

**Trans-Atlantic Dialogue: Combating Crime-Terror Pipelines**  
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Normally I am the one who gives the speech about all the criminal activity the Taliban get up to. And there is certainly an increasing amount of that we could talk about today.

However, I have spent the last two years doing comparative studies on transnational organized crime groups and the effect they have on societies, and today I wanted to discuss that issue with you because I think it is important to step back and see the highly corrosive effect that organized crime can have on a country.

In the last two decades, organized crime has globalized like other industries. We see organizations like Sinaloa, D-Company, the Yakuza and Hezbollah operating across dozens of countries. As Vanessa Neumann noted they can have as many employees as large multinational firms like BP or Intel. They have supply and logistical chains that are structured just like commercial transnational firms, and they worry about rate and return as do their licit counterparts.

And just like major transnational manufacturing firms have done in the globalized economy, we have seen transnational criminal organizations seek out new geographic markets that lower the cost of doing business.

The conditions one finds in fragile and failing states may not make them attractive to commercial firms, but fragile and failing states provide a comparative advantage for organized crime.

Here are some of the conditions they like:

- A location along a critical trade route, or near a major consumer market.

- It helps to be in the bottom 20 of the United Nations Human Development Index, with social indicators, education levels and economic conditions that are among the world's worst.
- A youth bulge, high unemployment or just a lack of good jobs are attractive to OC, as are high levels of scarcity.
- Weak and under-resourced governments, with a history of political and civil strife, perhaps an insurgency or two along the porous borders.

As I said, such conditions tend to scare off commercial and portfolio investors, but for organized crime, it doesn't get much better than this.

This brings us back to the excellent point that Doug Farah made yesterday. We may see fragile states and kleptocracies as disaster areas, but they are extremely fertile ground for transnational organized crime, which reinforces the conditions under which it best germinates.

- I see two areas of growing concern: West Africa and Central America.
- Greece, with its economic turmoil is a worry.
- Emerging democracies also tend to be vulnerable to transnational organized crime, because state institutions are weak, and new political parties need money to develop.
  - South Africa is the classic example of this problem.
  - Afghanistan is a more recent example.
  - I also worry about Tunisia, Libya and Egypt.

The big problem is that once transnational organized crime embeds itself in the social and political fabric of weak states, it tends to make things even worse, by spreading corruption and insecurity and by distorting the regular economy. Eroding levels of governance and a decline in the rule of law tend to fuel a feedback loop, rendering the state yet more fragile, and possibly causing it to cascade towards failure.

Criminal and terror groups from the FARC to the Taliban can and have gained legitimacy from providing economic opportunity, by delivering rudimentary justice, and by weaving themselves into the social fabric. In the short run, this can

provide a measure of stability and even the appearance that the economy is doing okay (I will come back to this).

In the longer-term, high levels of predatory organized crime have a highly corrosive effect on a society, and as the Colombian economist Fransisco Thoumi has argued, it correlates with a depressed economy, except for the (usually tiny) criminal elite.

- First, organized crime weakens government institutions, by debilitating the state's capacity to provide security, rule of law and administer fair justice.
- Illicit money tends to corrupt electoral processes, distorting the democratic contract and subjugating the will of the populace to the criminal elites.
- This contributes to another threat, the erosion of social and human capital. Organized crime tends to reduce access to licit employment and educational opportunities, discouraging the accumulation of assets and resulting in a wave of outward migration.
- Crime also drives away licit businesses, foreign direct investment, development aid and tourism by increasing security and other costs. This phenomenon can erode the tax base and further debilitate an already weak economy.
- Lastly, illicit profits tend to flow out of transit states, displacing development and other productive investments, often by a factor of ten.
- When there are drugs involved, we also tend to see rising addiction, petty crime, diseases like Hep-C and HIV.
- And as our French delegate correctly pointed out, it also creates a blight on the landscape in the form of large, garish drug mansions. I don't know the French word for it, but I call it the narcotecture. There can be other environmental degradation when there is wide-scale timber extraction, illegal mining or slash and burn narcotics farming.

Another challenge when organized crime takes root in fragile states is that it is rooted in factors that are difficult to change, and it often takes advantage of political trends (such as democratization and the opening of trade) that are positive in other respects.

I'd like to look at what is happening in Pakistan as an example, I think, of a

country where we see illicit funds propping up an otherwise dire economic situation.

- Pakistan has failed to meet every major economic growth target this year.
- Inflation is in double digits and the rupee to lose more than one-third of its value since 2008.
- Rising commodity prices and power brown-outs have sparked nationwide riots, and driven as many as 28 million Pakistanis into extreme poverty.<sup>1</sup>
- The energy crisis has caused Pakistan's textile industry (the country's largest manufacturing sector) to contract by almost \$1B.
- Portfolio investment to plummet 148.5%, while FDI declined by 50%.
- External debt has climbed to \$130B, more than 65% of GDP.
- Low tax base, fewer actual tax payers than Guatemala, a country with 14.3 million people.

Still, what we see is a surge in remittances, which have quadrupled since 2001, surging 20% in the first 11 months of FY 2012 to more than \$13 Billion. The State Bank of Pakistan credits the increase to its efforts to streamline and better regulate remittances, and there is no doubt that this is part of the story. But this is a country that can't even keep its street lights on, so I am a bit skeptical of their sudden capacity to better regulate financial flows, especially since remittances from the UAE (which have now been tracked for three years) last year grew by 70%.

Meanwhile, deposits, advances and assets at Pakistani banks are up by 269%, 268% and 209%, respectively, since 2001, and pre-tax bank profits posting a 9,991% growth. How is this possible when the rest of the economy is tanking? Money is pouring into banks in the FATA. A worried official from the Bank of Punjab told me last year they had more cash deposits in their tiny branch in Landi Kotal in the Khyber Pass (more than \$70m) than they took in across the entire city of Lahore. Money is also pouring out of the country. A senior private banker in Pakistan says Pakistani-owned bank accounts in Switzerland have climbed from \$200B to \$400B in the last decade. And despite sharp declines in rates of portfolio and foreign direct investment (both signs that institutional investors perceive

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<sup>1</sup> Kazim Alam, "Economist Exposes Flaws in Governance," *Express Tribune*, April 17, 2012.  
<http://tribune.com.pk/story/365762/economist-exposes-flaws-in-governance/>

Pakistan to be an unreliable investment destination), the Karachi Stock Exchange (KSE) has nonetheless gained 40% in value since 2008, according to Pakistan's finance minister. As if by magic it grows! And I can tell you that Karachi stock brokers believe that a small group of firms leading the highly speculative growth are backed by Dawood Ibrahim's D-Company.

Once this level of criminality sets in, it is very, very hard to disembed it. And it is highly destructive to the regular economy (a phenomenon we see happening in Pakistan today).

Another challenge: The solutions that analysts identify, building institutions in fragile states and improving governance, tend to be frustratingly slow-paced, complex, and mired in sovereignty issues. What's more, we have proved in the last decade in Iraq and Afghanistan that we are not very good at it.

On that note, I will conclude with four unrelated points.

1. In the current domestic budgetary environment, and after unsuccessful adventures in nation-building in Iraq and Afghanistan, I think we can expect to see containment strategies in the future. This is highly unfortunate with regards to the Mideast, because as the expression goes, an ounce of prevention is worth a pound of cure. I hope that Libya does not turn into another Afghanistan (or Mexico) but I am not optimistic about its near-term chances of stability.
2. The United States really needs to take a long hard look at what can be done to contain rising criminality in Pakistan. I personally believe the criminal threats emanating from that region are as big a threat to the US as the terrorist problem.
3. I have heard a lot of hand-wringing here about how government agencies can improve cooperation and information sharing, both at home and in the international arena. I want to note that our adversaries aren't very good at cooperation either – and often openly fight amongst themselves. However

their style of cooperation tends to be more fluid and mission-driven. Major underworld leaders regularly meet to iron out conflicts. Much like that famous scene in the Godfather where the Italian capos get together at an Italian restaurant and decide to get involved in the drug trade, leaders of the Taliban factions routinely get together to settle disputes and make deals for sharing illicit proceeds. I think efforts to counter international organized crime should copy this style of flexibility and fluidity, rather than the formality of creating task forces. Obviously, one agency will need to coordinate any effort to attack an illicit network, but collaboration and information sharing could be more ad hoc in my opinion.

4. The United States has a habit of going after organizational leaders, rather than attacking a network's capacity to do business and deliver services. This needs to change. We could fire a drone strike into Detroit and kill the CEO of GM, but I bet they will still be able to make cars. I suggest we look at illicit organizations as businesses and try and dismantle the critical nodes that keep those organizations operational. That will raise the cost of doing business, and may drive the networks out of the market. This is the end goal we should be seeking.

Thank you.