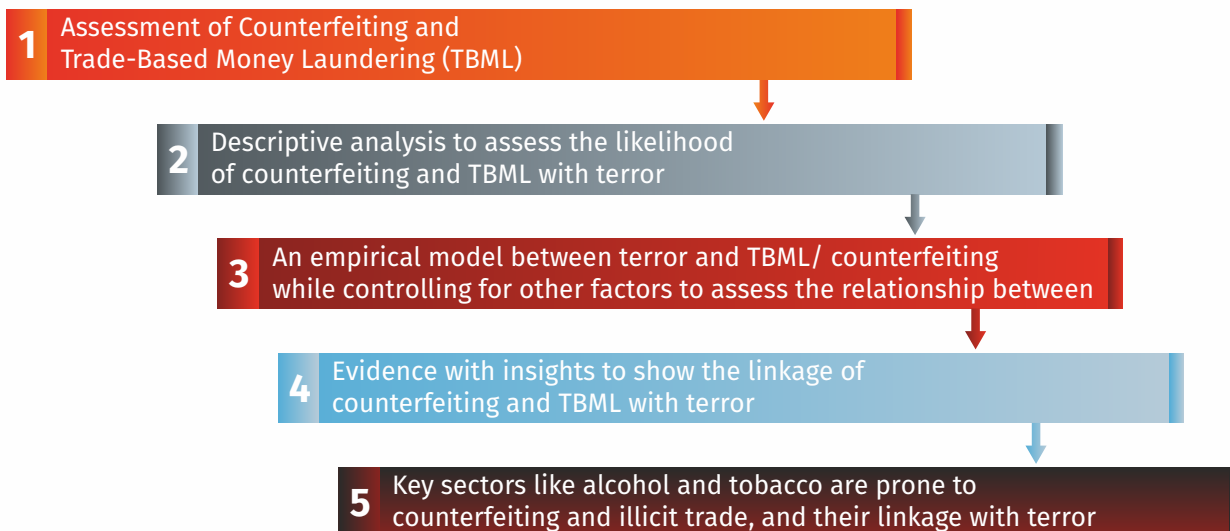
Source: Global Trade in Fakes (2021), OECD/EUIPO

We adopt following research approach and methodology to assess their linkage and relationship with terror. We also provide potential linkage of key products like alcohol and tobacco with significant

financial incentive for counterfeiting and illicit trade with terror by available evidences. The finding of analysis are presented in the section 3 of the report.

¹⁵⁷ GFI(2021). Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018. Global Financial Integrity, <https://gfintegrty.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>.

¹⁵⁸ GFI(2021). Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018. Global Financial Integrity, <https://gfintegrty.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>.



Source: TARI Research

4. ARMS AND DRUG TRAFFICKING, TERRORISM AND CRIME : UNDERSTANDING THE LINKAGES, RELATIONSHIP AND EVIDENCES

The fourth stage of research involves analysing crucial elements of the black economy, such as drug, weapon, and counterfeit trade, and establishing connections and relationships with terrorism and crime. According to GFI data, these high-value propositions make up nearly 1/4 of the economy as a whole and have a history of links to crime and terrorism.¹⁵⁹

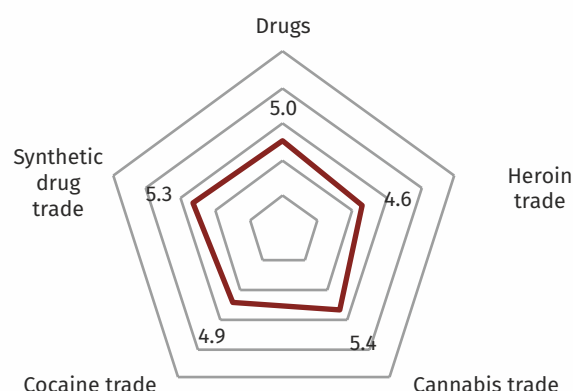
The Global Organised Crime Index report for 2021 includes the illegal economy indices for arms and drug trafficking.¹⁶⁰ We analyse links and relationships between arms, terrorism, and crime in 122 benchmarked countries using the data and indicators from this.

The GOCI 2021 identified arms trafficking as the third most pervasive illegal market afflicting nations worldwide, with an average score of 5.2 out of 122 benchmarked coun-

tries. The following graphs show the average drug economy in 122 countries with drugs and the average score of all four drugs put together. Similar to seizures, cannabis and synthetic drugs have a higher prevalence level in comparison to other drugs.

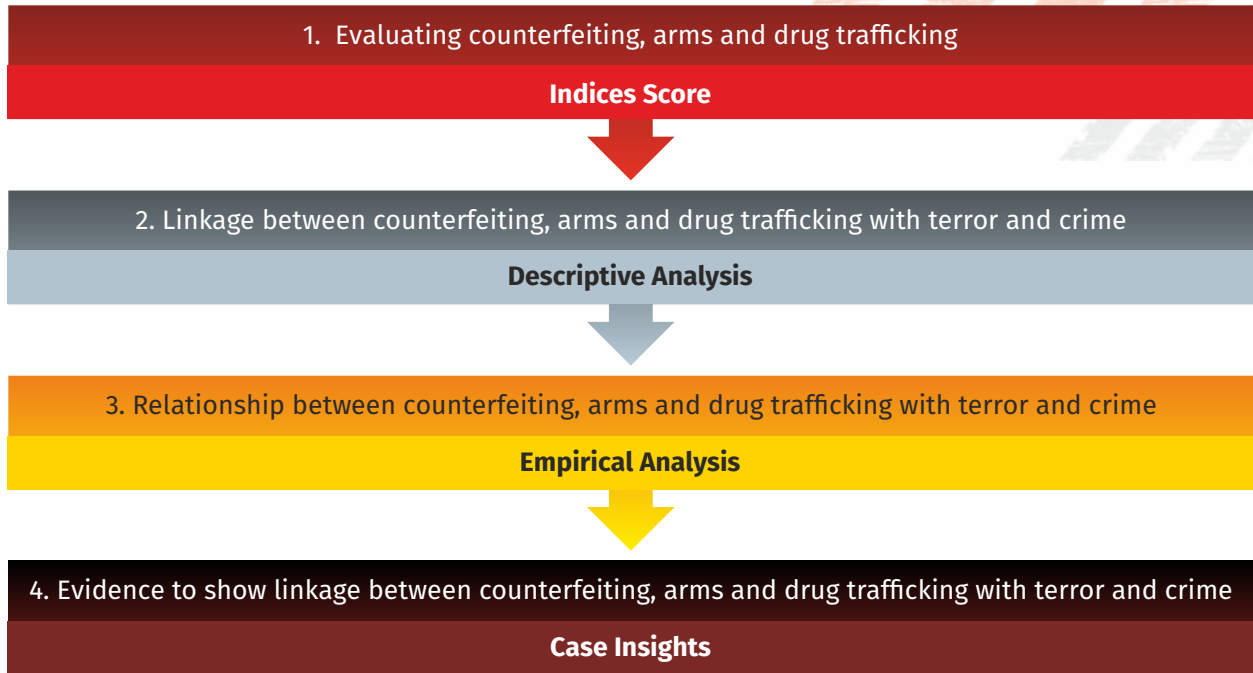
Based on the assessment and evaluation of counterfeiting, arms, and drug trafficking in the 122 benchmark nations, we employ the following research methodology to assess their connection and relationship with terrorism and crime. Section 4 of the report presents the results of the analysis.

Drug Economy Prevalence - GOCI 2021



¹⁵⁹ GFI (2017). *Global Financial Integrity, Transnational Crime and the Developing World*. Global Financial Integrity, Washington, D.C, May, 2017

¹⁶⁰ *Global Organised Crime Index (2021)*. Global Initiative Against Transnational Organized Crime. Available at : <https://globalinitiative.net/wp-content/uploads/2021/09/GITOC-Global-Organized-Crime-Index-2021>



Source: TARI Research

5. INDIA - TERRORISM, ORGANISED CRIME AND ILLEGAL ECONOMY : UNDERSTANDING THE LINKAGES, RELATIONSHIP AND EVIDENCES

The fifth stage of research concentrates on India and determines India's position on terror and crime indices by comparing it to the 122 countries included in the study. Our

analysis is organised into the following points that highlight and provide evidence of organised crime actors and the illegal economy, key components of the illegal economy such as counterfeiting, arms, and drug trafficking, as well as trade-based money laundering (TBML) in India to demonstrate their potential linkage with terrorism and crime. Section 5 of the report presents the results of the analysis.



Source: TARI Research

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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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In the recent past India's economic growth story has attracted world's attention bringing new challenges for the domestic economy. One of the challenges currently faced is the growing illicit trade in counterfeits, pass offs and smuggled goods. These activities are also threatening brands not only in every region of the country but across the globe.

Contraband and counterfeit products hurt the integrity of the brand, further diluting the brand owner's reputation. This not only results in erosion of sales of the legitimate product but further [CASCADE]s onto affect the consumers in the form of health and safety hazards.

With the above insight the Federation of Indian Chambers of Commerce and Industry (FICCI) took the initiative to dedicate a forum by establishing the Committee Against Smuggling and Counterfeiting Activities Destroying the Economy - CASCADE on 18th January, 2011 at FICCI Federation House, New Delhi.

FICCI Committee Against Smuggling and Counterfeiting Activities Destroying the Economy (CASCADE)

www.ficcicascade.in