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ECONOMICS OF TRANSNATIONAL CRIME

Lecture notes

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Ministry of Education and Science of Ukraine
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Economics of Transnational Crime

Lecture notes

for students of specialty 056 “International Economic Relations”
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Introduction

The purpose of the course “Economics of Transnational Crime” is to give students comprehensive understanding of contemporary patterns and economic characteristic of transnational crime in the context of globalization.

The **main tasks** of the course are:

- to provide essential knowledge in the field of criminology;
- to provide basic knowledge on the global criminal markets;
- to invite students to critically reflect on the nature and limitations of international criminal law conventions;
- to provide the economic rationale for the transnational crimes;
- to use the economist’s tools to examine the cost of transnational crime and its economic impact on society.

After successful completion of the course the students **will be able to gain knowledge in:**

- elementary understanding of crimes typology;
- understanding of the economic reasons behind committing crimes;
- deep understanding of the fundamental concepts of criminal law and their relation to business;
- good understanding of size of transnational criminal markets;
- economic consequences and costs of different types of international crimes.

After successful completion of the course the students **will be able:**

- to outline the problems of defining the transnational crimes;
- to classify the international crimes;

- to conduct economic analysis of transnational crimes;
- to debate the effects of globalization on the proliferation of crimes across borders;
- to apply the instruments of effective judicial mechanisms for combating the crimes internationally;
- to measure the size of transnational criminal markets;
- to demonstrate detailed factual knowledge of the various criminal groups, networks and sectors examined in the course.

CHAPTER 1. THE CONCEPT OF CRIME IN THE INTERNATIONAL LAW

1.1. Definitions and Elements of a Crime

1.2. Criminal Cases vs Civil Cases

1.3. Nature, Functions and Sources of the Criminal Law

1.4. Classification of Crimes

1.5. International Criminal Court

Key words: crime, actus reus, mens rea, criminal harm, criminal act, criminal law, criminal courts

1.1. Definitions and Elements of a Crime

A crime is any act or omission that violates a law which results in a punishment [42]. All crimes have the following four elements in common [8]:

1. A voluntary act known as actus reus. Actus reus, sometimes called the external element or the objective element of a crime, is the Latin term for the “guilty act” which, when proved beyond a reasonable doubt in combination with the mens rea, “guilty mind”, produces criminal liability.

2. A culpable state of mind known as mens rea. Mens rea (a guilty mind) is the person’s purposeful intention to perform the act that was illegal.

3. “Concurrence” between the mens rea and the actus reus. Both an act and intent to do the act must occur together. A person cannot be

punished for mere thoughts of doing something harmful. For instance, I say, “I intend to rob a bank”, but never commit the act, I cannot be found guilty of bank robbery.

4. Causation of harm (or risk). It requires that harm must result from an act.

The legal definitions of all crimes do contain certain elements [24]. If the government cannot prove the existence of these elements, it cannot obtain a conviction in a court of law. Other elements are not part of all crimes, but are only found in crimes that prohibit a particular harm. Often, a difference in one particular element of a crime can distinguish it from another related offense, or a particular degree of the same offense. At common law, for example, manslaughter was distinguished from murder by the mental element of malice aforethought.

The criminal act. Nobody can read minds, and the First Amendment [24] means that people can say pretty much whatever they want. What you think and say (within limits) is protected. It is what you do-your behaviors- that the criminal law seeks to regulate. Lawyers use the legal Latin phrase *actus reus* to describe this element of a crime. It is commonly translated into English as the guilty act. The term act can be a bit confusing. Most people tend to think of the term act as an action verb-it is something that people do. The criminal law often seeks to punish people for things that they did not do. When the law commands people to take a particular action and they do not take the commanded action, it is known as an omission. The law commands that people feed and shelter their children. Those who do not are guilty of an offense based on the omission. The law commands that people pay their income

taxes; if they do not pay their taxes, the omission can be criminal. Threatening to act or attempting an act can also be the actus reus element of an offense. In addition to acts and omissions, possession of something can be a criminal offense. The possession of certain weapons, illicit drugs, burglary tools, and so forth are all guilty acts as far as the criminal law is concerned. Actual possession is the legal idea that most closely coincides with the everyday use of the term. Actual possession refers to a person having physical control or custody of an object. In addition to actual possession, there is the idea of constructive possession. Constructive possession is the legal idea that the person had knowledge of the object, as well as the ability to exercise control over it.

Criminal intent. A fundamental principle of law is that to be convicted of a crime, there must be a guilty act (the actus reus) and a culpable mental state. Recall that culpability means blameworthiness. In other words, there are literally hundreds of legal terms that describe mental states that are worthy of blame. The most common is intent. The Model Penal Code boils all of these different terms into four basic culpable mental states: purposely, knowingly, recklessly, and negligently [51, 95].

Purposely. According to the interpretation of the Model Penal Code, a person acts purposely when “it is his conscious object to engage in conduct of that nature” [24].

Knowingly. A person acts knowingly if “he is aware that it is practically certain that his conduct will cause such a result” [24]. In other words, the prohibited result was not the actor’s purpose, but he knew it would happen.

Recklessly. A person acts recklessly if “he consciously disregards a substantial and unjustifiable risk”. Further, “The risk must be of such a nature and degree that, considering the nature and purpose of the actor’s conduct and the circumstances known to him, its disregard involves a gross deviation from the standard of conduct that a law-abiding person would observe in the actor’s situation” [24].

Negligently. A person acts negligently when “he should be aware of a substantial and unjustifiable risk that the material element exists or will result from his conduct” [24]. The idea is that a reasonably carefully person would have seen the danger, but the actor did not.

At times, the legislature will purposely exclude the mens rea element from a criminal offense. This leaves only the guilty act to define the crime. Crimes with no culpable mental state are known as strict liability offenses. Most of the time, such crimes are mere violations such as speeding. An officer does not have to give evidence that you were speeding purposely, just that you were speeding. If violations such as this had a mental element, it would put an undue burden on law enforcement and the lower courts. There are a few instances where serious felony crimes are strict liability, such as the statutory rape laws of many states [24].

Concurrence. For an act to be a crime, the act must be brought on by the criminal intent. In most cases, concurrence is obvious and does not enter into the legal arguments. A classic example is an individual who breaks into a cabin in the woods to escape the deadly cold outside. After entering, the person decides to steal the owner’s property. This would not be a burglary (at common law) since burglary requires a

breaking and entering with the intent to commit a felony therein. Upon entry, the intent was to escape the cold, not to steal. Thus, there was no concurrence between the guilty mind and the guilty act [24].

Criminal harm and causation. In criminal law, causation refers to the relationship between a person's behavior and a negative outcome. Some crimes, such as murder, require a prohibited outcome. There is no murder if no one has died (although there may be an attempt). In crimes that require such a prohibited harm, the actus reus must have caused that harm [24].

Criminologist Paul Tappan defines crime as “an intentional act or omission in violation of criminal law..., committed without defense or justification, and sanctioned by the state as a felony or misdemeanor” [17].

Possible punishments determine the differences between misdemeanors and felonies. Misdemeanors are nonserious, minor crimes that the government punishes by confinement in a local jail for a year or less. Examples include petty theft, simple assault, disorderly conduct, and disturbing the peace. Felonies are serious crimes that the government punishes by death or incarceration in a prison for at least a year. This group includes such crimes as murder, robbery, and burglary [17].

Crimes versus torts. A crime, or public wrong, is to be distinguished from a tort, or private wrong. Actually, the same act may be both a crime and a tort. For example, O. J. Simpson's alleged killings of Nicole Simpson and Ron Goldman included the torts of assault, battery, and wrongful death. Simpson's alleged acts gave rise to both a

criminal prosecution (seeking punishment) and a civil suit for damages [17].

Let's analyze crimes from the American legal perspective. The United States has more than a single crime problem. One problem is high, though currently declining, rates of street crime (including homicide, assault, robbery, and burglary). Much of this type of crime is committed by an alienated and self-destructive underclass. Another is the drug-crime problem, which is linked to the first problem. Some drug-intoxicated individuals commit crimes because they have lost their inhibitions while under the influence [92].

There are also crimes that stem from the drug business (for example, money laundering) and crimes that arise from economic necessity, because users need money to buy more drugs. Then, too, there is the organized-crime problem, which is intertwined with the drug-crime problem insofar as drug trafficking is the major source of income for organized-crime groups. In addition, there is a white-collar-crime problem.

1.2. Criminal Cases vs Civil Cases

The international legal system addresses the wrongdoings that people commit with two different types of cases: civil and criminal. Crimes are generally offenses against the state (even if the immediate harm is done to an individual), and are accordingly prosecuted by the state. Civil cases on the other hand, typically involve disputes between individuals regarding the legal duties and responsibilities they owe to

one another. These cases are adjudicated through civil lawsuits. Although there is some overlap, there are several ways in which you can tell the differences between a criminal case and a civil case.

Here are some of the key differences between a criminal case and a civil case [84]:

- 1) crimes are considered offenses against the state, or society as a whole;
- 2) criminal offenses and civil offenses are generally different in terms of their punishment;
- 3) the standard of proof is also very different in a criminal case versus a civil case;
- 4) criminal cases almost always allow for a trial by jury;
- 5) a defendant in a criminal case is entitled to an attorney;
- 6) the protections afforded to defendants under criminal law are considerable.

Criminal cases involve an action that is considered to be harmful to society as a whole (hence, these are considered offenses against the “state” or the jurisdiction of the prosecution). Civil cases usually involve private disputes between persons or organizations [9].

Civil cases. A civil case begins when a person or entity (such as a corporation or the government), called the plaintiff, claims that another person or entity (the defendant) has failed to carry out a legal duty owed to the plaintiff. Both the plaintiff and the defendant are also referred to as “parties” or “litigants”. The plaintiff may ask the court to tell the defendant to fulfill the duty, or make compensation for the harm done, or both. Legal duties include respecting rights established under the

Constitution or under federal or state law. Civil suits are brought in both state and federal courts. An example of a civil case in a state court would be if a citizen (including a corporation) sued another citizen for not living up to a contract.

For example, if a lumberyard enters a contract to sell a specific amount of wood to a carpenter for an agreed-upon price and then fails to deliver the wood, forcing the carpenter to buy it elsewhere at a higher price, the carpenter might sue the lumberyard to pay the extra costs incurred because of the lumberyard's failure to deliver; these costs are called damages. If these parties were from different states, however, then that suit could be brought in federal court under diversity jurisdiction if the amount in question exceeded the minimum required by statute (\$75 000) [9].

In civil cases, a person or company asks a judge to settle a civil problem, such as [18]:

- a problem concerning an inheritance;
- a problem involving a contract;
- a family problem, such as divorce or custody of children.

A person can also ask a judge for compensation for damage suffered because of someone else's fault. This type of case is called a "civil responsibility" case. For example, if someone sues a plumber for poor repair work that caused a flood in her kitchen, the judge can order the plumber to pay money to compensate her for the water damage.

Criminal cases. A person accused of a crime is generally charged in a formal accusation called an indictment (for felonies or serious crimes) or information (for misdemeanors). The US government, on

behalf of the people of the United States, prosecutes the case through the United States Attorney's Office if the person is charged with a federal crime. A state's attorney's office (often called a "District Attorney") prosecutes state crimes. It's not the victim's responsibility to bring a criminal case. In a kidnapping case, for instance, the government would prosecute the kidnapper and the victim wouldn't be a party to the action. In some criminal cases, there may not be a specific victim.

For example, state governments arrest and prosecute people accused of violating laws against driving while intoxicated because society regards that as a serious offense that can result in harm to others. When a court determines that an individual committed a crime, that person will receive a sentence. The sentence may be an order to pay a monetary penalty (a fine and/or restitution to the victim), imprisonment, or supervision in the community (by a court employee called a U.S. probation officer if a federal crime), or some combination of these three things [9].

Some crimes involving other people, include [18]:

- assault;
- murder;
- identity theft.

Other crimes have to do with objects, such as drug possession and making fake money.

More detailed analysis of the differences mentioned above you can find in the Tables 1.1–1.2.

Table 1.1 – Criminal cases versus civil cases [43, p. 5]

Characteristics	Criminal cases	Civil cases
Concerns	Offences against the state	Disputes between private individuals
Parties	Prosecutor brings case; defendant may remain silent	Plaintiff brings case; defendant must answer
Proof	Beyond a reasonable doubt	Preponderance of evidence
Reason	To maintain order in society; to punish the most blameworthy; to deter serious wrongdoing	To settle disputes peacefully, usually between private parties
Decision	A defendant may be convicted if he is guilty and acquitted if he is innocent	A defendant may be found liable or not liable
Remedies	Fines, jail, death penalty (in some countries), and forfeitures	Money damages; injunctions; specific performance
Examples	Murder, theft, driving with excess alcohol, engaging in an unfair commercial practice	Contract; tort; property law

Another approach to dissection between criminal cases and civil cases is shown in the Table 1.2.

Table 1.2 – Differences between criminal cases and civil cases [18]

Criminal cases	Civil cases
Main differences	
<ol style="list-style-type: none"> 1. The principle is always the same: a person is accused of a crime (e. g., murder, assault, identity theft). 2. A crime can occur even if there is no “immediate” victim (e. g., the crime of drug possession) 	<ol style="list-style-type: none"> 1. The principle is always the same: A sues B for causing damage to A or to something belonging to A. 2. How does a person cause damage? A person causes damage, for example, by breaking a contract, by breaking an object belonging to someone, or by hurting someone
How the case starts	
<ol style="list-style-type: none"> 1. The government takes a case against the person accused of the crime. The government is also called the “prosecution”. 2. It is not the victim who takes the case. 3. The government has several goals when taking criminal cases: making sure people respect the law and discouraging criminal behavior 	<ol style="list-style-type: none"> 1. The person who suffered damage (or her lawyer) takes a case against the person she thinks is responsible for the damage. 2. The person taking the case asks to be compensated, that is, to have the damages repaired. Compensation is usually in the form of money

Continuation of the Table 1.2

Criminal cases	Civil cases
Representation by a lawyer	
<p>1. The government is always represented by lawyers. These lawyers are called “criminal and penal prosecuting attorneys”. They used to be called “Crown prosecutors” (the title is commonly used in Commonwealth realms).</p> <p>2. The accused can be represented by a lawyer, who is called the “defense lawyer”</p>	<p>1. Both the person taking the case and the person being sued can be represented by a lawyer if they wish</p>
Evidence	
<p>1. The government must convince the judge or jury that the accused is guilty “beyond a reasonable doubt”.</p> <p>2. If the government does not present enough evidence, or if the accused raises a reasonable doubt, the accused must be found not guilty</p>	<p>1. The person taking the case must convince the judge that his version of the events is more probable than the other version presented. It is not necessary to convince the judge that his version is true “beyond a reasonable doubt”</p>
Who pays for the case	
<p>1. In most cases, the government pays all the costs of the case.</p> <p>2. The accused pays costs related to defending himself</p>	<p>1. The person who takes the legal action pays for the expense of taking the case (for example, lawyer fees).</p> <p>2. The person sued pays for his own expenses (for example, lawyer fees).</p> <p>3. The person who loses the case usually pays the fees related to the court case itself (e. g., experts’ fees)</p>
Deadline for taking a case	
<p>1. When a crime takes place, the lawyer for the prosecution decides whether there is enough evidence to accuse someone of the crime.</p> <p>2. Generally, there is no deadline for bringing a criminal case against someone of a crime.</p> <p>3. However, the deadline is six months in the case of a crime “punishable by summary conviction”. The Criminal Code states whether a crime is punishable in this way</p>	<p>1. People who suffer damage can’t wait too long to take legal action. The law has certain deadlines. This is called extinctive prescription.</p> <p>2. The deadlines vary depending on the type of case. For example, someone who wants to sue for defamation - damage to a person’s reputation - has one year to take a case</p>
Role of person who suffered damage or of the victim	
<p>Since the government takes the accused to court, the victim is usually a key witness in the case</p>	<p>1. The person who suffered damage must prove that the person being sued is responsible for the damage.</p> <p>2. More specifically, the person suing must prove that the other person committed a fault and that this fault caused the damage</p>

Continuation of the Table 1.2

Criminal cases	Civil cases
Types of orders the judge can make	
1. If the accused is found guilty, the judge can order different punishments. For example, one can order the guilty person to go to jail, pay a fine or do community work. 2. In some cases, the judge can also require the guilty party to compensate the victim for any damage	1. If the judge decides in favour of the person who suffered damage, she can require the person responsible for the damage to compensate the other person, by ordering the payment of a sum of money, for example. 2. However, the judge cannot order imprisonment in a civil case, unless someone is in contempt of court

The purpose of a court case is to shed light on a disagreement or a crime, and to make sure people respect the law. At the end of the case, the judge makes a decision and sometimes orders financial compensation or a punishment [18].

As we've discussed, civil cases involve disputes between (usually) private parties, while criminal cases are considered acts against the city, state, county, or federal government. But some acts may result in both civil claims and criminal charges. For instance, a person may be sued for the intentional tort of assault and/or battery, but also may be arrested and charged with the crime(s) of assault and/or battery. Also, there are times when a criminal act may give way to civil liability, such as when someone is charged with homicide and also sued for wrongful death (which typically follows the completion of the criminal trial process). As in the assault and battery example above, the criminal charges are punishable by fines, prison time, and other penalties, while the lawsuit is focused on recovering money to compensate the victim (or the victim's family) for damages [9].

1.3. Nature, Functions and Sources of the Criminal Law

To understand criminal law, it is necessary to distinguish criminal from civil law (don't confuse with criminal cases and civil cases) and to know the difference between substantive and procedural law.

Criminal law is the body of law that relates to crime. It regulates social conduct. It includes the punishment of people who violate these laws. Criminal law differs from civil law, whose emphasis is more on dispute resolution and victim compensation than on punishment. The burden of proof is beyond a reasonable doubt [8]. Criminal law defines crimes; sets the procedures for arrests, searches and seizures, and interrogations; establishes the rules for trials; and specifies the punishments for offenders.

All law other than criminal law is known as civil law. It includes tort law (private wrongs and damages), property law, and contract law. Differences between criminal law and civil law are important because criminal proceedings are separate from civil actions. Table 1.3 shows these differences.

Table 1.3 – Differences between criminal and civil law [86, 25]

Criminal law	Civil law
Crime as public wrong	Tort as private wrong
Punishment as incarceration or death	Punishment as compensation
Government as prosecutor	Injured person as plaintiff
Homicide, conspiracy, obstruction of justice, assault, possession of a controlled substance	Custody disputes, bankruptcy, defamation, breach of contract, property damage

Criminal law encompasses both substantive criminal law and criminal procedure. **Substantive law** defines proscribed behaviors and specifies penalties. Laws concerning murder, robbery are substantive in that they define unlawful acts. **Procedural law** consists of rules stating how the government proceeds against an individual accused of committing a crime. Trial by jury, the right to counsel, the right to appeal, and the right to face one's accusers are just a few examples of procedural law. Violations of these rights by the government are violations of due process. If the government violates procedural law, that violation can be grounds for appeal and for a reversal of a criminal conviction [86]. The criminal law is concerned with forbidding certain forms of wrongful conduct and punishing those who engage in the prohibited acts. Criminal proceedings are called prosecutions. In criminal cases you have a prosecutor who prosecutes a defendant in the criminal courts. The consequences of being found guilty are so serious that the standard of proof is higher than in civil cases: the allegations of criminal conduct must be proved beyond a reasonable doubt. If the prosecution is successful, the defendant is found guilty (convicted) and may be punished by the courts. Punishments available to the court include imprisonment, fines, or community orders such as an unpaid work requirement. If the prosecution is unsuccessful, the defendant is found not guilty (acquitted) [43, p. 4]. Criminal law serves several purposes and benefits to society in the following ways [29]:

1. **Maintaining order.** Criminal law provides predictability, letting people know what to expect from others. Without criminal law, there would be chaos and uncertainty.

2. **Resolving disputes.** The law makes it possible to resolve conflicts and disputes between quarreling citizens. It provides a peaceful, orderly way to handle grievances.

3. **Protecting individuals and property.** Criminal law protects citizens from criminals who would inflict physical harm on others or take their worldly goods. Because of the importance of property in capitalist America, many criminal laws are intended to punish those who steal.

4. **Providing for smooth functioning of society.** Criminal law enables the government to collect taxes, control pollution, and accomplish other socially beneficial tasks.

5. **Safeguarding civil liberties.** Criminal law protects individual rights.

The New-York Criminal Code sets out the basis purposes of criminal law as shown in the Table 1.4.

Table 1.4 – Purposes of criminal law [87]

Purpose	Description
Preventing harm	To prohibit conduct that unjustifiably or inexcusably causes or threatens substantial harm to individuals as well as to society
Warning	To warn people both of conduct that is subject to criminal punishment and of the severity of the punishment
Definition	To define the act and intent that is required for each offense
Seriousness	To distinguish between serious and minor offenses and to assign the appropriate punishments
Punishment	To impose punishments that satisfy the demands for revenge, rehabilitations, and deterrence of future crimes
Victims	To ensure that the victim, the victim's family, and the community interests are represented at trial and in imposing punishments

Sources of criminal law:

1. Common law. Common law, which is known as judge-made law, came into existence in England during the twelfth century. Judges created common law by ruling that certain actions were subject to punishment and defined offenses such as murder, rape, arson, and burglary as crimes against the state. Over time, British judges' law decisions produced a body of unwritten laws and customs. This law formed the basis of the legal system in the American colonies. One of the main parts of common law is the law of precedent. Once a court makes a decision, it is binding on other courts in later cases presenting the same legal problem. The principle of stare decisis relates to the law of precedent. It literally means to “let the decision or precedent stand.” This principle guides courts in making decisions in similar cases and ensures fairness in the judicial process [74].

2. Constitutions. Article VI of the U.S. Constitution asserts that “This Constitution ... shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding” [74]. If any other types of law conflict with the Constitution, the U.S. Supreme Court can strike them down as unconstitutional. States make their own constitutions and all local laws are subordinate to them.

3. Statutes and ordinances. Laws passed by Congress and by state legislatures make up most of criminal law. City councils also pass ordinances that compose part of criminal law. Each state has a statutory criminal code, as does the federal government. Laws defining crimes such as homicide, rape, robbery, burglary, and larceny are generally

statutory. Some overlap exists between state and federal statutes. For example, some federal drug laws supplement state laws. Such laws are intended to provide added crime control in areas where local law enforcement has been ineffective [74].

4. Administrative rules with criminal penalties. U.S. governmental agencies and commissions make rules that are semilegislativ e or semijudicial in character. The Federal Trade Commission (FTC), Internal Revenue Service (IRS), and Environmental Protection Agency (EPA) are examples of administrative agencies that make such rules. These agencies formulate rules, investigate violations, and impose sanctions. They enforce rules relating to a variety of crimes, including securities fraud, income tax evasion, selling contaminated food, and dumping toxic waste [74].

5. International treaties. International treaties establish crime as genocide (Convention on the Prevention and Punishment of the Crime of Genocide), torture (Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment), war crimes (Treaty of Armistice and Regularization of War), corruption (Criminal Law Convention on corruption), etc.

6. Appellate court decisions. Legal opinions having the status of law as stated by the appellate courts (for example, the U.S. Supreme Court) become case law. Such law results from appellate court interpretations of statutory law or from court decisions where rules have not yet been codified in statutes [74].

1.4. Classification of Crimes

There are a number of approaches to categorizing crimes. The most significant distinction is between a **felony** and a **misdemeanor** [10].

A crime punishable by death or imprisonment for more than one year is a felony. Misdemeanors are crimes punishable by less than a year in prison. Note that whether a conviction is for a felony or for misdemeanor is determined by the punishment provided in the statute under which an individual is convicted rather than by the actual punishment imposed.

Many states subdivide felonies and misdemeanors into several classes or degrees to distinguish between the seriousness of criminal acts.

Capital felonies are crimes subject either to the death penalty or to life in prison in states that do not have death penalty. The term **gross misdemeanor** is used in some states to refer to crimes subject to between six and twelve months in prison, whereas other misdemeanors are termed **petty misdemeanors**.

Several states designate a third category of crimes that are termed **violations** or **infractions**. These tend to be acts that cause only modest social harm and carry fines. These offenses are considered so minor that imprisonment is prohibited. This includes the violation of traffic regulations [10]. Such grading is based on the severity of punishment (Fig. 1.1).

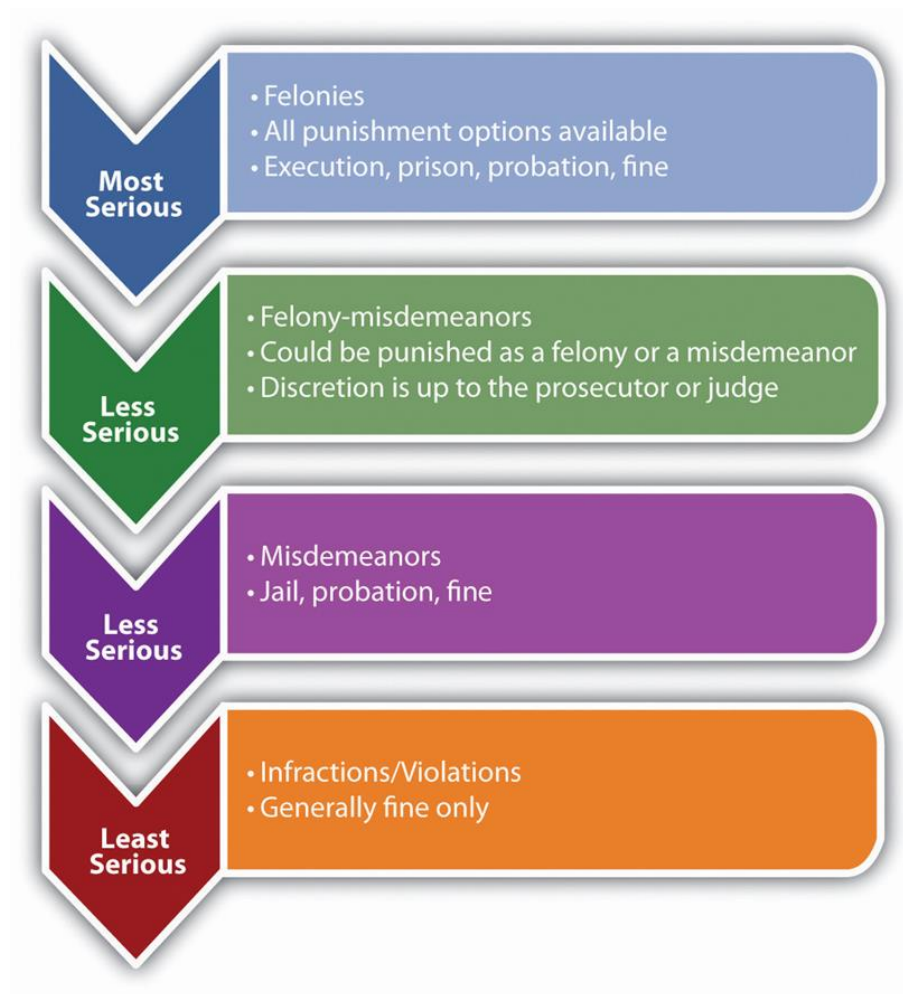


Fig. 1.1 – Diagram of grading crimes [10]

Crimes that are classified as felonies include [55]:

- 1) aggravated assault;
- 2) animal cruelty;
- 3) arson;
- 4) drug distribution;
- 5) elder abuse;
- 6) felony assault;
- 7) grand theft;
- 8) kidnapping;
- 9) manslaughter;

- 10) manufacturing of drugs;
- 11) murder;
- 12) tax evasion;
- 13) treason.

Florida classifies offenses as felonies, misdemeanors, or noncriminal violations [87]. Noncriminal violations are primarily punishable by fine or forfeiture of property. The following Table shows the categories of felonies and misdemeanors and the maximum punishment generally allowable under Florida law.

Table 1.5 – Punishments for felonies and misdemeanors [87]

Type of crime	Punishments
Capital felony	Death or life imprisonment without parole
Life felony	Life in prison and a \$15 000 fine
Felony in the first degree	Thirty years in prison and a \$10 000 fine
Felony in the second degree	Fifteen years in prison and a \$10 000 fine
Felony in the third degree	Five years in prison and a \$5 000 fine
Misdemeanor in the first degree	One year in prison and a \$1 000 fine
Misdemeanor in the second degree	Sixty days in prison and \$500 fine

Another approach is to classify crime by “moral turpitude” (evil) [10]. **Mala in se** crimes are considered “inherently evil” and would be evil even if not prohibited by law. This includes murder, robbery, burglary, larceny, and arson. **Mala prohibita** offenses are not “inherently evil” and are considered only wrong because they are prohibited by a statute. This includes offenses ranging from tax evasion to carrying a concealed weapon, leaving the scene of an accident, and being drunk and disorderly in public.

Why should we be concerned with classification schemes? A felony conviction in the USA can prevent you from being licensed to practice various professions, bar you from being admitted to the armed forces or joining the police, and prevent you from adopting a child or receiving various forms of federal assistance. In some states, a convicted felon is still prohibited from voting, even following release. The distinction between mala in se and mala prohibita is also important. For instance, the law provides that individuals convicted of “a crime of moral turpitude” may be deported from the United States.

The law originally categorized as **infamous** those crimes that were considered to be deserving of shame and disgrace. Individuals convicted of infamous offences such as treason (betrayal of the nation) or offenses involving dishonesty were historically prohibited from appearing as witnesses at a trial [10].

Subject matter offences in descending order of seriousness are as follows [10]:

- 1) crimes against the state: treason, sedition, espionage, terrorism;
- 2) crimes against the person: homicide, murder, manslaughter, assault, battery, false imprisonment, kidnapping;
- 3) crimes against habitation: burglary, arson, trespassing;
- 4) crimes against property: larceny, embezzlement, false pretenses, receiving stolen property, robbery, fraud;
- 5) crimes against public order: disorderly conduct, riot;
- 6) crimes against the administration of justice: obstruction of justice, perjury, bribery;
- 7) crimes against public morals: obscenity.

Crimes can be committed against persons or property, but all crimes carry a punishment for those who break the law. Federal, state, and local governments pass laws to establish what is acceptable behavior and what is illegal within society. Following are some common crimes, both felonies, and misdemeanors, with general explanations attached [54]:

1. **Accessory.** People are accessories when they solicit, request, command, pursue, or intentionally aid another person to engage in conduct constituting an illegal action.

2. **Aggravated assault.** Aggravated assault is causing or attempting to cause serious bodily harm to another or using a deadly weapon during a crime.

3. **Aiding and abetting.** Aiding and abetting occurs when a person willfully “aids, abets, counsels, commands, induces or procures” the commission of a crime.

4. **Arson.** Arson is when a person intentionally burns a structure, building, land, or property.

5. **Assault.** Criminal assault is defined as an intentional act that results in a person becoming fearful of imminent bodily harm.

6. **Battery.** Battery is any unlawful physical contact with another person, including offensive touching.

7. **Bribery.** Bribery is the act of offering or receiving compensation for the purpose of influencing any person who is responsible for performing a public or legal duty.

8. **Burglary.** A burglary occurs when someone illegally enters almost any kind of structure for the purpose of committing an illegal act.

9. **Child abuse.** Child abuse is any act or failure to act that results in the harm, potential for harm, or threat of harm to a child.

10. **Computer Crime.** Computer crime is “any illegal act for which knowledge of computer technology is essential for successful prosecution”.

11. **Conspiracy.** Conspiracy occurs when two or more people plan a crime with the intent of committing that crime.

12. **Credit card fraud.** Credit card fraud is committed when a person uses a credit or debit card illegally to obtain funds from an account or to get merchandise or services without paying.

13. **Disorderly conduct.** Disorderly conduct is a broad term charging anyone whose behavior is a public nuisance.

14. **Disturbing the peace.** Disturbing the peace involves behavior that disturbs the overall order of a public place or gathering.

15. **Domestic violence.** Domestic violence occurs when one member of a household inflicts bodily harm upon another member of that household.

16. **Drug cultivation or manufacturing.** Drug cultivation or manufacturing is illegally cultivating, producing, or possessing plants, chemicals, or equipment used for the purpose of producing drugs.

17. **Drug possession.** Drug possession occurs when someone willfully possesses any illegal controlled substance.

18. **Drug trafficking or distribution.** Both a federal and state crime, drug distribution includes selling, transporting, or importing illegal controlled substances.

19. **Drunk driving.** Drunk driving occurs when a person operates a motorized vehicle while under the influence of alcohol or drugs.

20. **Embezzlement.** Embezzlement occurs when a responsible party misappropriates money or property entrusted to them.

21. **Extortion.** Extortion occurs when someone obtains money, property, or services through an act of coercion.

22. **Forgery.** Forgery includes falsifying documents or signatures or faking an object of value with the purpose of committing fraud.

23. **Fraud.** Fraud is committed when a person uses deception or misrepresentation for financial or personal gain.

24. **Harassment.** Harassment is unwanted behavior intended to annoy, disturb, alarm, torment, upset, or terrorize an individual or group.

25. **Hate crime.** Hate crime is a “criminal offense against a person or property motivated in whole or in part by an offender’s bias against a race, religion, disability, ethnicity, gender, or gender identity”.

26. **Identity theft.** Identity theft includes “all types of crime in which someone wrongfully obtains and uses another person’s personal data in some way that involves fraud or deception, typically for economic gain”.

27. **Insurance fraud.** Insurance fraud occurs when a person attempts to obtain payment from an insurance company under false premises.

28. **Kidnapping.** Kidnapping is committed when a person is illegally confined or moved from one place to another against their will.

29. **Money laundering.** Money laundering occurs when someone attempts to conceal or disguise the nature, location, source, ownership, or control of proceeds of illegal actions.

30. **Murder.** Usually classified as first-degree or second-degree, murder is the willful taking of another person's life.

31. **Perjury.** Perjury occurs when a person gives false information while under oath.

32. **Public intoxication.** Someone drunk or under the influence of drugs in a public place can be charged with public intoxication.

33. **Robbery.** Robbery involves stealing from another person by the use of physical force or by putting the victim in fear of death or injury.

34. **Shoplifting.** Shoplifting is stealing merchandise from a retail store or business.

35. **Solicitation.** Solicitation is offering compensation for goods or services prohibited by law.

36. **Stalking.** Stalking occurs when a person, over time, follows, harasses, or watches another person.

37. **Tax evasion.** Tax evasion involves taking deliberate actions to conceal or misrepresent a person's or business's income, profits, or financial gains or to inflate or falsify tax deductions.

38. **Theft.** Theft is a general term describing forms of larceny, including burglary, looting, shoplifting, embezzlement, fraud, and criminal conversion.

39. **Vandalism.** Vandalism occurs when a person intentionally damages property that does not belong to them.

40. **Wire fraud.** Almost always a federal crime, wire fraud is an illegal activity taking place over any interstate wires for the purpose of committing fraud.

Another classification of crimes include the following issues [92]:

1. **Drug crimes.** The drug-crime category encompasses a range of offenses connected with the use, transportation, purchase, and sale of illegal drugs.

2. **Street crimes.** The most common forms of predatory crime – robbery, assault, burglary, larceny, and auto theft – occur most frequently on urban streets. Racial minority citizens account for a disproportionately high number of the arrests for street crimes.

3. **Organized crimes.** The term “organized crime” refers to the unlawful activities of members of criminal organizations that supply illegal goods and services.

4. **Political crimes.** The political-crime category contains both crimes by the government and crimes against the government. Political goals motivate political criminals.

5. **Victimless crimes.** Consensual acts (in which people are willing participants) and violations in which only the perpetrator is hurt, such as the personal use of illegal drugs, are called victimless crimes.

6. **White-collar crimes.** White-collar crimes are offenses that persons commit while acting in their legitimate jobs and professions. White-collar criminals behave in unethical ways for self-gain (for example, embezzlement) or for the benefit of a business (for example, corporate price-fixing). Victims of white-collar crime include the economy, employers, consumers, and the environment.

Special attention is needed to be paid to such category of crimes as **commercial crimes**. Commercial crime covers crime such as fraud which is deceiving a person or company to get goods and money through forgery. It is caused by greed, common criminality and uncertainty about employment. It covers such crimes as: credit card fraud, e-banking fraud, inheritance fraud, insurance fraud, international scam, love scam, parcel scam [93].

1.5. International Criminal Court

The International Criminal Court (ICC) is a court of last resort for the prosecution of serious international crimes. Its treaty, the Rome Statute, was adopted in July 1998. The court began work in 2003, following ad hoc tribunals set up in the 1990s to deal with atrocity crimes committed in the former Yugoslavia and Rwanda. 20 years after the Rome Statute, the ICC has made significant headway in bringing global attention to accountability. But it has faced setbacks, and as human rights crises marked by international crimes continue to proliferate, its mandate has proven to be both more needed and more daunting than its founders envisioned. To be effective, the court and its member countries will need to rise to the challenge [41].

The International Criminal Court plays a substantial role in international relations and peace processes. The International Criminal Court deals mainly with four main crimes [61].

First, the crime of **genocide** is characterized by the specific intent to destroy in whole or in part a national, ethnic, racial or religious group

by killing its members or by other means: causing serious bodily or mental harm to members of the group; deliberately inflicting on the group conditions of life calculated to bring about its physical destruction in whole or in part; imposing measures intended to prevent births within the group; or forcibly transferring children of the group to another group.

Second, the ICC can prosecute **crimes against humanity**, which are serious violations committed as part of a large-scale attack against any civilian population. The 15 forms of crimes against humanity listed in the Rome Statute include offences such as murder, imprisonment, enforced disappearances, enslavement – particularly of women and children, torture, apartheid and deportation.

Third, **war crimes** which are grave breaches of the Geneva conventions in the context of armed conflict and include, for instance, the use of child soldiers; the killing or torture of persons such as civilians or prisoners of war; intentionally directing attacks against hospitals, historic monuments, or buildings dedicated to religion, education, art, science or charitable purposes.

Finally, the fourth crime falling within the ICC's jurisdiction is the **crime of aggression**. It is the use of armed force by a State against the sovereignty, integrity or independence of another State. The definition of this crime was adopted through amending the Rome Statute at the first Review Conference of the Statute in Kampala, Uganda, in 2010.

As an international court, the ICC's legal process may function differently from that in your national jurisdiction. Below are a few highlights giving key information on the legal process [61].

Preliminary examinations. The Office of the Prosecutor must determine whether there is sufficient evidence of crimes of sufficient gravity falling within the ICC's jurisdiction, whether there are genuine national proceedings, and whether opening an investigation would serve the interests of justice and of the victims.

Investigations. After gathering evidence and identifying a suspect, the Prosecution requests ICC judges to issue:

- an arrest warrant: the ICC relies on countries to make arrests and transfer suspects to the ICC or
- a summons to appear: suspects appear voluntarily (if not, an arrest warrant may be issued).

Pre-Trial stage. It consists of initial appearance and confirmation of charges hearings. Initial appearance: Three Pre-Trial judges confirm suspect's identity and ensure suspect understands the charges. Confirmation of charges hearings: after hearing the Prosecution, the Defence, and the Legal representative of victims, the judges decide (usually within 60 days) if there is enough evidence for the case to go to trial.

Trial stage. Before three Trial judges, the Prosecution must prove beyond reasonable doubt the guilt of the accused. Judges consider all evidence, then issue a verdict and, when there is a verdict of guilt, issue a sentence. The judges can sentence a person to up to 30 years of imprisonment, and under exceptional circumstances, a life sentence. Verdicts are subject to appeal by the Defence and by the Prosecutor. Judges can also order reparations for the victims.

Appeals stage. Both the Prosecutor and the Defence have the right to appeal a Trial Chamber's decision on the verdict (decision on guilt or innocence of the accused) and the sentence. The victims and the convicted person may appeal an order for reparations. An appeal is decided by five judges of the Appeals Chamber, who are never the same judges as those who gave the original verdict. The Appeals Chamber decides whether to uphold the appealed decision, amend it, or reverse it. This is thus the final judgment, unless the Appeals Chamber orders a re-trial before the Trial Chamber.

Enforcement of sentence. Sentences are served in countries that have agreed to enforce ICC sentences.

The Court may exercise jurisdiction in a situation where genocide, crimes against humanity or war crimes were committed on or after 1 July 2002 and:

- the crimes were committed by a State Party national, or in the territory of a State Party, or in a State that has accepted the jurisdiction of the Court or
- the crimes were referred to the ICC Prosecutor by the United Nations Security Council (UNSC) pursuant to a resolution adopted under chapter VII of the UN charter.

As of 17 July 2018, a situation in which an act of aggression would appear to have occurred could be referred to the Court by the Security Council, acting under Chapter VII of the United Nations Charter, irrespective as to whether it involves States Parties or non-States Parties. In the absence of a UNSC referral of an act of aggression, the Prosecutor may initiate an investigation on her own initiative or upon request from

a State Party. The Prosecutor shall first ascertain whether the Security Council has made a determination of an act of aggression committed by the State concerned. Where no such determination has been made within six months after the date of notification to the UNSC by the Prosecutor of the situation, the Prosecutor may nonetheless proceed with the investigation, provided that the Pre-Trial Division has authorized the commencement of the investigation. Also, under these circumstances, the Court shall not exercise its jurisdiction regarding a crime of aggression when committed by a national or on the territory of a State Party that has not ratified or accepted these amendments.

The ICC is intended to complement, not to replace, national criminal systems; it prosecutes cases only when States do not are unwilling or unable to do so genuinely. As a judicial institution, the ICC does not have its own police force or enforcement body; thus, it relies on cooperation with countries worldwide for support, particularly for making arrests, transferring arrested persons to the ICC detention center in The Hague, freezing suspects' assets, and enforcing sentences. While not a United Nations organization, the Court has a cooperation agreement with the United Nations. When a situation is not within the Court's jurisdiction, the United Nations Security Council can refer the situation to the ICC granting it jurisdiction. This has been done in the situations in Darfur (Sudan) and Libya. The ICC actively works to build understanding and cooperation in all regions, for example, through seminars and conferences worldwide. The Court cooperates with both States Parties and non-States Parties.

The Court works in particularly close cooperation with its host state, the Netherlands, regarding practical matters such as constructing the Court's new permanent buildings, transferring suspects to the ICC Detention Centre, facilitating their appearances before the Court, and many other matters. Countries and other entities, including civil society groups such as NGOs, also cooperate with the Court in numerous ways, such as raising awareness of and building support for the Court and its mandate. The Court seeks to increase this ongoing cooperation through such means as seminars and conferences.

Ten key facts about legal processes in the International Criminal Court [61]:

Fact 1. The ICC does not prosecute those under the age of 18 when a crime was committed.

Fact 2. Before the Prosecutor can investigate, she must conduct a preliminary examination considering such matters as sufficient evidence, jurisdiction, gravity, complementarity, and the interests of justice.

Fact 3. When investigating, the Prosecutor must collect and disclose both incriminating and exonerating evidence.

Fact 4. The defendant is considered innocent until proven guilty. The burden of proof lies with the Prosecutor.

Fact 5. During all stages of proceedings (Pre-Trial, Trial and Appeals), the defendant has the right to information in a language he or she fully understands, thus the ICC proceedings are conducted in multiple languages, with teams of interpreters and translators at work.

Fact 6. Pre-Trial judges issue warrants of arrest and ensure there is enough evidence before a case can go to trial.

Fact 7. Before a case is committed to trial (during the Pre-Trial phase), the defendant is referred to as a suspect. Once the case is committed to trial, since at that point the charges have been confirmed, the defendant is referred to as the accused.

Fact 8. Trial judges hear the evidence from the Prosecutor, Defence, and the Victims' lawyers, render a verdict, and if a person is found guilty, the sentence and decision on reparations.

Fact 9. Appeals judges render decisions on appeals from the Prosecutor or Defence.

Fact 10. If a case is closed without a verdict of guilt, it can be reopened if the Prosecutor presents new evidence.

The International Criminal Court comprises four separate organs [61]: Presidency, Judicial Divisions, OTP, and Registry.

The Presidency. The Presidency is one of the four Organs of the Court. It is composed of the President and First and Second Vice-Presidents, all of whom are elected by an absolute majority of the Judges of the Court for a three year renewable term. The judges composing the Presidency serve on a full-time basis. The Presidency has three main areas of responsibility: judicial/legal functions, administration and external relations. In the exercise of its judicial/legal functions, the Presidency constitutes and assigns cases to Chambers, conducts judicial review of certain decisions of the Registrar and concludes Court-wide cooperation agreements with States. With the exception of the Office of the Prosecutor, the Presidency is responsible for the proper administration of the Court and oversees the work of the Registry. The Presidency will coordinate and seek the concurrence of the Prosecutor

on all matters of mutual concern. Among the Presidency's responsibilities in the area of external relations is to maintain relations with States and other entities and to promote public awareness and understanding of the Court.

Judicial Divisions. The ICC's 18 judges are elected by the Assembly of States Parties for their qualifications, impartiality and integrity, and serve 9-year, non-renewable terms. They ensure fair trials and render decisions, but also issue arrest warrants or summonses to appear, authorize victims to participate, order witness protection measures, and more. They also elect, from among themselves, the ICC President and two Vice-Presidents, who head the Court. The Court has three Judicial Divisions, which hear matters at different stages of the proceedings: Pre-Trial, Trial and Appeals.

Office of the Prosecutor (OTP). The Office of the Prosecutor (OTP) is an independent organ of the Court. It is responsible for examining situations under the jurisdiction of the Court where genocide, crimes against humanity, war crimes and aggression appear to have been committed, and carrying out investigations and prosecutions against the individuals who are allegedly most responsible for those crimes. It is for the first time in history that an international Prosecutor has been given the mandate, by an ever-growing number of States, to independently and impartially select situations for investigation where atrocity crimes are or have been committed on their territories or by their nationals. Like the judges of the Court, the Prosecutor and Deputy Prosecutor are elected for a non-renewable mandate of nine years.

Registry. The Registry is a neutral organ of the Court that provides services to all other organs so the ICC can function and conduct fair and effective public proceedings. The Registry is responsible for three main categories of services:

- judicial support, including general court management and court records, translation and interpretation, counsel support (including lists of counsel and assistants to counsel, experts, investigators and offices to support the Defence and victims), the detention center, legal aid, support for victims to participate in proceedings and apply for reparations, for witnesses to receive support and protection;

- external affairs, including external relations, public information and Outreach, field office support, and victims and witness support;

- management, including security, budget, finance, human resources and general services.

The seat of the Court is in The Hague in the Netherlands. Over 120 countries are States Parties to the Rome Statute, representing all regions: Africa, the Asia-Pacific, Eastern Europe, Latin America and the Caribbean, as well as Western European and North America [95].

Conclusions

1. A crime is any act or omission that violates a law which results in a punishment. All crimes have four elements in common: a voluntary act, a culpable state of mind, a “concurrency”, and causation of harm. The legal definitions of all crimes do contain certain elements. If the

government cannot prove the existence of these elements, it cannot obtain a conviction in a court of law.

2. The international legal system addresses the wrongdoings that people commit with two different types of cases: civil and criminal. Criminal cases involve an action that is considered to be harmful to society as a whole. Civil cases usually involve private disputes between persons or organizations.

3. Criminal law is the body of law that relates to crime. It regulates social conduct. It includes the punishment of people who violate these laws. The burden of proof is beyond a reasonable doubt. Criminal law defines crimes; sets the procedures for arrests, searches and seizures, and interrogations; establishes the rules for trials; and specifies the punishments for offenders.

4. There are a number of approaches to categorizing crimes. The most significant distinction is between a felony and a misdemeanor. Another approach is to distinguish between crimes against the state, crimes against the person, crimes against habitation, crimes against property, crimes against public order, crimes against the administration of justice, crimes against public morals.

5. The International Criminal Court (ICC) is a court of last resort for the prosecution of serious international crimes. The ICC plays a substantial role in international relations and peace processes. It deals mainly with four main crimes: genocide, crimes against humanity, war crimes, and crimes of aggression.

End-of-chapter tasks:

1. Identify basic components of a crime.
2. Define a crime, a criminal act, a criminal intent, and a criminal harm.
3. Dissect criminal cases from civil cases.
4. List sources of criminal law.
5. Give an example of felonies.
6. Dramatize a role play in the International Criminal Court.

CHAPTER 2. ECONOMICS OF CRIMINAL BEHAVIOR

2.1. Economic Models of Criminal Behavior

2.2. Rational Choice Approach to Crime

2.3. Economic Analysis of Criminal Behavior

2.4. Economic Effects of Crime

Key words: economic theory, rational model, trade-off, probability of conviction, severity of punishment, economic impact, costs of crime

2.1. Economic Models of Criminal Behavior

The economic modeling of criminal behavior is a rather new application of economic theory. It arose in the United States in response to the growth of crimes which began in 1960's. Economists brought to the study of criminal behavior their usual economic tools: income, costs, elasticity, trade-offs, returns to input factors, supply schedules, demand schedules and equilibrium levels. The economic theory provides a way of thinking about criminal behavior that departs from the prevailing psychological and sociological approaches. A psychological approach regards criminal behavior as an aspect of deficient personality. A sociological approach regards criminal behavior as a special case of deviance from social norms within a context of social sanctions and rewards. An economic theory of crime regards the criminal mainly as a rational actor, maximizing profit within a matrix of costs and opportunities [34].

There are three main economic models of crime [2, p. 273]:

- the rational model;
- the present-oriented, or myopic model;
- the radical political economic model.

Each model emphasizes different factors that influence individual decisions to commit crime and different ways of combating crime.

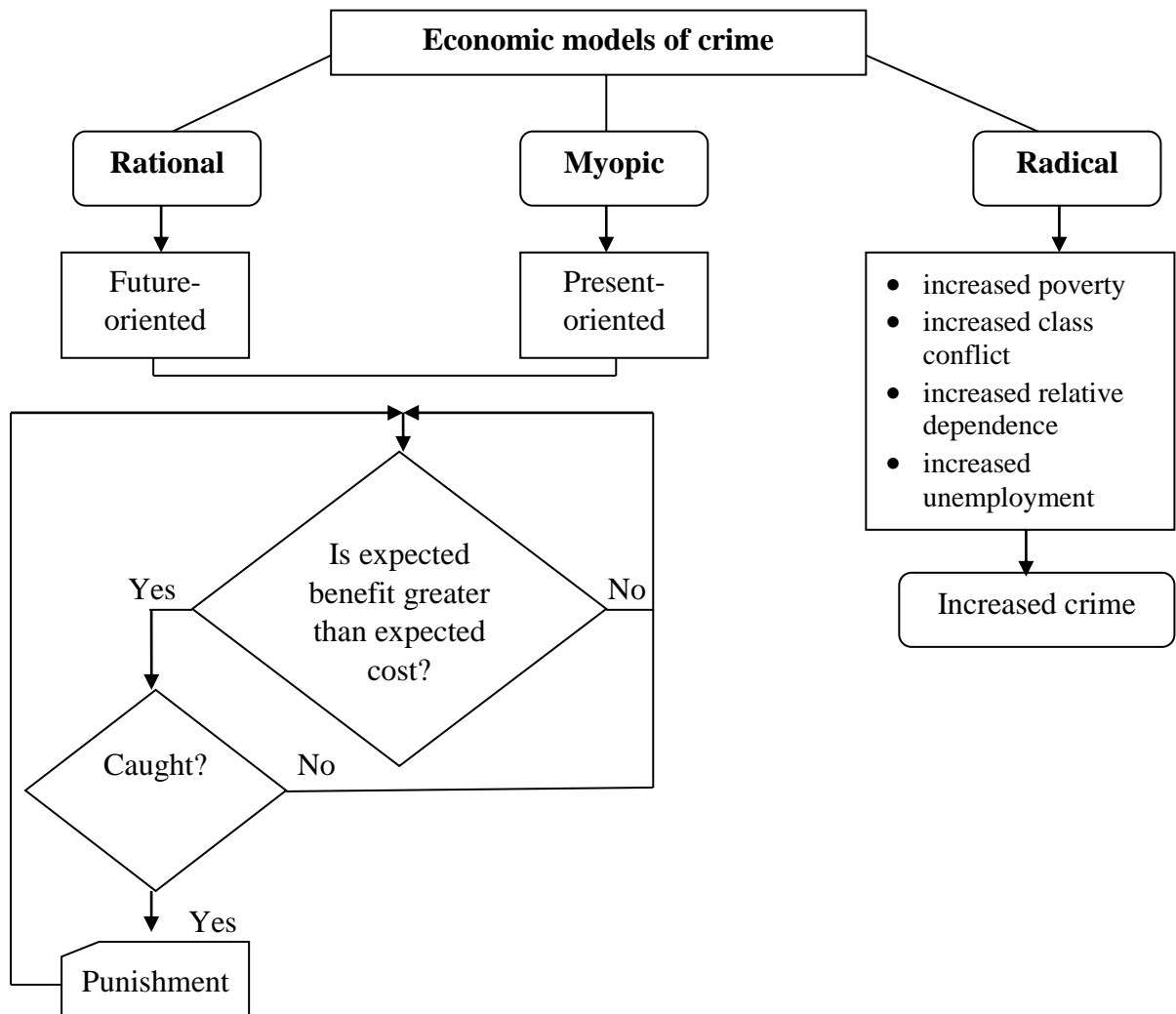


Fig. 2.1 – Economic models of crime [2, p. 272]

The rational model of crime

Economics can be defined as a discipline that studies how scarce resources are allocated by the forces of supply and demand to meet different needs in society. In the same way, economists argue that crime

is a result of individuals' making choices between using their scarce resources of time and effort in legitimate or in illegitimate activities. A key assumption is that when making these choices, individuals are rational and choose the best option based on the available information and resources. Individuals are perceived to be promoting their self-interest by rationally selecting options that provide them with the greatest benefits that are expected to exceed the costs associated with these options. Theories of crime based on the rational model were proposed as early as the eighteenth century by enlightenment philosophers such as Bentham and Beccaria. Bentham made the following argument: "The profit of the crime is the force which urges man to delinquency: the pain of the punishment is the force employed to restrain him from it. If the first of these forces be the greater, the crime will be committed; if the second, the crime will not be committed" [23].

The profit from crime is traditionally measured in terms of monetary benefits but can also include physical, psychic, and other benefits. The "punishment" or costs of crime include the risk of detection, apprehension, and conviction and the severity of punishment. Economists do not refute that environmental, psychological, and biological factors may affect criminal activity. Nevertheless, they argue that individuals are free to choose between different courses of options available to them. Therefore, as long as there is a rational element of choice available, individuals who decide to commit a crime will react to changes in the probability of apprehension and the severity of punishment.

This framework leads to a key concept, namely, the “opportunity cost” of crime. Any decision that involves a choice between two or more options has an opportunity cost. An opportunity cost can be defined as the value of the next best alternative within the context of making a decision. Put differently, an opportunity cost can be viewed as the benefits an individual could have received by taking an alternative decision or action. In essence, the true cost of crime for a potential criminal is the opportunity cost of spending time in prison. The opportunity cost varies among individuals irrespective of the length of incarceration. The rational framework distinguishes between static and dynamic models of crime. In a static model, individuals compare the costs and benefits of engaging in crime in a single time period. In a dynamic model, the individual considers multiple time periods. Decisions made in the past, for example, impact the decision-making process in the present. Dynamic models thus account for the element of time unlike static models [2, p. 273–274].

The static rational model of crime. Becker was the first to translate the argument of Bentham into an economic theory of crime in his seminal article on crime and punishment. Becker argues that “a useful theory of criminal behavior can dispense with special theories of anomie, psychological inadequacies, or inheritance of special traits and simply extend the economist’s usual analysis of choice” [4]. Becker developed a static model in which the individual considers a single time period when making a decision on whether or not to commit a crime. He contends that a cost/benefit analysis can be used to inform an individual’s decision to commit a crime. As individuals do not have

perfect information, Becker assumes that rational individuals will seek to maximize the expected benefits. Individuals do so by comparing the benefit they would derive from a criminal activity with the benefit derived from engaging in legal activities. An implicit assumption is that there are no risks in terms of the returns from legitimate work. In Becker's model, benefit is defined as a positive function of income. Thus, an individual will commit a crime only if his or her expected benefit from the offense is positive. The primary focus of the model is the deterrent effect of the criminal justice system in this decision process. Another assumption in Becker's model is that of stable preferences. This assumption allows one to predict how individuals respond to changes in parameters of being caught and punished; for example, whether the act of crime or deviance can be made less attractive to an individual and whether crime or deviant behavior can be averted. Becker addresses this issue by focusing on the probability and severity of punishment and its impact on the total amount of crime. Becker argues that the probability and severity of punishment can reduce the number of crimes by acting as deterrents to crime. The individual's attitude toward risk determines which of the two deterrents would be more effective in reducing crime. For example, an individual who is risk-averse may react more strongly to changes in the probability of apprehension than to changes in the magnitude of the punishment, all other things being equal. An increase in the costs of crime reduces the expected gain from committing an offense and thus lowers the incentive to offend [2, p. 275–276].

The dynamic rational model of crime. Though the rational models presented earlier are set in a static framework, an individual's decision to commit a crime also has an impact on the future payoffs from choices made in the past or present. Dynamic models integrate past experience with forward-looking behavior. The former deals with how past arrests impact decisions made in the present. The latter examines how decisions made in the present affect future consequences related to employment and expected benefits. Using the dynamic model, there is evidence that important factors can be used to predict criminal behavior. For example, juvenile records are sealed at the age of 18 years, and sanctions by juvenile courts tend to be milder than those in the adult courts. As such, one would expect higher crime rates among youth younger than age 18 [40]. Indeed, Levitt [46] finds that there is a clear drop-off in the age of arrest after 18 in states wherein juvenile courts issue milder sanctions compared to adult courts than in states wherein juvenile sanctions are more severe. Individuals thus seem to change their behavior when they anticipate the possible future consequences of their actions. Flinn [27] includes the formation of human capital in a time-allocation model. Flinn argues that human capital is accumulated at work. As a result, if time spent on crime lowers time spent at work, the amount of human capital accumulated by an individual is reduced. This diminishment leads to lower future earnings and consequently less time in legal work. Crime and work are assumed to be substitutes in this model. Therefore, reduced time at work leads to an increased involvement in criminal activities. Williams and Sickles [104] extend models by including social capital to measure the effect of social norms

on an individual's decision to engage in crime. The authors assume that participation in crime decreases the value of an individual's stock of social capital, namely, marriage and employability. In other words, individuals with families or good jobs have more to lose if they are caught in a criminal act than individuals without these resources. The main conclusion is that criminals behave rationally when they take into consideration the consequences of current actions on future outcomes. The incentives to commit crime are reduced when the risks of apprehension can jeopardize future employment [40].

The present-oriented, or myopic economic model of crime

Human beings are generally impatient. Most people would prefer to experience immediate rewards and postpone the associated costs. Relaxing the assumption of rational behavior allows economists to study cases wherein criminals appear to behave in a non-rational, impulsive, or myopic manner. When deliberating about the trade-offs between the present and the future, individuals who attach greater weight to the present are said to have more "present-oriented" preferences [60]. Economists use hyperbolic discounting to formally examine present-oriented behavior. Hyperbolic discounting is assumed to reveal irrational behavior because decisions made in this setting are not time-consistent. Time inconsistency refers to a situation whereby an individual's preferences change over time, such that what is preferred at one point in time is inconsistent with what is preferred at another point in time. One common way this is revealed is when an individual displays undue concern with the immediate rather than distant future. A rational individual, conversely, compares present and future gains and shortfalls

by seeking to match short-term and long-term preferences. A rational individual who does not give added weight to short-term benefits from a criminal activity will most likely be someone who displays patience. The desire for immediate gratification may, however, lead an individual to commit a crime that has negative expected returns in the long-term [44]. When the costs of crime are delayed, the immediate benefits support the offender's impulsiveness, resulting in more crime [50]. The threat of punishment does not deter present-oriented individuals because the gains from the illegal activity are closer to the present whereas the related punishment that he or she might suffer lie in the more distant future [3].

Lee and McCrary [45] use a large, individual-level, longitudinal data set of felony arrests maintained by the Florida Department of Law Enforcement to measure the deterrence effects of criminal sanctions in the period 1989 to 2002. In particular, they examine whether there is any significant drop in offense rates among juveniles once they turn 18 years, as they are treated as adult offenders and face longer sentences. Their assumption is that sufficiently patient individuals will lower their offending rates as soon as they turn 18. However, they find that criminals do not make behavioral adjustments in anticipation of this change in the severity of punishment. This finding suggests that potential offenders are very impatient, myopic, or both. Nagin and Pogarsky [57] use data on college students to examine under what circumstances individuals would cheat. They find that less cheating occurred when the risk of apprehension was greater but not when there were higher penalties. Furthermore, they find that the prevalence of cheating was

higher among more present-oriented individuals. Similarly, Nagin and Paternoster [56] use a student questionnaire and find that present-orientation is significantly related with the probability of committing a number of crimes. Urban ethnographers such as Fleisher [26] and Anderson [1] find that crime-prone youths are overly present-oriented for any type of traditional crime deterrence to be successful. The following quote from a young prisoner in a paper by DiIulio summarizes the present-oriented concept well: “You never think about doing thirty when you don’t expect to live to thirty”[19]. Nagin and Paternoster [56] argue that individuals who are more present-oriented invest less in social bonds. As such, they are less deterred by the prospects of breaking those bonds and committing a crime. The astonishing degree to which youths commit crimes for not only profit but status, image, and even fun has yet to be fully considered by economists. The rational economic models of crime described earlier suggest that crime can be reduced by increasing the expected costs of criminal activities. The ability to increase this cost depends largely on the extent to which potential criminals discount their future welfare. If individuals are more concerned with their present welfare rather than their future welfare, an increase in the length of incarceration may have little impact on criminal behavior. In essence, the most effective sanctions of the rational model will do little to dissuade the present-oriented or myopic offender. Therefore effective enforcement policies for this type of offender should focus on lowering the immediate benefits or increasing the immediate costs of a criminal activity to discourage present-oriented or myopic behavior.

The radical political economic model of crime

The rational and present-oriented models of crime focus primarily on the individual's decision to allocate time between legal and illegal activities. The radical political economic models, conversely, focus on key political and socioeconomic factors that sustain crime. The key factors in this model are relative deprivation, poverty and inequality, unemployment, and class. These factors are all interrelated. The factor of relative deprivation focuses on the relative differences in income among the different classes in society. According to this view, individuals identify themselves with the group they belong to in society. The degree of deprivation is defined as the distance between the particular group's experiences compared with that of the larger society, which is regarded as a proxy for what the group is entitled to. In neoclassical economics, individuals determine their chances of employment and income based on their level of education and a relatively open labor market. In the relative deprivation model, individuals perceive their fate to be similar to that of their peers [59]. When Danziger [15] and Danziger and Wheeler [16] studied the relationship between the relative deprivation approach and criminal activities (burglary and robbery), they found that there is a positive relationship between income inequality and criminal activities.

Poverty and inequality. Differences in poverty rates and wealth are commonly viewed as factors influencing variations in crime rates. Proponents of the federal Great Society programs in the 1960s believed that poverty amelioration would eventually lower crime by enhancing the living conditions of the poor and thereby reduce their involvement in

criminal activities [59]. Gordon [33] argues that capitalism and its associated inequalities generate crime. Gordon views criminal behavior as part of the structure of capitalist societies and in the socioeconomic conflicts resulting from that structure. As a result, crime is an outcome of the poor's trying to create a better existence for themselves.

Unemployment. Different models examine the different relationships between unemployment and crime. Some economic models assume that unemployment either lowers the opportunity costs of crime or that it increases the need to supplement income from sources other than legal employment. Radical theories suggest that unemployment increases poverty. The resulting deprivation then lowers the costs of criminal activities and punishment. The indirect result is that conflict increases [59]. However, how do individuals form expectations about their earnings potential in the labor market? If there is a considerable gap between what the individual believes is attainable (group experience) and what is unattainable (larger society experience), an individual perceives this gap as relative deprivation. Hence the opportunity costs of crime may be reduced because the returns from regular employment are seen as minimal. In contrast, if the larger society also suffers from unemployment, the shortage of employment opportunities may still be considered equitable. Nickerson, in support of this argument, notes that crime rates during the Great Depression were stable or falling. Thornberry and Christenson [89] use data from a longitudinal cohort study of delinquency in Philadelphia and find that unemployment significantly impacts criminal involvement. They find that crime rates, especially property crime, are higher during periods of

high unemployment. Other studies [105] also find a positive relationship between unemployment and crime. Interestingly, Cantor and Land [5] find a negative relationship between unemployment and property crime in the United States because a general slowdown in the economy increases time spent at home and, therefore, the ability to guard one's property.

Class structure. The attempt to relate criminal activities to specific ideas of class conflict is often based on a Marxian analysis. The use of laws is assumed to systematically discriminate against the poorer classes. Taylor, Walton, and Young [80] suggest that deviant behavior may be a reaction to the challenges of living in a conflicted society. Class bias is revealed in the attention that crimes, such as burglary or theft, receive in comparison with white collar crime, although the latter type of crimes represent a larger proportion of monetary losses than the former type [72]. This finding supports the liberal perspective that crime is really a response to societal prejudice against the poor. Gordon [33] contrasts white-collar crimes typically committed by the richer classes of society with those committed by the poor. The former type of crimes tends to be more nonviolent in nature because they are crimes that must be committed in secret. The latter crimes often require direct confrontation or intimidation and sometimes the silencing of the victims to escape apprehension. Gordon quotes Robert Morgenthau, who writes: "those growing up in the ghetto will probably never have the opportunity to embezzle funds from a bank or to promote a multimillion dollar stock fraud scheme. The criminal ways which we encourage

(them) to choose will be those closest at hand – from vandalism to mugging to armed robbery” [33].

So, from a rational perspective, individuals make a choice about how best to spend their time. In making the choice, they assess the costs and benefits of spending their time in legal or illegal work. Individuals thus choose to commit a crime only if the expected benefits from that choice exceed the expected costs associated with it. The rational model thus focuses on an individual’s incentives to commit crime. This focus reflects a faith in the ability to shape individual behavior through the use of negative incentives or deterrents. An individual-oriented approach relies on the probability of apprehension and the severity of punishment as tools to keep individuals from participating in criminal activities. One key criticism of the rational model is that the planful and thoughtful decision-making process does not fit the opportunistic, impulsive, and even rash nature of criminal activity.

Present-oriented individuals generally do not make rational decisions when they focus on short-term benefits and ignore the long-term consequences of their actions. One important result is that the deterrence tools used in the rational model will not deter present-oriented offenders, all other things being equal. An effective deterrence strategy should target an individual’s short-term preferences that need to be identified across individuals with different motivations and reasons for engaging in crime.

The radical theories focus on the link between crime and socioeconomic factors (e. g., poverty and inequality, relative deprivation, unemployment, and class structure) whereby an increase in

these factors leads to increased crime. However these links are quite complex, and the causal relationships are debatable. For example, does poverty lead to more crime, or does more crime lead to persistent poverty? More research is needed on how the social and economic environment affects the costs and benefits of criminal activity. A greater understanding of the role of norms and values, opportunities, and abilities in predicting crime is also needed. Most economic research on crime and delinquency has focused on how law breakers can be deterred through the criminal justice system and on the relationship between legal employment and illegal activities. This relationship between work and crime may be far more intricate than many economic models have implied thus far.

2.2. Rational Choice Approach to Crime

The premise of economic theories application to studying criminal behavior is that criminals, like everyone else, behave rationally. The economic approach implies that criminals don't differ from the general population when it comes to reacting to incentives. Economists contend that people are drawn to criminal activities because they expect to be better off from engaging in them than not.

Economic theory regards the criminal as rational actor engaged in a number of incentives and disincentives. The fundamental rational model assumes that the rational actor allocates time between legitimate and illegitimate activities taking into account probability of conviction and severity of punishment.

Gary Becker, the winner of the Nobel Prize in Economics in 1992, is considered to be a founding father of the rational choice model of a crime. His 1968 study “Crime and Punishment: An Economic Approach” was the first rigorous analysis on crime done by an economist and inspired many other economists to follow suit. He applied the tools of microeconomics to prove that criminals act rationally.

As all of you know, a defining characteristic of microeconomics is that it assumes that our behaviors and choices are rational. For example, when we go grocery-shopping with a limited budget, we choose an optimal bundle that would give us the maximum level of happiness (or “utility” in economics jargon). Why would we ever choose another bundle that is not as good but costs the same? Similarly, when we choose which car to buy and which house to move into, we would always choose the option that is the best for us. Of course, different people would have different preferences and come up with different “optimal” choices. But it is reasonable to assume that each decision-maker will choose the best option available for him. Why would anyone settle for a less-than-optimal choice instead?

Economists use this rational choice framework to explain why people commit crime. Under this framework, an individual looks at the expected gains and losses from crime and compares them with the gains and losses from staying out of crime. In other words, an individual commits crime if the following inequality holds [67]:

$$(1 - p)u_s + puf(1 - p)u_s + puf > u, \quad (2.1)$$

where us represents the expected utility when he successfully commits the crime (which may include both pecuniary and non-pecuniary gains),

uf represents his expected utility when he commits crime and receives punishment (so this is likely to be a negative number),

p represents the probability of punishment,

u represents his level of utility when he does not commit crime.

An individual will choose to commit crime if the net expected gains from crime (left-hand side of the inequality above) is greater than the net gains from not committing crime (right-hand side of the inequality).

Consider the following example [67]. An individual is considering whether to become a thief or not. If he “works” as a thief for a week and does not get caught, he will earn \$ 2 000. If he gets caught, he will have to pay the fine of \$ 4 000. He thinks there is a 30 % chance of punishment if he commits the crime. If he does not steal, he will continue to work at a legitimate job which pays him \$ 500 per week. For now, let’s assume that he is an individual who neither enjoys nor feels guilty about stealing. He only cares about the monetary gains and losses from crime.

Comparing his gains and costs from crime and legitimate work, we would expect him to choose not to steal because:

$$(0.7)(2000) + (0.3)(-4000) < 500$$

However, in reality, people care about more than just monetary gains and losses when choosing whether to offend or not. People with high moral values would choose not to commit crime even if they can

make a lot more money by committing crime. For example, peer pressure may cause students to participate in delinquent activities with their friends, even if there is no monetary gain from doing so.

But these non-monetary factors can easily be incorporated in the rational choice framework. For example, suppose an individual is currently working at a job that does not pay very well, but he is very much content with the life style associated with his job. We would expect that he has a very high value of u (and thus has a very low chance of committing a crime).

Likewise, people may have different ideas about the probabilities of arrest and punishment. Even when they live in the same neighborhood and are subject to the same criminal justice system, some people may be just more optimistic than others about the probability of punishment. Clearly, those who more optimistic (low p) should be more likely to commit crime than those with high p . Importantly, even if someone has a unrealistically low value of p , as long as he chooses to offend because his expected gains from crime is greater than his gains from not offending, he is still making a *rational* choice. He may be poorly informed, but he can still make a rational choice based on his poor information.

The rational choice framework may appear a bit too simplistic and unrealistic at first glance. But it can be easily extended to incorporate other relevant factors, such as non-monetary gains and losses from crime and individuals' subjective expectations about the probability of punishment. There can be many more different crime-relevant factors that influence people's criminal decisions in different ways, and trying

to come up with a model that accurately predicts each individual's criminal decision will be difficult. However, the main contribution of the rational choice model of crime is that it views crime as a "choice": individuals commit crime because they find it as a better choice than not committing crime (for many different reasons).

2.3. Economic Analysis of Criminal Behavior

Economists approach the analysis of crime with one simple assumption – that criminals are rational. A mugger is a mugger for the same reason you are the economist – because it is the most attractive alternative available to him. The decision to commit a crime, like any other economic decision, can be analyzed as a choice among alternative combinations of costs and benefits.

Consider, as a simple example, a point that sometimes comes up in discussions of gun control [28]. Opponents of private ownership of handguns argue that, in violent contests between criminals and victims, the criminals usually win. A professional criminal, after all, has far more reason to learn how to use a gun than a random potential victim. The argument is probably true, but the conclusion – that permitting both criminals and victims to have guns will help the criminals – does not follow. To see why, imagine that the result of legal handgun ownership is that one little old lady in ten chooses to carry a pistol in her purse. Further suppose that, of those who do, only one in ten, if mugged, succeeds in killing the mugger; the other nine miss, drop the gun, or shoot themselves in the foot. On average, the muggers are winning. But

also on average, each one hundred muggings of little old ladies produce one dead mugger. Very few little old ladies carry enough money to be worth one chance in a hundred of being killed. Economic theory suggests that the number of muggings will decrease – not because the muggers have all been killed, but because some of them have chosen to switch to safer professions. If the idea that muggers are rational profit maximizers seems implausible, consider who gets mugged. If a mugger's objective is to express machismo, to prove what a human he is, there is very little point in mugging little old ladies. If the objective is to get money at as low a cost as possible, there is much to be said for picking the most defenseless victims they can find. In the real world, little old ladies get mugged a lot more often than football players do.

Economic analysis can also be used to help understand the nature of organized crime. Newspapers, prosecutors, and the FBI often make organized crime sound almost like General Motors or IBM – a hierarchical organization with a few kingpins controlling thousands of subordinates. What we know about the economics of organizations makes this an unlikely description of real criminal organizations. One major limitation on the size of firms is the problem of control. The more layers of hierarchy there are between the president and the factory worker, the harder it is for management to monitor and control the workers. That is one reason that small firms often are more successful than large ones.

We would expect this problem to be especially severe in criminal markets. Legitimate businesses can and do make extensive use of memos, reports, job evaluations, and the like to pass information from

one layer of the hierarchy to another. But the very information that a criminal uses to keep track of what his employees are doing can also be used by a district attorney to keep track of what the criminal is doing. What economists call “informational diseconomies of scale” are therefore a particularly serious problem in criminal firms, implying that such firms should, on average, tend to be smaller, not larger, than firms in other markets.

Criminal enterprises obviously are more difficult to study than ordinary ones. Criminal firms seem to be relatively small and the organization of criminal industries relatively decentralized – precisely the opposite of the pattern described in novels, movies, and the popular press. It may well be that “organized crime” is not so much a corporation as a sort of chamber of commerce for the criminal market – a network of individuals and small firms that routinely do business with each other and occasionally cooperate in their mutual interest.

Economic analysis can also be used to predict the effectiveness of law enforcement measures. Consider the current “War on Drugs.” From an economic standpoint, its objective is to reduce the supply of illegal drugs, thus raising their prices and reducing the amount people wish to consume. One enforcement strategy is to pressure countries such as Colombia to prevent the production of coca, the raw material used to make cocaine.

Such a strategy, if successful, would shift coca production to whatever country is next best at producing it; since coca can be grown in many different places, this shift is not likely to result in a very large increase in cost. Published estimates suggest that the cost of producing

drugs abroad and transporting them to the United States represents only about 1 percent of their street price. So, even if we succeed in doubling the cost of coca – which seems unlikely, given experience with elasticity of supply of other crops – the result would be only about a 1 percent increase in the price of cocaine and a correspondingly small decrease in the amount consumed. Thus, economic analysis suggests that pressuring other countries not to produce drugs is probably not a very effective way of reducing their use.

One interesting issue in the economic analysis of crime is the question of which legal rules are economically efficient. Loosely speaking, which rules maximize the total size of the economic pie, the degree to which people get what they want? This is relevant both to broad issues such as whether theft should be illegal and to more detailed questions, such as how to calculate the optimal punishment for a particular crime.

Consider the question of laws against theft. At first glance, it might seem that, however immoral theft may be, it is not inefficient. If I steal ten dollars from you, I am ten dollars richer and you are ten dollars poorer, so the total wealth of society is unchanged. Thus, if we judge laws solely on grounds of economic efficiency, it seems that there is no reason to make theft illegal.

That seems obvious, but it is wrong. Opportunities to make money by stealing, like opportunities to make money in other ways, attract economic resources. If stealing is more profitable than washing dishes or waiting on tables, workers will be attracted out of those activities and into theft. As the number of thieves increases, the returns from theft fall,

both because everything easy to steal has already been stolen and because victims defend themselves against the increased level of theft by installing locks, bars, burglar alarms, and guard dogs. The process stops only when the next person who is considering becoming a thief concludes that he will be just about as well off continuing to wash dishes – that the gains from becoming a thief are about equal to the costs.

The thief who is just on the margin of being a thief pays, with his time and effort, the price of what he steals. Thus, the victim's loss is a net social loss – the thief has no equal gain to balance it. So the existence of theft makes society as a whole poorer, not because money has been transferred from one person to another, but because productive resources have been diverted out of the business of producing and into the business of stealing.

A full analysis of the cost of theft would be more complicated than this sketch, and the social cost of theft would no longer be exactly equal to the amount stolen. It would be less to the extent that people who are particularly skillful at theft earn more in that profession than they could in any other, giving them a net gain to partly balance the loss to their victims. It would be higher to the extent that theft results in additional costs, such as the cost of defensive precautions taken by potential victims. The central conclusion would, however, remain – that we will, on net, be better off if theft is illegal.

This conclusion must be qualified by the observation that, to reduce theft, we must spend resources on catching and punishing thieves. Theft is inefficient – but spending a hundred dollars to prevent a ten-dollar theft is still more inefficient. Reducing theft to zero would

almost certainly cost more than it would be worth. What we want, from the standpoint of economic efficiency, is the optimal level of theft. We want to increase our expenditures on law enforcement only as long as one more dollar spent catching and punishing thieves reduces the net cost of theft by more than a dollar. Beyond that point, additional reductions in theft cost more than they are worth.

This raises a number of issues, both empirical and theoretical. The empirical issues involve an ongoing dispute about whether punishment deters crime and, if so, by how much. While economic theory predicts that there should be some deterrent effect, it does not tell us how large it should be. Isaac Ehrlich, in a widely quoted (and extensively criticized) study of the deterrent effect of capital punishment, concluded that each execution deters several murders [28]. Other researchers have gotten very different results.

One interesting theoretical point is the question of how to choose the best combination of probability of conviction and severity of punishment. One could imagine punishing theft by catching half the thieves and fining them a hundred dollars each, by catching a quarter and fining them two hundred each, or by catching one thief in a hundred and hanging him. How do you decide which alternative is best?

At first glance, it might seem efficient always to impose the highest possible punishment. The worse the punishment, the fewer criminals you have to catch in order to maintain a given level of deterrence – and catching criminals is costly. One reason this is wrong is that punishing criminals is also costly. A low punishment can take the form of a fine; what the criminal loses the court gains, so the net cost of

the punishment is zero. Criminals generally cannot pay large fines, so large punishments take the form of imprisonment or execution, which is less efficient – nobody gets what the criminal loses and someone has to pay for the jail.

A second reason we do not want maximum punishments for all offenses is that we want to give criminals an incentive to limit their crimes. If the punishments for armed robbery and murder are the same, then the robber who is caught in the act has an incentive to kill the witness. He may get away, and, at worst, they can hang him only once.

2.4. Economic Effects of Crime

Crime is a major part of every society. Its costs and effects touch just about everyone to some degree. The types of costs and effects are widely varied. In addition, some costs are short-term while others last a lifetime. Of course the ultimate cost is loss of life. Other costs to victims can include medical costs, property losses, and loss of income. Losses to both victims and nonvictims can also come in the form of increased security expenses including stronger locks, extra lighting, parking in more expensive secure lots, security alarms for homes and cars, and maintaining guard dogs. Considerable money is spent to avoid being victimized. Other types of expenses can include a victim or person fearful of crime moving to a new neighborhood, funeral expenses, legal fees, and loss of school days.

Some costs of crime are less tangible (not easily or precisely identified). These kinds of costs can include pain and suffering, and a lower quality of life. There are also the traumatic impacts on friends and

the disruption of family. Behavior can be forever changed and shaped by crime, whether it be weighing the risks of going to certain places or even the fear of making new friends.

Crime not only affects economic productivity when victims miss work, but communities also are affected through loss of tourism and retail sales. Even the so-called victimless crimes of drug abuse or gambling have major social consequences. Drug abuse affects worker productivity, uses public funds for drug treatment programs and medical attention, and leads to criminal activity to support the expenses of a drug habit.

Communities and governments spend public funds for police departments, prisons and jails, courts, and treatment programs, including the salaries of prosecutors, judges, public defenders, social workers, security guards, and probation officers. The amount of time spent by victims, offenders, their families, and juries during court trials also take away from community productivity. By the beginning of the twenty-first century it was estimated that the annual cost of crime in the United States was reaching upward toward \$1.7 trillion [21].

Economists use various definitions for categorizing the economic impact of crime. The two main categories are the primary and secondary economic impact of crime, also referred to as direct and indirect economic effects.

This relationship is illustrated below on the map.



Fig. 2.2 – The economic impact of crime [21]

Primary economic impact of crime

In general, economists use two types of methods to further categorize the (primary) costs of crime. The first way is by defining the subject who bears the effects (victims, potential victims, society etc.). From an economic point of view, criminal offences can be aimed against [21]:

- individuals/households;
- the commercial sector/companies;
- the public sector/society.

A second approach of categorizing, is by breaking down the costs in relation to individual incidents. This way, the costs of crime are categorized as:

1. In **anticipation of crime**: mainly costs of precaution measures to avoid crime such as locks, alarm prevention programs and surveillance.

2. As a **consequence of crime**: for instance, loss of property, medical and health care costs, victim support etc.

3. In **response to crime**: costs considering police, prosecution, court proceedings, sanctions etc.

Secondary economic impact of crime

Crime not only leads to financial or physical damage and prevention costs, but also indirectly influences the local/regional and national economy of a country (the so-called secondary economic impact). According to such approach, crime acts like a tax on the entire economy: it discourages domestic and foreign direct investments. On a macro-economic level crime influences [21]:

- economic growth;
- income;
- labour force participation;
- income spent on security measures;
- reallocation of resources creating uncertainty and inefficiency.

On a more local and regional level, economists define the following types of impact [21]:

- business impact (crime reduces competitiveness of companies and investments);
- tourism impact;
- impact on quality of life/social capital;
- impact on property value.

Crime serves as an important catalyst for change in the socio-economic composition of communities. The effect crime has on the local property value is one of those catalyst effects. The question whether crime rates affect housing prices has been a popular subject of research over the last decades. However, although most empirical studies confirm that there is a negative impact of crime on housing prices, there is still no real consensus on the extent of this impact. The availability and quality of crime statistics (e. g, how should one incorporate non-recorded crime?), dealing with changes over time, the displacement effect, and the fact that the housing prices are determined by a complex set of factors and not just crime, are the most important reasons of this lack of consensus.

Another effect of crime is that residents become less committed to their communities, causing the “social fibre” of the community to be

weakened. An example of the loss of social capital is that residents of neighbourhoods with a criminal reputation are judged to be associated with criminal activities, leading (amongst others) to stigmas that, for example, prevent those people from finding jobs.

Further examples of secondary economic effects of crime [21]:

- the carbon cost of crime;
- the opportunity costs of police, rescue, and fire departments;
- moving costs of residents who want to escape from crime levels in “bad” neighbourhoods.

Let’s consider how total costs of crime can be measured. The total costs of crime in England and Wales in the 2015–2016 are estimated to be approximately £ 50 bn for crimes against individuals and £ 9 bn for crimes against businesses [35]. Violent crimes make up the largest proportion of the total costs of individual crime – almost three quarters – but only one third of the number of crimes. This is mainly due to the higher physical and emotional costs to the victims of violent offences. These costs are particularly high for crimes that are more likely to result in emotional injuries, such as violence with injury. The offence with the highest estimated unit cost is homicide (£ 3.2 m.) [35].

Thefts from businesses make up almost 90 % of business crime but account for approximately half of the total estimated costs of crime against businesses (£ 4.2 bn), as each crime has a low impact on society. In contrast, robberies and burglaries against businesses – estimated to cost £ 2 bn and £ 1.6 bn respectively – make up over 40 % of the costs of crime, but account for only 5 % of all crimes against businesses [35].

The total costs of crimes are shown in the Table 2.1.

Table 2.1 – Total costs of crimes by selected cost category: evidence from England and Wales, 2015–2016 [35, p. 7]

Crimes	Estimated total costs of crime, £	Estimated total number of crimes
Individual crimes		
Homicide	1.8 bn	570
Violence with injury	15.5 bn	1 104 930
Violence without injury	5.1 bn	852 900
Robbery	2.2 bn	193 470
Domestic burglary	4.1 bn	695 000
Theft of vehicle	0.7 bn	68 000
Theft from vehicle	0.5 bn	574 110
Criminal damage - arson	0.2 bn	22 620
Fraud	4.7 bn	3 616 460
Cyber crime	1.1 bn	2 021 330
Commercial crimes		
Commercial robbery	2.0 bn	136 150
Commercial burglary	1.6 bn	102 570
Commercial theft	4.2 bn	4 312 970

Total estimated costs of crimes against individuals for selected periods are depicted in the Fig. 2.3.

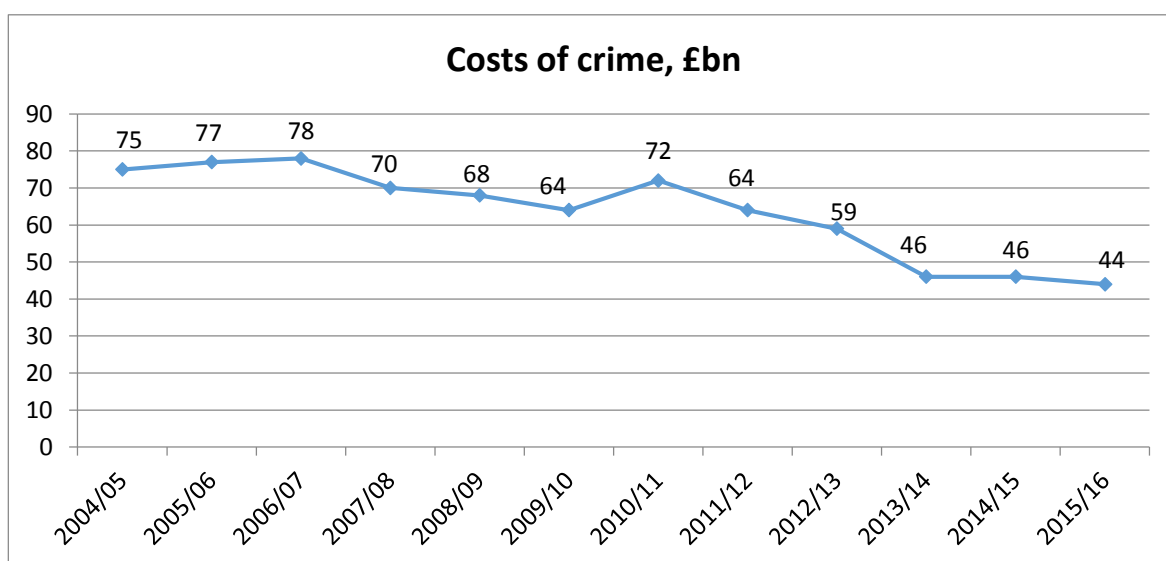


Fig. 2.3 – Total estimated costs of crimes against individuals [35, p. 9]

Conclusions

1. The brief literature review highlights three key economic frameworks that can be used to explain a persistent social problem in modern society, crime and delinquency: the rational model, the present-oriented or myopic model, and the radical political economic model. Based on a cost-benefit analysis, an individual's decision to engage in crime in the rational model is consistent in the short-and long-term. Present-oriented individuals, however, focus on the short-term benefits without particular concern for the long-term consequences of their actions. The radical political economic model focuses on the following key political and socio-economic factors that sustain crime: relative deprivation, poverty and inequality, unemployment, and class conflict.

2. The economic approach supports the concept of deterrence by which economists contend that crime will be reduced by raising the expected costs of illegal activities to potential criminals. The easiest challenge to the economic approach comes in the matter of violent crimes, crimes of passion or acts that are essentially spontaneous responses to targets of opportunity. Conversely, the easiest application of the economic model is to those crimes where the motive is itself largely economic, involving calculation and planning, e. g. embezzlement, professional cargo hijacking, confidence rackets, tax evasion and espionage.

3. Crime does not just affect individuals. Communities which experience higher levels of crime are also adversely affected: people may become frightened inside or outside their own home; home insurance premiums can rise; property prices are affected; homeowners

can find it more difficult to sell their property; new businesses may avoid the area. Because of crime, existing businesses may close down due to: repeated thefts and loss of income; costs of repairing damage from vandalism; loss of customers in the area.

End-of-chapter tasks

1. Decide on advantages and drawbacks of the economic models.
2. Compare the economic and social approaches to criminal behavior.
3. Relate crimes to the rational choice approach.
4. Illustrate the costs of crime against individuals and businesses.
5. Interpret the primary and secondary economic impact of crime.
6. Discuss the problem of gun control in terms of economics.

CHAPTER 3. TRANSNATIONAL ORGANIZED CRIME

3.1. Driving Forces for Transnationalization of an Organized Crime

3.2. Transnational Organized Crime as a Global Challenge

3.3. Transnational Organized Crime in Specific Countries and Regions

3.4. United Nation's Response to the Transnational Organized Crime

3.5. The American Strategy on Combating Transnational Organized Crime

Key words: organized crime, global distribution of crime, criminal groups, illegal trade, global threat, Organized Crime Index, countermeasures

3.1. Driving Forces for Transnationalization of an Organized Crime

Organized crime was characterized, in 1994, as “group organization to commit crime; hierarchical links or personal relationships which permit leaders to control the group: violence, intimidation and corruption used to earn profits or control territories or markets; laundering of illicit proceeds both in furtherance of criminal activity and to infiltrate the legitimate economy; the potential for expansion into any new activities and beyond national borders; and cooperation with other organized transnational criminal groups” [69].

Transnational organized crime suggests in simple terms the movement of persons, goods and services across sovereign national jurisdiction in a manner devoid of acceptable norms and standards [58]. This type of organized crime has three basic manifestations: it tends to

operate at a regional or global level, it mobilizes extensive cross-border connections and, above all, has the ability to challenge both national and international authorities [68].

There are major factors largely responsible for the preponderance of transnational crime, namely [58]:

- the development of global markets;
- advancement in technology, efficient communication and transport which have accelerated the movement of people, products, money and of course criminals;
- the deregulation of the financial systems of many developed economies whereby many bottlenecks in international trade and commerce are removed;
- political developments, especially the demise of old totalitarian regimes of East and Central Europe and the emergence of new markets oriented democracies, causing existing international criminal organizations to seek new frontiers;
- the increased volume complexity of international transactions which help to disguise criminal activity;
- the depressed economy of most developing countries which creates the conducive fertile ground for the gestation of crime networks and operation.

So, organized crime is transnationalized mainly as a result of economic globalization. Nowadays, organized crime is increasingly global. Let's analyze some key driving forces facilitating the transnationalization of organized crime [68].

The rapidity and the possibilities provided today by **innovative technologies** applied to transportation, together with a political commitment to global free trade, have increased the flow of licit as well as illicit goods. This situation has been aggravated as far as the most lucrative business of organized crime, that is drug trafficking, is concerned, since producing and consumption countries are in different continents, although distances tend to be reduced or even disappear with the increased use of synthetic drugs. In a symbiotic type of relationship, criminal organizations have combined the exploitation of business opportunities and routes opened up in the international market with the historically accumulated knowledge of contraband, which had always been very resistant to the action of the state. Thus, a very lucrative mix of old and new illicit activities were generated where specialization and widening of markets did not seem to be contradictory tendencies. In this regard, it is not a mere coincidence that the activities and even the abuses carried out by large multinational firms, rather uncontrolled at the international level due to the lack of antidumping agreements and the increasingly more intense search for competitiveness, lay down the usual precedents for the introduction of organized crime.

The growth in world trade has been accompanied, or even favored, by a **revolution in the financial networks**. Remarkable technological progress in communications, as well as efforts of the banking institutions to develop new options to avoid paying state taxes and to satisfy the growing demands of the transnational companies, together with the huge amount of money in circulation within the system and the ease with which it can be transferred at high speed, have greatly favored

a basic stage in any illegal business: money laundering, that is the control of money, obscuring its illegitimate origin and its ownership, then legalizing profits. The general lack of supervision on international financial activities, albeit recent efforts to introduce a certain degree of control, in addition to the complexity of such operations, make it extremely difficult to enforce regulations. Should any country undertake to reinstate the control on the flow of capital, this would not have the desired effect but, on the contrary, could lead to a rapid relocation of capital, loss of earnings for the powerful banking sector and greater complexity as regards the financial instruments. Moreover, for many countries which receive these illegal funds they compose a substantial part of their economies, and a radical approach to the issue would eventually inflict strong economic and social hardship. Actually, these activities are carried out on a large scale in many countries, which are chosen according to factors such as banking secrecy and facilities to operate with tax havens, corruption levels, police training, the power of financial institutions and the currency exchange controls.

In addition, technological **progress** made in **communication systems** and the transfer of information have had other effects on the evolution of organized crime. On the one hand, it has allowed the flexibilization of organizational structures and has enabled them to function in networks which tend to maximize profits and elude the state security forces. On the other hand, it allows the reduction of accumulated paperwork and so eliminates much incriminating evidence which could facilitate repressive police action. However, as an underlying trend, there has been a change in the nature of threats to

national security, which previously were related with great accumulation of power, resources and territory, and are now associated with the generation and control of information. Regarding this point, new vulnerabilities appear in the security defenses of the states as the criminal organizations, with their enormous financial potential, can access information which they may eventually use to improve and expand their business.

The **globalization of information** through mass media, which allows the immediate presentation to the whole world of well-being enjoyed in developed countries, the parallel appearance of a multiplicity of regional conflicts, and the progress made in transportation, have led to an important increase in immigration flows and the gradual creation of ethnic networks throughout the globe. Despite the vast majority of immigrants being respectful to the laws of the host countries, criminal organizations have taken advantage of this ethnic dispersal so as to develop their own transnational networks within which they are in permanent contact through advanced communications systems. Although the main criminal groups still have a strong national identity and haven headquarters from where they co-ordinate their activities, the precarious living conditions of many immigrants facilitates their expansion into new markets. Ethnic links, with their systems of loyalty, solidarity and sanctions often superimposed on the legislation of the countries where immigrants live, indirectly facilitates the implantation of organized crime. Police intervention among these groups is hindered by language and cultural traits, which are strengthened by kinship ties leading to group solidarity and suspicion of national authorities. This

situation is further worsened by inappropriate action taken by administration agencies which do not make the distinction between members of criminal organizations and people located in a wider social segment, who generally tend to be those who suffer the damage of discriminatory practices. Regarding this point, the existence of frontiers which have become increasingly porous has produced a partial shift in police action, from border control to the surveillance of specific social groups, eventually criminalizing certain ethnic communities. A determining factor in this change has been the inconsiderate and alarmist treatment of both immigration and organized crime given by certain mass media. Parallel to this process, multicultural urban areas are growing fast, functioning as nuclei of the world economic system. To a certain extent, these plural cities can be regarded as the heirs of those classical port towns which were central to the first global networks of organized crime. Such cities provide a combination of elements, which include power centers, highly developed financial and banking systems, significant economic inequalities, a cosmopolitan population which guarantees anonymity, the relaxation of social control and ethnic diversity, all of which can intentionally or unintentionally facilitate the penetration and maintenance of transnational criminal networks.

Organized crime is also familiar with the rapid spread of **technological progress** in other domains than those already mentioned. In fact, owing to its enormous economic potential, large criminal groups have faster and more efficient access to technological resources than the average person experienced in the field. It is common knowledge, for instance, their ability to acquire and deploy any kind of new device,

which they also continually experiment with. This progress is especially relevant with respect to drugs, as has been shown by the spread of new synthetic narcotic substances, in the field of weapons and in the forgery of all types of goods. Moreover, their access to new control and communications technology is achieved more quickly than the security forces responsible for pursuing such criminal organizations, the becoming less vulnerable to state repression. But progress in transport and communications technologies has also given rise to the multiplication of social contacts and the immediate transmission of any kind of novelty, this paving the way for experimentation with new drugs and very often for uncontrolled abuse. The excess of wealth and an environment where massive consumption takes place in the context of industrialized countries have created new recreational and leisure opportunities accompanied by an increase in illicit goods and services. The fact that a part of these sought after goods and services is legally prohibited has aided the growth of some specialized branches of organized crime and the expansion of old groups into new, lucrative business.

3.2. Transnational Organized Crime as a Global Challenge

In the past quarter century (namely, since the end of the Cold War), global governance has failed to keep pace with economic globalization. Therefore, as unprecedented openness in trade, finance, travel and communication has created economic growth and well-being, it has also given rise to massive opportunities for criminals to make their

business prosper. Organized crime has diversified, gone global and reached macro-economic proportions: illicit goods are sourced from one continent, trafficked across another, and marketed in a third. Mafias are today truly a transnational problem: a threat to security, especially in poor and conflict-ridden countries. Crime is fuelling corruption, infiltrating business and politics, and hindering development. And it is undermining governance by empowering those who operate outside the law [85, 79]:

- **drug cartels** are spreading violence in Central America, the Caribbean and West Africa;

- collusion between **insurgents** and **criminal groups** (in Central Africa, the Sahel and SouthEast Asia) fuels **terrorism** and plunders natural resources;

- smuggling of migrants and **modern slavery** have spread in Eastern Europe as much as South-East Asia and Latin America;

- in so many urban centers authorities have lost control to **organized gangs**;

- **cybercrime** threatens vital infrastructure and state security, steals identities and commits fraud;

- **pirates** from the world's poorest countries (the Horn of Africa) hold to ransom ships from the richest nations;

- **counterfeit goods** undermine licit trade and endanger lives;

- **money-laundering** in rogue jurisdictions and uncontrolled economic sectors corrupts the banking sector, worldwide;

- **environmental crimes**.

A wide ranging inventory of organized criminal activities include the supply of illegal goods and services, such as the production and trafficking of drugs, trading in weapons, children, organs, illegal immigrants or nuclear material, gambling, usury, forgery and hired killings; the sale of stolen property, especially luxury cars, animals and works of art; helping out legitimate companies in illegal matters such as breaking environmental or labor laws; the use of legal networks for illicit activities including the management of transport companies for drug trafficking or construction investment to money laundering; finally, systematic predatory action such as piracy, extortion and kidnapping [68].

The term “transnational organized crime”, also known by the acronym TOC, is used to describe all serious profit-motivated criminal actions of an international nature. It is not static; it is a constantly changing industry, always prepared to adapt to markets and create new forms of crime. It is an illicit business which does not respect borders or laws, and that transcends cultural, social, linguistic and geographical boundaries [79].

TOC is a threat to peace and human security, it leads to human rights violations and undermines the economic, social, cultural, political and civil development of societies around the world. The vast sums of money involved can compromise legitimate economies and have a direct impact on governance, for example through corruption and the practice of buying votes. TOC has a detrimental effect on the development of a country. Not only does it benefit from the institutional weakness that prevails in fragile and conflict-affected countries and regions – it also

exacerbates conflict, fragility and violence. In the context of a long-term conflict in particular, coupled with arbitrary rule-setting and weak formal institutions, TOC emerges as a profitable source of income. Illegal networks profit from violence and anti-state insurgency movements. Informal, traditional institutions at subnational jurisdictions can effectively be hijacked by criminal networks and subjected to the rule of the delinquents. Thus, even traditional institutions based on social control with normative rule-settings can be permeated and taken over by TOC. The trafficking of illegal goods from a fragile state to a stable state, and the occurrence of TOC in the latter, are evidence that organized crime is not limited to developing or fragile states but is increasingly a globalized phenomenon.

The different forms of transnational organized crime present different challenges. All, however, impact negatively on countries or regions [79]:

1. **Trafficking in firearms** is an important part of TOC in two ways. Firstly, illegal trade in weapons with the intention of making high profits is classed as TOC per se. Secondly, these weapons are often used to control territory of limited statehood or to arm groups directly related to TOC.

2. The impact of illicit financial flows (IFF) on a country is immense: **tax evasion, corruption** and **illegal trade** erode state revenues, lead to the misallocation of resources, and weaken the state's monopoly on the use of force. Moreover, organized crime uses multiple forms of corruption to infiltrate all branches of government, and often

economies and societies as a whole. Law enforcement is suppressed and top-level political support often involved.

3. **Fisheries crime** undermines resource conservation, and threatens food security and livelihoods. It destabilizes vulnerable coastal regions due to limited law enforcement capabilities, and is linked to other serious crimes including money laundering. Unreported and unregulated fishing is a common practice that is a serious contributory factor in the depletion of certain species and the damaging of ecosystems.

4. **Poaching and illicit trade in wildlife** is not only a serious global environmental issue and a threat for the conservation of often critically endangered species like elephant and rhino, but also increasingly threatens the livelihoods and security of the affected population. Criminal networks and in some cases terrorist organizations generate significant revenues through trafficking wildlife products, weakening statehood, security and governance in the affected countries and regions.

5. **Illegal logging and trade in timber** and timber products undercut efforts to conserve the world's remaining forests, and with them not only important sources of income, but ultimately ecosystem services which are essential for human wellbeing. The illegal trade both in precious wood and other timber products benefits only a few, not infrequently organized crime groups, and deprives local people, especially marginalized groups and often indigenous people, of their livelihoods.

Besides striving for power, TOC focuses on making profit. These profits are hidden from the tax authorities and usually channeled through secrecy jurisdictions. This also leads to considerable loss in state revenues [79]. Finally, organized crime leads to problems of democratic governability as it provokes financial instability, distortions and inefficiency in the markets, making the production and distribution processes less impersonal and so leads to structural flaws in the economy, which have a negative effect on the citizens and on the stability of the political system. Some of these alterations spring from the illegal activity itself and imply an inefficient share out of income in comparison with the working of the legitimate market as the distributor of earnings. Other abnormalities are connected explicitly with how the earnings generated are used illicitly. There are multiple facets which demonstrate these inefficiencies [68]:

1. There is the coercion exercised on certain segments of the population or territory, which is the usual practice of criminal groups and becomes an efficient protection racket which replaces or overlaps with the protection provided by the state, distorting prices. The costs are internalized and increase the prices of the goods and services subject to these extralegal taxes. This also implies a challenge to the state, which is the only entity which can legitimately impose taxes. Moreover, it discourages the free participation of individuals in the market as businessmen and, if the coercion is directed against the financial system, it puts the channels of investment and the citizens' savings at risk.

2. Illegal drug trafficking, a fundamental activity of some groups providing them with huge earnings, means an extra burden for the

treasury due to the costs of drug addiction treatments, the costs of repressing traffic and consumers and the loss of productivity for the economy in general.

3. The loss of legitimization of the political regime and the expansion of violence connected with organized crime mean additional costs for business activity. The increased cost of resolving conflicts, whether this be legal or extralegal, and the cost of protecting the rights acquired become barriers for the entry and the permanence in the market of legitimate participants. In these circumstances, the possibilities for national and international investment are considerably reduced and conditions arise for the massive flight of productive capital.

4. Organized crime is capable of destroying the efficacy of the state as a third party able to enforce compliance with the contracts which are generated in an economy. In the absence of this state activity, which throughout time has been seen to be the most effective instrument due to economies of scale and the guarantee of impartiality as long as there is stability, those involved would have to find a new body or person able to carry out this task, which would make the contracting process more expensive. In this regard, the climate of certainty usually generated by the state and put at risk by the large criminal organizations could collapse, and this would lead to the encouragement of a short term perspective on economic investment, which concentrates especially on immediate returns and contributes minimally to rational economic planning and long term economic growth. Thus, even in the presence of a well organized and predictable form of corruption, an important section of the economy would be subjected to high degrees of

uncertainty. The withdrawal of the state as third party to contracts, validating pacts and exchanges between persons through coercion, gives organized crime new opportunities to occupy more social spaces and direct the economy and society in general towards more simple, personalized structures which are contrary to economic efficiency.

5. The large-scale illegality of organized crime itself usually leads to less productive investment for the general economic system. Business investment is made in order to launder capital and not for reasons of growth and long term returns. It is directed at markets which generate little or no added value and are often very dependent on external resources and investment. As regards property, widely employed as a means to launder capital, strong, generous demand by organized crime contributes to the appreciation of housing price with the consequent cost for the families and the state, which complies with almost universal constitutional precepts as regards this point. Moreover, the participation of companies which are fronts for money laundering and not for generating profits, and being competitive in the marketplace, allow these companies to sell their goods or services under the cost price, which means that legal businesses are pushed out of the market unable to compete in these unfair circumstances.

6. The criminal organizations constitute a threat to one of the main sectors of the economy, the financial sector, as it promotes unscrupulous financial institutions and erodes legitimate institutions through complex schemes for laundering money, which can finally undermine the citizens' confidence in these financial entities.

7. The combined effects of organized crime in the economic field are inflation, the ineffective distribution of income, the break up of the free market and state regulation of the economy, a substantial loss of productivity, a short term view of investment which is counterproductive as regards prolonged economic growth, and, occasionally, monetary overvaluation. Concerning the financial system in particular, the volatility of capital in the hands of criminal groups hinders correct action in economic policy and destabilizes the banking institutions and the financial markets in general, which can lead in turn to a profound economic crisis.

8. Organized crime provokes economic imbalance and long periods of economic recession, seriously damaging international competitiveness in an environment which is becoming more and more globalized.

9. In countries with economies which are highly dependent on the criminal productive system, even addicts of the system, to use a term from drug dependence, any attempt to eradicate this and return to efficiently-run markets, political system and society in general would provoke economic recession and the resulting social response.

10. Under some specific circumstances, organized crime can pose a direct threat to liberal democracy. The more serious threat to the democratic institutions by organized crime is then its activity from outside the political system. The result of this might be the collusion or alliance of these groups with insurgent terrorist or guerrilla groups. Although there are substantial differences between the two types of organizations, they may reach agreements on tactics in order that their

interests may prevail against those of the state. These alliances, which can end up accumulating substantial destabilizing potential, mean an increased impunity and much more destructive capacity for the subversive organizations. In this area, the state would have to confront a substantial challenge of an insurgent nature which would provide the chance to discredit democracy as a system able to solve problems of coexistence without the resort to violence. This threat could grow in the next millennium, when control of tons of nuclear material could be lost and a large part of this material could fall into the hands of smugglers owing to the political disorganization in the countries which used to be within the orbit of the former soviet block. Such nuclear resources could be used to challenge democratic governments from other countries as well as from domestic or international subversive groups with extremist political, religious or nationalist doctrines.

Moreover, criminal groups undermine human rights through violence (at levels that are often as high or higher than in conflict zones), they persecute communities, business and state officials with extortion and threats; they destabilize peace and security by sustaining wars through resourcing armed groups and terrorists, and frustrating or warping peace processes; they distort politics and undercut governance through corruption, influence trading and the funding of political parties; they promote species depletion and climate change through burgeoning illegal wildlife trade, illegal fishing and sustaining trade in timber and charcoal; and they undermine trust in the now essential networks of global trade and communication [78].

The information about estimated annual costs and revenues generated by TOC is given in the Table 3.1.

Table 3.1 – Estimated annual costs and revenues generated by TOC [91]

Crimes	Estimated annual dollar value
Money laundering	\$1.3 to \$3.3 trillion
Bribery	Significant portion of \$1 trillion
Narcotics trafficking	\$750 billion to \$1 trillion
Counterfeited and pirated products	\$500 billion
Environmental crime (illegal wildlife trade, logging, trade in CFCs, and toxic waste dumping)	\$20 to \$40 billion
Human trafficking (2.4 million victims)	\$21 billion
Credit card fraud	\$10 to 12 billion
Fire arms	\$170 to \$320 million

Organized crime is considered to be a changing and flexible phenomenon. Many of the benefits of globalization such as easier and faster communication, movement of finances and international travel, have also created opportunities for transnational organized criminal groups to flourish, diversify and expand their activities. Traditional, territorial-based criminal groups have evolved or have been partially replaced by smaller and more flexible networks with branches across several jurisdictions. Nowadays, victims, suspects, organized criminal groups and proceeds of crime may be located in many states. Moreover, organized crime affects all states, whether as countries of supply, transit or demand. As such, modern organized crime constitutes a global challenge that must be met with a concerted, global response [62].

3.3. Transnational Organized Crime in Specific Countries and Regions

The countries with the best and worst criminal situation in the world are shown in the Table 3.2.

Table 3.2 – Organized Crime Index in 2018 [63]

Best-performing countries	Index	Worst-performing countries	Index
Finland	6.8	Haiti	3.3
Iceland	6.5	Chad	3.2
Singapore	6.5	Peru	3.2
Oman	6.4	Yemen	3.2
Estonia	6.2	Macedonia, FYR	3.2
Brunei Darussalam	6.1	Mozambique	3.2
New Zealand	6.1	Mali	3.0
Luxembourg	6.0	Jamaica	3.0
Lesotho	6.0	Colombia	3.0
Norway	6.0	Honduras	2.8
Switzerland	6.0	Venezuela	2.6
Portugal	6.0	Guatemala	2.6
United Arab Emirates	5.9	Mexico	2.5
Czech Republic	5.9	El Salvador	1.6

Transnational organized crime manifests itself in various regions in different ways [91].

United States. Transnational criminal organizations commit numerous crimes in the United States targeting US businesses, consumers, and government programs. Specialized criminal networks feature prominently in the trafficking of drugs, movement of contraband items, counterfeiting of goods, and smuggling of humans into the United

States. The US is a source of illicit weapons and cash for criminals in Latin America, the Caribbean, and, to a lesser degree, Canada.

Canada. Asia-based TOC groups smuggle precursor chemicals into Canada to produce illicit synthetic drugs – primarily ecstasy. A variety of TOC networks smuggle ecstasy and high-potency marijuana southbound and cocaine northbound across the US-Canada border.

United Kingdom. TOC in the UK generates enormous economic revenue – between \$32 billion and \$64 billion per year – from large-scale human smuggling, drug trafficking, financial fraud, and mass marketing scams.

Italy. The dumping of hazardous wastes and trash appears to be one of the most significant sources of illicit income for Italy's Camorra criminal organization, topping its narcotics, prostitution, and embezzlement activities. "Ndrangheta", considered to be Italy's greatest organized crime threat, is believed responsible for 80 percent of Colombian cocaine imported into Western Europe.

Balkans. TOC continues to use the region's strategic location to traffic weapons, drugs, people, and contraband between Asia and Europe. TOC and corruption of public officials and institutions are impeding Balkan countries' progress toward democracy and economic self-sufficiency.

China. Transnational criminal organizations are becoming common players in all stages of intellectual property rights crime – from manufacturing to distribution. Other networks are engaged in cybercrime, illicit finance, drug trafficking, and the diversion of

precursor chemicals, including those from India, that are used to process heroin, cocaine, and methamphetamine.

Caucasus. The black market for nuclear material is dominated by multiple networks of transnational smugglers.

Russia, Eurasia, and Romania. In some instances, links among organized crime, big business, and corrupt officials threaten economic growth and prospects for democratic governance. TOC-linked businesses have entered sensitive markets such as energy, telecommunications, and precious metals. Some of the most sophisticated transnational criminals conducting cybercrimes are based in Russia and Romania.

North Korea. North Korean entities maintain ties with crime networks to earn hard currency.

US/Mexican Border. In addition to drug trafficking, transnational organized criminals are involved in human, money, and weapon smuggling.

Mexico. The Government of Mexico is waging an historic campaign against transnational criminal organizations, which pose a threat to Mexico's national security. Many of the drug organizations are expanding into human trafficking and smuggling, extortion, and kidnapping for ransom.

Central America. Central America is a key area of converging threats, where criminal organizations exploit the region as a haven for illicit finance and engage in drug, weapon, and human trafficking. The spiraling wave of transnational crime and violence is threatening the

region's prosperity and can cost up to 8 percent of its GDP, according to the World Bank.

Caribbean. Trafficking and smuggling routes in the region have led to increased levels of crime, violence, and corruption. As the Merida Initiative and the Central America Regional Security Initiative make progress in Mexico and Central America, traffickers may increase their use of smuggling routes in the Caribbean.

Bolivia. Bolivia's cocaine trade is expanding. Increasing numbers of Colombian, Mexican, and Eastern European drug traffickers have relocated to Bolivia and have established relationships with Bolivian drug organizations. Bolivia is a source of cocaine that fuels South America's transatlantic cocaine trade to West Africa and Europe.

Triborder Area: Brazil/Argentina/Paraguay. Numerous organized criminal networks and terrorist groups use the region for illicit activities, such as arms and drug trafficking, money laundering, product piracy, and other criminal activities, capitalizing on its strategic location, history of contraband smuggling, and corrupt officials.

Venezuela. This country is a permissive environment for terrorist and drug organizations and a major departure point for cocaine bound from South America for the United States, Europe, and western Africa. Corruption and a lack of judicial independence hinder effective prosecution. It is unclear to what extent the Venezuelan Government provides support to foreign terrorist organizations.

Afghanistan and Colombia. The proceeds from poppy/coca farming and heroin/cocaine production continue to provide insurgent and extremist groups with stable sources of financing beyond the reach

of governments. Afghanistan's democratic future is threatened by terrorist groups that derive funding from the drug trade and kidnapping. Ninety percent of the world's heroin comes from opium poppy cultivated in Afghanistan.

Gulf Region. A variety of TOC figures – including gray arms dealers, narcotics traffickers, and terrorist financiers – work in or through the region, including the United Arab Emirates, taking advantage of the strategic location as regional trading, financial, and transportation hubs. Weak or inadequate terrorist financing legislation is another vulnerability in the region, particularly in Kuwait.

Sahel, West Africa, and East Africa. Sahel-based smugglers purchase or steal needed weapons from black markets and sell them to al-Qa'ida in the Lands of the Islamic Maghreb (AQIM). AQIM also conducts kidnapping for ransom to generate funding in West and North Africa. Drug traffickers increasingly are exploiting West and East African countries as transit points because they can bribe inspectors, judges, and ministers. In many of these states, bribery has eroded even basic law enforcement capacity. Nascent or undeveloped controls and insufficient legal frameworks contribute to the regions' exploitation by terrorist financiers and money launderers.

Somalia. Piracy attacks off Somalia/Gulf of Aden skyrocketed from 22 in 2006 to 217 in 2019, according to the International Chamber of Commerce.

Asia/Pacific. The economic importance of the region heightens the threat that TOC poses to intellectual property rights. Human smuggling and money laundering are also rampant in parts of Asia.

Globally. TOCs are eroding market integrity, disrupting competition, and putting the public health at risk with fake pharmaceuticals, which account for 10 percent of all pharmaceuticals.

Transnational organized crime problems vary across different conflict zones (see the Table 3.3).

Table 3.3 – Global distribution of TOC problems [85]

TOC problems		Estimated extent	Estimated value (US \$)	Potential effects
1		2	3	4
Trafficking in persons	To Europe for unethical exploitation	70 000 victims (annual)	3 billion	Human rights violations
Smuggling of migrants	From Latin America to North America	3 million entries (annual)	6.6 billion (income for smugglers)	Irregular migration, vulnerability of migrants
	From Africa to Europe	55 000 migrants (annual)	150 million (income for smugglers)	Irregular migration, death of migrants
Cocaine	From the Andean region to North America	196 tons	38 billion	Addiction; drug related crime, corruption and violence in the Andean region; links with illegal armed groups in the Andean region; destabilization and corruption in neighbouring states, Central America and Mexico
	From the Andean region to Europe	124 tons	34 billion	Addiction, drug related crime and violence, destabilization and corruption in Andean countries, the Caribbean and West Africa

Continuation of the Table 3.3

TOC problems		Estimated extent	Estimated value (US \$)	Potential effects
1		2	3	4
Heroin	From Afghanistan to the Russian Federation	70 tons	13 billion	Addiction, spread of HIV/AIDS; increase in organized crime, funding for criminals and insurgents, corruption
	From Afghanistan to Europe	87 tons	20 billion	Addiction, increase in organized crime; funding for criminals and insurgents, corruption
Trafficking of firearms	From the United States to Mexico	20 000 weapons, mostly handguns	20 million	Rising deaths in Mexico's drug cartel wars
	From eastern Europe to the world	At least 40 000 Kalashnikovs	At least 33 million	Death and instability
Trafficking of natural resources	Wildlife from Africa and South-East Asia to Asia	Elephant ivory: 75 tons Rhino horn: 800 kg Tiger parts: 150 tiger skins and about 1 500 kg of tiger bones	Elephant ivory: 62 million Rhino horn: 8 million Tiger parts: 5 million	Tigers and black rhinos may become extinct in the wild; impact on South-East Asia wildlife unclear; promotion of corruption and organized crime
	Timber from South-East Asia to the European Union and Asia	10 million cubic meters	3.5 billion	Deforestation, loss of habitat, loss of species, climate change, increased rural poverty, irregular migration, flooding, soil erosion
Product counterfeiting	Consumer goods from Asia to Europe	Some two billion articles per year	8.2 billion	Loss of product safety and accountability, loss of revenue
	Medicine from Asia and to South-East Asia and Africa	Billions of dose units	1.6 billion	Death, drug-resistant pathogens

Continuation of the Table 3.3

TOC problems		Estimated extent	Estimated value (US \$)	Potential effects
1		2	3	4
Maritime piracy	Off the coast of Somalia	217 attacks	100 million	Difficulties in establishing Government authority, negative impact on local and international commerce
Cybercrime	Identity theft	Around 1.5 million victims	1 billion	Increase in the costs of credit, depressive effects on the economy, loss of trust in e-commerce

Criminal networks are not only expanding their operations, but they are also diversifying their activities. The result is a convergence of threats that have evolved to become more complex, volatile, and destabilizing.

3.4. United Nation’s Response to the Transnational Organized Crime

Organized crime involves the illegal activity of groups of people or organizations commonly for the purposes of obtaining money and influence. This illegal activity can consist of the illegal transportation of humans, money, and objects, commonly connected to violence and corruption. Transnational organized crime can be conducted between individuals and groups over national borders. Because of this, it directly or indirectly affects every member state of the United Nations [11].

The United Nations' response to the transnational organized crime is the global effort in tackling criminal matters. Organized crime and illicit trafficking affects almost all of the priorities and values which the United Nations was established to uphold. The United Nations is uniquely positioned to develop a new and more holistic framework for response. Across its diverse organs and bodies, the UN has become increasingly cognisant of the threat presented by organized crime to its core mandates. The Security Council has become increasingly seized of the matter. In 2016 alone, resolutions have been passed on the intersection between human trafficking and conflict (S/RES/2331); smuggling of migrants (S/RES 2312); as well as to address the role of criminal groups and illicit flows in contexts as diverse as Libya, Guinea-Bissau (S/RES/2267), Colombia (S/RES/2261); Afghanistan (S/RES/2274) and the DRC (S/RES/2277). 28 Resolutions referenced organized crime in 2014; and 24 in 2015 – a decade prior these numbers were in the low single digits.

In 2016 alone the UN General Assembly and its Committees considered issues of illicit financial flows (A/RES/71/213); the world drug problem (A/RES/71/211); cybercrime, security and the right to privacy; human trafficking, and within the context of a moratorium on the death penalty (GA/11879), for which drug trafficking has become the leading cause of judicial executions. Addressing organized crime and illicit markets are explicitly included as targets in the 2030 Agenda for Sustainable Development (SDGs) (A/RES/70/1), both directly and indirectly. Goal 16.4 has targets to reduce illicit financial flows and specifically to end organized crime. But more broadly, achieving

additional targets in the SDGs will require action against organized crime across a range of sectors, including [29]:

- Goal 3 in health, where targets on AIDS prevalence (Goal 3.3), substance abuse (Goal 3.5) and access to safe, effective and quality healthcare (Goal 3.8) will require addressing the role of counterfeit medicines.

- For environmental sustainability and biodiversity, Goal 15.7 on trafficking of wildlife is a critical concern, and Goals 14.4 and 14.6 that relate to addressing illegal fishing.

- Goals supporting the achievement of safe and productive lives are also called into question, where trafficking in women and girls is an issue (Goal 5.2); trafficking in children (Goal 16.2), forced labour (Goal 8.7) and the protection of migrant workers from exploitation (Goal 8.8).

- Finally, promoting urban development and safe settlements will also require addressing criminal violence (Goal 11.1).

The global recognition around the critical need to address organized crime and its impacts is gaining momentum, but answers appear in short supply. While United Nations Convention against Transnational Organized Crime (UNTOC) is one of the most ratified of UN treaties, equaling landmark global legislation such as the Convention on the Elimination of all forms of Discrimination against Women (CEDAW) or the Treaty on Non-Proliferation of Nuclear Weapons, it falls short on tangible evidence of implementation. In the past years, efforts to put forward a review mechanism have stalled, leaving UNTOC with little way to measure progress.

The United Nations system assists Member States in their fight against transnational organized crime. A number of international conventions on drug control, and more recently the UN Convention against Transnational Organized Crime and its protocols on human trafficking, migrant smuggling and trafficking of firearms, as well as the UN Convention against Corruption, constitute the key framework for a strategic response.

The United Nations Convention against Transnational Organized Crime is the main international instrument to counter organized crime and a critical tool for carrying out international cooperation. Adopted by the United Nations General Assembly in 2000, it is supplemented by three protocols that target trafficking in persons, especially women and children; smuggling of migrants; and illicit manufacturing of and trafficking in firearms. With 189 States Parties at present, the Convention enjoys nearly universal adherence [100]. The United Nations Office on Drug and Crime (UNODC) is the guardian of the related international conventions [98].

UNODC was established to assist the UN in better addressing a coordinated, comprehensive response to the interrelated issues of illicit trafficking in and abuse of drugs, crime prevention and criminal justice, international terrorism, and political corruption. These goals are pursued through three primary functions: research, guidance and support to governments in the adoption and implementation of various crime-, drug-, terrorism-, and corruption-related conventions, treaties and protocols, as well as technical/financial assistance to said governments to face their respective situations and challenges in these fields [98].

UNODC has the mission of making the world safer from crime, drugs, and terrorism. To be effective and sustainable, responses to these threats must include strategies covering the following areas [14]:

1. Crime prevention, especially urban crime prevention; youth-focused crime prevention; armed violence prevention; prevention of recidivism.

2. Criminal justice reform: police reform, prosecution service, judiciary (the courts), access to legal defense and legal aid, prison reform and alternatives to imprisonment, and restorative justice.

3. Justice for children.

4. Support and assistance to victims.

5. Gender in the criminal justice system.

Crime prevention and criminal justice strategies must be gender-responsive and respect the rule of law, therefore incorporating human rights law and principles. Acting as the custodian of the UN standards and norms in crime prevention and criminal justice, which promote human rights, UNODC assists Member States in reforming their criminal justice systems in order to be effective, fair and humane for the entire population. The work of UNODC in crime prevention and criminal justice reform is guided by the UN standards and norms on crime prevention and criminal justice. The UN standards and norms are sets of non-binding rules, principles, and guidelines relating to different aspects of criminal justice, such as juvenile justice, violence against women, protecting the rights of children, and prison reform. Most of the UN standards and norms are resolutions adopted by the General Assembly or the Economic and Social Council.

UNODC builds national, regional and transnational initiatives to prevent, confront and halt organized crime. The Office's capacity building and technical assistance activities are geared towards strengthening the rule of law, working with law enforcement authorities, prosecutors, judges and other actors in countries and across regions where drugs, crime, corruption and terrorism threaten stability and security. Working with States around the world, the aim of UNODC is to foster good governance, robust criminal justice systems that observe human rights, security sector reform and, consequently, also sustainable development, through strengthening States' capacities to prevent, confront and defeat transnational organized crime. In short, the Office [100]:

1. Supports States in building their capacities to prevent, investigate and prosecute organized crime by providing technical assistance to develop crime prevention strategies, and build capacities for investigation and prosecution, including training staff of law enforcement, customs and border agencies, prosecutorial offices, the judiciary, financial intelligence units and other related officials.

2. Promotes and strengthens international cooperation in criminal matters among law enforcement, judicial practitioners and other relevant actors through a variety of mechanisms, including through regional and inter-regional networks and anti-organized crime units, and the development of software tools and databases to share information. This includes providing support for the proper collection and analysis of criminal intelligence and electronic evidence, and assisting in training programmes.

3. Provides a range of tools and resources to assist Member States in their efforts to prevent and combat organized crime, helping relevant officials to more effectively and efficiently do their work, with better understanding of the issues in light of international good practice and applicable human rights standards. This includes providing support for the proper collection and analysis of legislation, case law and good practices, among others, including through the expansion of the SHERLOC knowledge management portal.

Recognizing the multiple causes of crime and as the custodian of the United Nations standards and norms in crime prevention and criminal justice, UNODC promotes strategies, plans, and programmes, which are multi-sectoral, multi-disciplinary, and which favour civil society participation. Such strategies and action plans are underpinned by the basic principles for the prevention of crime [13]:

1. **Government leadership** at all levels is required to create and maintain an institutional framework for effective crime prevention.

2. **Socio-economic development and inclusion** refer to the need to integrate crime prevention into relevant social and economic policies, and to focus on the social integration of at-risk communities, children, families, and youth.

3. **Cooperation and partnerships** between government ministries and authorities, civil society organizations, the business sector, and private citizens are required given the wide-ranging nature of the causes of crime and the skills and responsibilities required to address them.

4. **Sustainability and accountability** can only be achieved if adequate resources to establish and sustain programmes and evaluation

are made available, and clear accountability for funding, implementation, evaluation and achievement of planned results is established.

5. **Knowledge base strategies**, policies and programmes need to be based on a broad multidisciplinary foundation of knowledge, together with evidence regarding specific crime problems, their causes, and proven practices.

6. **Human rights/rule of law/culture of lawfulness** the rule of law and those human rights which are recognized in international instruments to which Member States are parties must be respected in all aspects of crime prevention, and a culture of lawfulness actively promoted.

7. **Interdependency** refers to the need for national crime prevention diagnoses and strategies to take into account, where appropriate, the links between local criminal problems and international organized crime.

8. The principle of **differentiation** calls for crime prevention strategies to pay due regard to the different needs of men and women and consider the special needs of vulnerable members of society.

The Commission on Narcotic Drugs (CND) reviews and analyzes the global drug situation, considering the interrelated issues of prevention of drug abuse, rehabilitation of drug users and supply and trafficking in illicit drugs. It takes action through resolutions and decisions. The Commission was established by the Economic and Social Council as one of its functional commissions on 16 February 1946. The Commission assists the Council in supervising the application of the

international drug control treaties. It also advises the Council on all matters pertaining to the control of narcotic drugs, psychotropic substances and their precursors. The CND has important normative functions under the international drug control conventions. It is authorized to consider all matters pertaining to the aims of the Conventions and see to their implementation. As a treaty organ under the Single Convention on Narcotic Drugs (1961) and the Convention on Psychotropic Substances (1971) the Commission decides, on the basis of recommendations by the World Health Organization (WHO), to place narcotic drugs and psychotropic substances under international control. Pursuant to the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) the Commission decides, upon the recommendation of the International Narcotics Control Board (INCB), to place precursor chemicals frequently used for the manufacture of illicit drugs under international control. The Commission may also decide to remove or modify international control measures over drugs, psychotropic substances or precursors [97].

The Commission on Crime Prevention and Criminal Justice (CCPCJ) was established by the Economic and Social Council (ECOSOC) resolution 1992/1, upon request of General Assembly (GA) resolution 46/152, as one of its functional commissions. The Commission acts as the principal policymaking body of the United Nations in the field of crime prevention and criminal justice. ECOSOC provided for the CCPCJ's mandates and priorities in resolution 1992/22, which include improving international action to combat national and transnational crime and the efficiency and fairness of criminal justice

administration systems. The CCPCJ also offers Member States a forum for exchanging expertise, experience and information in order to develop national and international strategies, and to identify priorities for combating crime. In 2006, the GA adopted resolution 61/252, which further expanded the mandates of the CCPCJ to enable it to function as a governing body of the United Nations Office on Drugs and Crime (UNODC), and to approve the budget of the United Nations Crime Prevention and Criminal Justice Fund, which provides resources for technical assistance in the field of crime prevention and criminal justice worldwide. The CCPCJ coordinates with other United Nations bodies that have specific mandates in the areas of crime prevention and criminal justice, and is the preparatory body to the United Nations Crime Congresses. Declarations adopted by the congresses are transmitted through the CCPCJ and the ECOSOC to the GA for endorsement. The CCPCJ implements the outcome of the congresses into concrete action through decisions and resolutions, many of which are recommended for adoption by the ECOSOC or, through the ECOSOC, by the GA. Intersessional meetings of the CCPCJ are regularly convened to provide policy guidance to UNODC. Towards the end of each year, the CCPCJ meets at a reconvened session to consider budgetary and administrative matters as the governing body of the United Nations crime prevention and criminal justice programme [82].

The growing problem of transnational organized criminal networks has stimulated countries to cooperate in joint approaches to tackle the issue. Transnational organized crime is a cross-cutting issue at both national and international levels, and cannot be limited to a single policy

area. It is a global problem that can only be addressed if organizations in various sectors cooperate across borders as part of a multilevel approach: international police cooperation, security and intelligence services, the media, non-governmental organizations, private national and international business, and bilateral and multilateral development agencies must all be involved [79].

3.5. The American Strategy on Combating Transnational Organized Crime

Transnational organized crime has expanded dramatically in size, scope, and influence. Transnational organized criminals are threatening US interests by [91]:

- 1) co-opting some governments and weakening governance in others;
- 2) forging alliances with government elements including security services and big business figures;
- 3) undermining competition in strategic markets;
- 4) providing funding and logistical support for terrorist/insurgent activities;
- 5) stealing intellectual property;
- 6) expanding narcotrafficking and engaging in arms smuggling and human trafficking;
- 7) using cyber technologies to perpetrate sophisticated frauds;
- 8) using facilitators who operate in the licit and illicit worlds and provide services to criminals and terrorists alike.

For decades, the United States and other countries have dismantled scores of criminal organizations around the world. The U.S. experience with La Cosa Nostra, as well as Colombia's experience with the Medellin and Cali Cartels – and even the FARC – prove that it is possible to constrain, shrink, disrupt and dismantle criminal and insurgent groups once considered to be untouchable.

This Strategy builds upon such past experience. Today the threat from TOC is more complicated because criminal networks are more fluid and are using increasingly sophisticated tactics. TOC can exploit the interconnected nature of our modern trading, transportation, and transactional systems that move people and commerce throughout the global economy and across our borders. Countering TOC today requires an integrated and comprehensive approach. This Strategy sets out such an approach to raise international awareness about the reality of the TOC threat to international security; galvanize multilateral action to constrain the reach and influence of TOC; deprive TOC of its enabling means and infrastructure; shrink the threat TOC poses to citizen safety, national security, and governance; and ultimately defeat the TOC networks that pose the greatest threat to national security. TOC presents sophisticated and multi-faceted threats that cannot be addressed through law enforcement action alone. Accordingly, we will establish an interagency Threat Mitigation Working Group to identify those TOC networks that present a sufficiently high national security threat as to merit the focused use of complementary law enforcement and non-law enforcement assets and that may be vulnerable to whole-of-government responses. The Working Group will ensure the coordination of all

elements of national power to effectively protect our borders, people, economy, and financial system from the threats posed by the most dangerous and sophisticated of these transnational criminal networks.

This Strategy sets out five overarching policy objectives that are consistent with the vision and priorities of the National Security Strategy [76]:

1. Protect Americans and their partners from the harm, violence, and exploitation of transnational criminal networks. Our priority is the safety, security, and prosperity of American citizens and the citizens of partner nations. We will target the networks that pose the gravest threat to citizen safety and security, including those that traffic illicit drugs, arms, and people – especially women and children; sell and distribute substandard, tainted and counterfeit goods; rob Americans of their prosperity; carry out kidnappings for ransom and extortion; and seek to terrorize and intimidate through acts of torture and murder.

2. Help partner countries strengthen governance and transparency, break the corruptive power of transnational criminal networks, and sever state-crime alliances. The United States needs willing, reliable and capable partners to combat the corruption and instability generated by TOC and related threats to governance. We will help international partners develop the sustainable capacities necessary to defeat transnational threats; strengthen legitimate and effective public safety, security, and justice institutions; and promote universal values. We will also seek to sever the powerful strategic alliances that form between TOC and states, including those between TOC networks and foreign intelligence services.

3. Break the economic power of transnational criminal networks and protect strategic markets and the U.S. financial system from TOC penetration and abuse. TOC networks – using bribery, fraud, and violence – have the capacity to disrupt economic activity and put legitimate businesses at a distinct competitive disadvantage. We will attack the financial underpinnings of the top transnational criminals; strip them of their illicit wealth; sever their access to the financial system; expose their criminal activities hidden behind legitimate fronts; and protect strategic markets and the U.S. financial system.

4. Defeat transnational criminal networks that pose the greatest threat to national security, by targeting their infrastructures, depriving them of their enabling means, and preventing the criminal facilitation of terrorist activities. We will target, disrupt, and defeat the TOC networks that pose the greatest threat to the safety and security of Americans and U.S. national security interests. These include criminal networks – including transnational criminal gangs – that traffic drugs, bulk cash, arms, people, sensitive documents, or other contraband. Further, we will seek to prevent collaboration between criminal and terrorist networks and deprive them of their critical resources and infrastructure, such as funding, logistical support for transportation, staging, procurement, safe havens for illicit activities, and the facilitation of services and materiel, which could include WMD material.

5. Build international consensus, multilateral cooperation, and public-private partnerships to defeat transnational organized crime. We will build new partnerships – with industry, finance, academia, civil society and non-governmental organizations – to combat TOC networks

that operate in the illicit and licit worlds. We will also fight criminal networks with an alliance of legitimate networks, and ensure the freedom of the press so that the media and journalists may safely expose the harms inflicted by TOC. We will expand and deepen our understanding, cooperation, and information sharing at home with State and local agencies, with foreign partners, and with multilateral institutions. Internationally, we will further international norms against tolerating or sponsoring crime in all its forms, including in cyberspace.

Actions to combat TOC [77]:

1. Reduce the demand for illicit drugs in the United States, thereby denying funding to illicit trafficking organizations.
2. Continue to attack drug trafficking and distribution networks and their enabling means within the United States to reduce the availability of illicit drugs.
3. Sever the illicit flow across U.S. borders of people, weapons, currency, and other illicit finance through investigations and prosecutions of key TOC leadership, as well as through the targeting of TOC networks' enabling means and infrastructure.
4. Identify and take action against corporate and governmental corruption within the United States.
5. Work with Congress to secure ratification of the Inter American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials.
6. Seek accession to the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and

Ammunition, supplementing the UN Convention against Transnational Organized Crime.

This strategy is organized around a single, unifying principle: to build, balance, and integrate the tools of American power to combat transnational organized crime and related threats to our national security – and to urge the American partners to do the same.

Conclusions

1. Transnational organized crime (TOC) suggests in simple terms the movement of persons, goods and services across sovereign national jurisdiction in a manner devoid of acceptable norms and standards. This type of organized crime has three basic manifestations: it tends to operate at a regional or global level, it mobilizes extensive cross-border connections and, above all, has the ability to challenge both national and international authorities.

2. There are major factors largely responsible for the preponderance of transnational crime, namely: the development of global markets; advancement in technology; the deregulation of the financial systems; political developments; the depressed economy of most developing countries.

3. In order to measure the criminal situation in the particular country, the Organized Crime Index is used. In 2018, the top-3 countries with the best criminal situation were Finland, Iceland and Singapore. The top-3 countries with the worst criminal situation were Guatemala, Mexico and El Salvador.

4. The United Nations' response to the transnational organized crime is the global effort in tackling criminal matters. It established the United Nations Convention against Transnational Organized Crime (UNTOC) and United Nations Office on Drug and Crime (UNODC). UNTOC is the main international instrument to counter organized crime and a critical tool for carrying out international cooperation. UNODC was established to assist the UN in better addressing a coordinated, comprehensive response to the interrelated issues of illicit trafficking in and abuse of drugs, crime prevention and criminal justice, international terrorism, and political corruption.

End-of-chapter tasks

1. Analyze a global nature of the organized crimes.
2. Estimate how TOC is globally distributed.
3. Explain how TOC manifests itself in various regions.
4. Value the costs of TOC.
5. List the countermeasures taken to combat TOC.
6. Predict the future scenarios of TOC development.

CHAPTER 4. TERRORISM AS A GLOBAL THREAT

4.1. Defining and Classifying the Terrorism

4.2. Global Trends in Terrorism

4.3. The Economic Impact of Terrorism

4.4. Counter-Terrorism Measures

Key words: international terrorism, motives behind a terrorism, terrorist actions, ISIL, Al-Qa'ida, Global Terrorism Index, economic damages, counter-terrorism measures

4.1. Defining and Classifying the Terrorism

Nowadays terrorism is considered as one of the most pressing problems of the contemporary world. Political scientists, psychologists, politicians, and the mass media constantly wonder what will be the next action of Hamas, Hezbollah or Al-Qa'ida. Terrorist threats are not a new phenomenon, nor are they limited to a specific geographical or cultural area. It can be said that almost every continent has encountered the cruelty and the effects of terrorist attacks, and the terrorist methods have been used especially wherever the weak have fought against the strong. Terrorism is an extreme expression of the fragmentation of social life, as it involves the infringement of all existing moral and legal standards, as well as the violations of public order on a micro-social and international scale [73].

There is no single or universal accepted definition of terrorism. Let's use several approaches to defining it [81].

1. The FBI defines terrorism as “the unlawful use of force and violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives”.

2. The Department of Defense defines terrorism as “the calculated use of violence or threat of violence to inculcate fear; intended to coerce or to intimidate governments or societies in the pursuit of goals that are generally political, religious, or ideological”.

3. The State Department defines terrorism as an activity, directed against persons involving violent acts or acts dangerous to human life which would be a criminal violation if committed within the jurisdiction of the U.S.; and is intended to intimidate or coerce a civilian population; to influence the policy of a government by intimidation or coercion; or to affect the conduct of a government by assassination or kidnapping to include the use of certain weapons of mass destruction.

4. The United Nations’ definition of terrorism states that “all war crimes will be considered acts of terrorism,” in which case most every government in the world has committed terrorism, though few have ever faced justice or were even disgraced for doing so.

Derived from the definitions, terrorism is [81]:

- 1) a specific type of violence. It can be international or domestic;
- 2) perpetrated against civilians, not normally at military targets or combat-ready troops;
- 3) calculated. The selection of a target is neither spontaneous nor random;
- 4) motivated by political, religious, or ideological objectives;

5) intended to produce fear. It is a psychological act conducted for its impact on an audience;

6) carried out by subnational groups and not by the army of a country.

Terrorism's sole purpose is to use the psychological impact of violence or of the threat of violence to effect political change.

The UK the Terrorism Act 2000 defines terrorism as [70]: the use or threat of action designed to influence the government or an international governmental organization or to intimidate the public, or a section of the public; made for the purposes of advancing a political, religious, racial or ideological cause; and it involves or causes:

- serious violence against a person;
- serious damage to a property;
- a threat to a person's life;
- a serious risk to the health and safety of the public;
- serious interference with or disruption to an electronic system.

According to the National Advisory Committee on Criminal Justice Standards and Goals, there are six distinct types of terrorism [94]. All of them share the common traits of being violent acts that destroy property, invoke fear and attempt to harm the lives of civilians.

1. **Civil disorder** – is a sometimes violent form of protest held by a group of individuals, usually in opposition to a political policy or action. They are intended to send a message to a political group that “the people” are unhappy and demand change. The protests are intended to be non-violent, but they do sometimes result in large riots in which private property is destroyed and civilians are injured or killed.

2. **Political terrorism** – is used by one political faction to intimidate another. Although government leaders are the ones who are intended to receive the ultimate message, it is the citizens who are targeted with violent attacks.

3. **Non political terrorism** – is a terrorist act perpetrated by a group for any other purpose, most often of a religious nature. The desired goal is something other than a political objective, but the tactics involved are the same.

4. **Quasi terrorism** – is a violent act that utilizes the same methods terrorists employ, but does not have the same motivating factors. Cases like this usually involve an armed criminal who is trying to escape from law enforcement utilizing civilians as hostages to help them escape. The law breaker is acting in a similar manner to a terrorist, but terrorism is not the goal.

5. **Limited political terrorism** – acts are generally one time only plots to make a political or ideological statement. The goal is not to overthrow the government, but to protest a governmental policy or action.

6. **State terrorism** – defines any violent action initiated by an existing government to achieve a particular goal. Most often this goal involves a conflict with another country.

Another classification of types of terrorism includes the following issues [81]:

1. **Nationalist terrorism:**

1.1. Nationalist terrorists seek to form a separate state for their own national group, often by drawing attention to a fight for “national

liberation” that they think the world has ignored. This sort of terrorism has been among the most successful at winning international sympathy and concessions.

1.2. Nationalist terror groups have tended to calibrate their use of violence, using enough to rivet attention but not so much that they alienate supporters abroad or members of their base community.

1.3. Nationalist terrorism can be difficult to define, since many groups accused of the practice insist that they are not terrorists but freedom fighters.

2. Religious terrorism:

2.1. Religious terrorists seek to use violence to further what they see as divinely commanded purposes, often targeting broad categories of foes in an attempt to bring about sweeping changes.

2.2. Religious terrorists come from many major faiths, as well as from small cults.

2.3. Religious terrorists can sanction almost limitless violence against a virtually open-ended category of targets: that is, anyone who is not a member of the terrorists’ religion or religious sect.

3. State-sponsored terrorism:

3.1. State-sponsored terrorist groups are deliberately used by radical states as foreign policy tools.

3.2. A cost-effective way of waging war covertly, through the use of surrogate warriors or “guns for hire”.

3.3. With enhance resources at their disposal; state-sponsored terrorist groups are often capable of carrying out more deadly attacks than other terrorists, including building and airplane bombings.

4. Left-wing terrorism:

4.1. Left-wing terrorists are out to destroy capitalism and replace it with a communist or socialist regime. Because they see most civilians as suffering from capitalist exploitation, left-wing terrorists sometimes have limited their use of violence to avoid hurting the victims they say they want to save.

4.2. Left-wing terrorists sometimes focus instead on such tactics as kidnapping tycoons or symbolically bombing monuments.

5. Right-wing terrorism:

5.1. Right-wing terrorists are among the least organized terrorists, often associated with neo-Nazi street rioting in Western Europe, especially in the early 1980s. These groups, often dominated by skinheads, seek to do away with liberal democratic governments and create fascist states in their place.

5.2. Neofascist terrorists frequently attack immigrants and refugees from the developing world and are both racist and anti-Semitic.

6. Anarchist terrorism:

6.1. From the 1870s until about 1920, anarchist terrorism was a major global phenomenon.

6.2. Revolutionaries seeking to overthrow established governments launched a wave of bombing and assassinated a series of heads of state.

6.3. One such victim was President William McKinley, killed in 1901 by a young Hungarian refugee influenced by anarchist sentiments.

One more classification of the forms of terrorism deserves special attention [48]:

1. **The new terrorism:** the modern terrorist environment that arose during the end of the 20th century, culminating in the September 11, 2001 terrorist attacks in New York City. The new terrorism is characterized by the threat of mass casualty attacks from dissident terrorist organizations, new and creative organizational configurations, transnational religious solidarity, and redefined moral justifications for political violence.

2. **State terrorism:** terrorism committed by governments against perceived enemies. State terrorism can be directed externally against adversaries in the international domain or internally against domestic enemies.

3. **Dissident terrorism:** terrorism committed by nonstate movements and groups against governments, ethno-national groups, religious groups, and other perceived enemies.

4. **Religious terrorism:** terrorism motivated by an absolute belief that an otherworldly power has sanctioned – and commanded – the application of terrorist violence for the greater glory of the faith. Religious terrorism is usually conducted in defense of what believers consider to be the one true faith.

5. **Ideological terrorism:** terrorism motivated by political systems of belief (ideologies), which champion the self-perceived inherent rights of a particular group or interest in opposition to another group or interest. The system of belief incorporates theoretical and philosophical justifications for violently asserting the rights of the championed group or interest.

6. **International terrorism:** terrorism that spills over onto the world's stage. Targets are selected because of their value as symbols of international interests, either within the home country or across state boundaries.

7. **Criminal dissident terrorism:** this type of terrorism is solely profit-driven, and can be some combination of profit and politics. For instance, traditional organized criminals accrue profits to fund their criminal activity and for personal interests, while criminal-political enterprises acquire profits to sustain their movement.

8. **Gender-selective terrorism:** terrorism directed against an enemy population's men or women because of their gender. Systematic violence is directed against men because of the perceived threat posed by males as potential soldiers or sources of opposition. Systematic violence is directed against women to destroy an enemy group's cultural identity or terrorize the group into submission.

Every type of terrorism utilizes distinct methods of violence to get their message across. They can be anything from assault weapons or explosive devices to toxic chemicals that are released into the air. These attacks may occur at any time or place, which makes them an extremely effective method of instilling terror and uncertainty into the general public.

Terrorists are inspired by many different motives. These motives can be grouped into three categories [81]: rationale, psychological, and cultural.

1. **Rational motivation:**

1.1. The rational terrorist thinks through their goals and options, making a cost-benefit analysis. Groups considering terrorism as an option ask a crucial question: can terrorism induce enough anxiety to attain its goals without causing a backlash that will destroy the cause and perhaps the terrorist themselves?

2. Psychological motivation:

2.1. Psychological motivation for terrorism derives from the terrorist's personal dissatisfaction with his or her life and accomplishments.

2.2. Terrorists do not even consider that they may be wrong and that others' views may have some merit.

2.3. Terrorists tend to project their own antisocial motivations onto others, creating a polarized "we versus they" outlook. They attribute only evil motives to anyone outside their own group. This enables the terrorists to dehumanize their victims and removes any sense of ambiguity from their minds.

3. Cultural motivation:

3.1. Cultures shape values and motivate people to actions that seem unreasonable to foreign observers.

3.2. In societies in which people identify themselves in terms of group membership (family, clan, tribe), there may be willingness to self-sacrifice seldom seen elsewhere. At times, terrorists seem to be eager to give their lives for their organization and cause. The lives of "others," being wholly evil in the terrorists' value system, can be destroyed with little or no remorse.

3.3. A major cultural determinate of terrorism is the perception of “outsiders” and anticipation of a threat to ethnic group survival. Fear of cultural extermination leads to violence, which, to someone who does not experience it, seems irrational.

3.4. Religion may be the most volatile of cultural identifiers because it encompasses values deeply held. A threat to one’s religion puts not only the present at risk but also one’s cultural past and the future. Many religions, including Christianity and Islam, are so confident they are right that they have used force to obtain converts. Terrorism in the name of religion can be especially violent. Like all terrorists those who are religiously motivated view their acts with moral certainty and even divine sanctions. What would otherwise be extraordinary acts of desperation becomes a religious duty in the mind of the religiously motivated terrorist. This helps explain the high level of commitment and willingness to risk death among religious extremist groups.

Contemporary terrorist actions [81]:

1. Include the traditional assassinations, bombings, arson, hostage-taking, hijacking, kidnapping, seizure and occupation of a building, attacks on a facility, sabotage, and perpetration of hoaxes.

2. Newer categories of operations include ecological terrorism and the still largely potential “high-tech” terrorism using nuclear, biological, and chemical (NBC) weapons and materials.

3. Target selection considerations are equally diverse but include the target's value in terms of its contribution to group goals, its accessibility given group capabilities, and the purpose of the attack, such

as to gain attention, collect resources, eliminate a threat, or demonstrate a capability. All these factors are reflected in the group's organization and training.

4.2. Global Trends in Terrorism

The world has seen a substantial decrease in deaths from terrorism since 2014, with the most dramatic reductions occurring in Iraq and Nigeria. Increased counterterrorism coordination at both the state and international level, increasing political stability, the winding down of the Syrian civil war, and the collapse of ISIL have all played a role in reducing the impact of terrorism around the world.

This current period of declining terrorism follows three previous trends in the global phenomenon. The current period of decline follows three previous terrorism trends since the 9/11. Between 2002 and 2007, terrorist attacks increased steadily, correlating with an increase in violent conflict in Iraq. This trend peaked in 2007, corresponding with the US troop surge, after which terrorism steadily fell, with deaths from terrorism dropping 35 per cent between 2007 and 2011.

The third trend from 2011 to 2014 saw the level of global terrorism surge, with deaths from terrorism increasing by more than 350 per cent in just three years. This surge coincided with the aftermath of the Arab Spring, increased violent conflict in Iraq, the rise of ISIL, and the start of the Syrian civil war, as well as the re-emergence of Boko Haram in Nigeria.

44% Since peaking in 2014, deaths from terrorism have fallen 44%.

60 Since 2012, more than 60 countries experience at least one fatal terrorist attack each year.

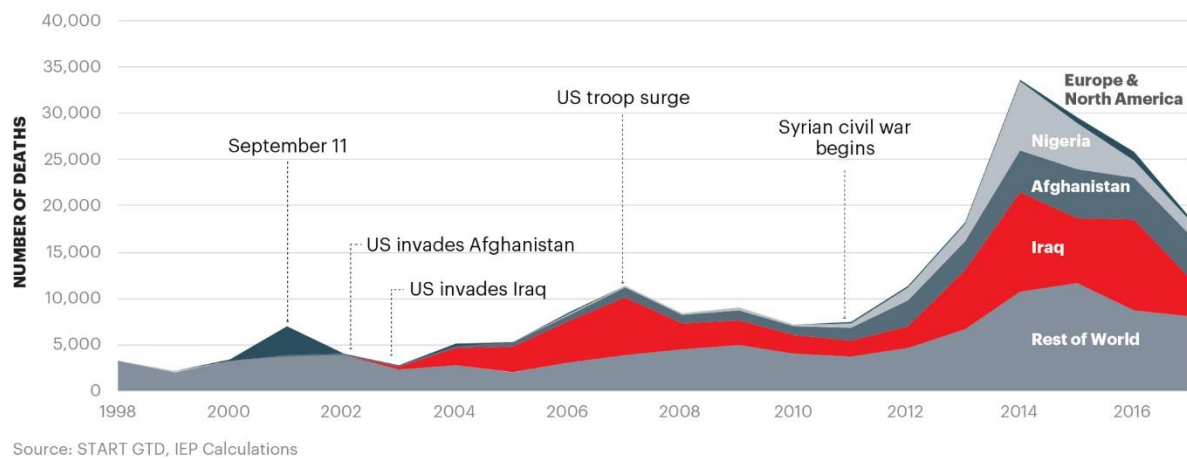


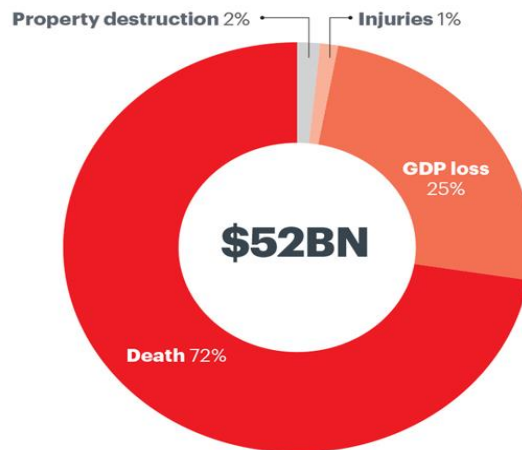
Fig. 4.1– Global terrorism in numbers [31]

As the intensity of terrorism has increased over the last two decades, its impact has also spread to more countries around the world. In 2001, 50 countries experienced at least one death from terrorism. This number dropped to 39 in 2004. However, since then the number of countries has grown steadily, with more than 60 countries experiencing at least one fatal attack in every year since 2012. This number peaked in 2016, when 79 countries had at least one death from terrorism. The distribution of terrorist deaths has remained widespread even though the total number of deaths has decreased considerably.

The increase in attacks and deaths across more countries has meant that the impact of terrorism is becoming more widespread, even as deaths from terrorism are decreasing. In 2002, the first year for which there was sufficient data to produce the GTI (Global Terrorism Index), 44 countries recorded no impact from terrorism, meaning that there had not been a single death or attack in the previous five years. In 2017, that number had decreased to 26.

Breakdown of the economic impact of terrorism, 2017

Deaths account for 72% of the economic impact of terrorism.



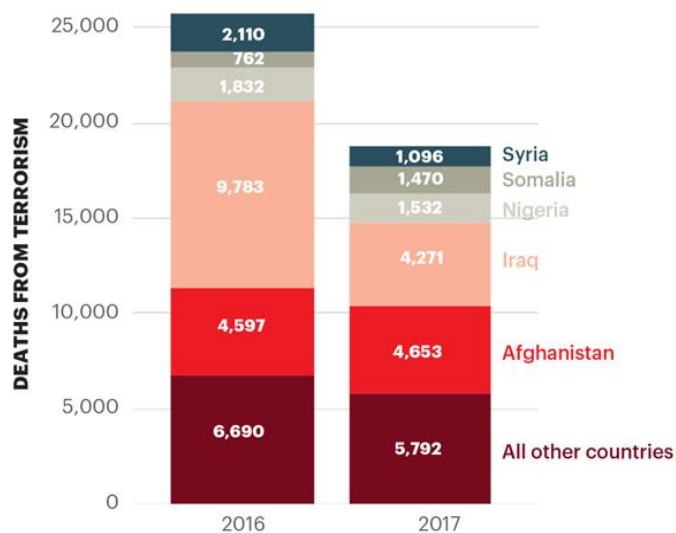
Source: START GTD, IEP Calculations

Fig. 4.2 – Economic impact of terrorism in 2017 [31]

Despite a significant fall in the number of deaths from terrorism in Iraq, there was no change in the five countries most impacted by terrorism, which include Iraq, Afghanistan, Nigeria, Syria and Pakistan.

Total terrorism deaths, country, 2016–2017

Total deaths from terrorism fell 27% from 2016 to 2017.



Source: START GTD, IEP Calculations

Fig. 4.3 – Total terrorism deaths by countries [31]

Conflict continued to be the primary driver of terrorist activity for the countries most impacted by terrorism in 2017.

In 2017, terrorist attacks in conflict countries averaged 2.4 deaths, compared to 0.84 deaths in non-conflict countries. Terrorist attacks are more lethal on average in countries with a greater intensity of conflict. In 2017, countries in a state of war averaged 2.97 deaths per attack, compared to 1.36 in countries involved in a minor armed conflict. There are numerous possible reasons for this difference. Countries in conflict have a greater availability of more military-grade small arms and bomb-making capabilities. Countries that are not in conflict tend to be more economically-developed and spend more on intelligence gathering, policing and counterterrorism.

The difference in lethality between terrorist attacks in conflict and non-conflict countries can also be clearly seen by the distribution of deaths from terrorism. In non-conflict countries, 74 % of terrorist attacks from 2002 to 2017 resulted in no fatalities. By contrast, in conflict countries, less than half of all terrorist attacks resulted in no deaths, and there were 84 attacks that killed more than 100 people.

However, terrorist attacks that killed high numbers of people have remained relatively rare in both conflict and non-conflict countries since 2002, with only 2.2 % of attacks in non-conflict countries and 4.5 % of attacks in conflict countries killing more than ten people.

The four terrorist groups responsible for the most deaths in 2017 were the Islamic State of Iraq and the Levant (ISIL), the Taliban, Al-Shabaab and Boko Haram. These four groups were responsible for 10 632 deaths from terrorism, representing 56.5 % of total deaths in

2017. In 2012, just prior to the large increase in terrorist activity around the world, these four groups were responsible for 32 % of all deaths from terrorism. A decade ago, they accounted for just 6 %.

The past decade has experienced the largest surge in terrorist activity in the past fifty years. These four groups are responsible for 44 % of the deaths in the decade. However, all of the groups other than Al-Shabaab have experienced falls in terrorist activity in the past few years.

The impact of terrorism is receding in the Middle East, new threats are emerging elsewhere, most notably in Africa and Southeast Asia.

Deaths from terrorism in Iraq fell 56 % between 2016 and 2017, with preliminary data suggesting an even greater fall in 2018. While it still remains the world's deadliest terrorist group, ISIL's decline contributed to a 56 % reduction in deaths in Iraq between 2016 and 2017.

ISIL's control of territory and associated revenue streams have plunged over the past two years. ISIL lost 60 % of its territory and 80 % of its financial capacity between 2015 and 2017. Latest estimates suggest that ISIL now holds just one per cent of its former territory. The main financial losses suffered by the group consisted of foregone tax and oil revenue. Currently, the group's primary revenue stream is extortion.

Today, ISIL holds control over only scattered territories along the Syria-Iraq border. As the prospects for a territorial caliphate have diminished severely, so has the feasibility of ISIL-related recruitment to

Iraq and Syria. However, the group's ideology, frequency of attacks and the underlying reasons for its existence continue to persist.

Al-Qa'ida has historically been most active in the Middle East, but its focus has now turned towards Africa. Between 2015 and 2017, 69 % of terror-related deaths caused by the group occurred in Sub-Saharan Africa.

Seizing on the power vacuum left by the Arab Spring, Al-Qa'ida's movement into Africa has been the result of careful planning under the leadership of Ayman al-Zawahiri. Outside of the Middle East, the group's affiliates have gained traction throughout Africa, most notably in the Maghreb and Sahel regions and at the Horn of Africa.

Over the past three years, many Southeast Asian countries have experienced a second wave of Islamist terrorism. The first wave came between 2002–2008 when the Philippines' Moro Islamic Liberation Front and Indonesia's Jemaah Islamiya (JI) were responsible for 301 and 274 deaths respectively. The second wave has come from ISIL-affiliated groups and separatist movements in Bangladesh, Indonesia, Malaysia, Myanmar, Philippines and Thailand, with 292 deaths across 348 incidents recorded in 2017 alone.

The Philippines and Myanmar both experienced their deadliest years on record in 2017, and Southeast Asia as a whole recorded a 36 per cent increase in deaths from terrorism from 2016 to 2017. Just under 97 per cent of deaths in the broader Asia-Pacific region occurred in Southeast Asia.

The Global Terrorism Index is given in the Table 4.1.

Table 4.1 – The Global Terrorism Index in 2017 [31]

Country	Score	Country	Score
Iraq	9.75	Colombia	5.61
Afghanistan	9.39	United Kingdom	5.61
Nigeria	8.66	Saudi Arabia	5.48
Syria	8.32	France	5.48
Pakistan	8.18	Palestine	5.33
Somalia	8.02	Burundi	5.32
India	7.57	Nepal	5.30
Yemen	7.53	Russia	5.23
Egypt	7.35	Lebanon	5.15
Philippines	7.18	China	5.11
Congo	7.06	Burkina Faso	4.81
Turkey	7.04	Chad	4.75
Libya	6.99	Germany	4.60
South Sudan	6.76	Mozambique	4.58
Central African Republic	6.72	Israel	4.58
Cameroon	6.62	Indonesia	4.54
Thailand	6.25	Angola	4.47
Sudan	6.18	Iran	4.40
Kenya	6.11	Greece	4.29
United States of America	6.07	South Africa	4.26
Ukraine	6.05	Tunisia	4.09
Mali	6.02	Belgium	4.06
Niger	6.00	Sri Lanka	4.05
Myanmar	5.92	Spain	4.02
Bangladesh	5.70	Sweden	3.94
Ethiopia	5.63	Uganda	3.93

The most fatal terrorist attacks in 2017 are described in the Table 4.2.

Table 4.2 – The most fatal terrorist attacks in 2017 [32]

Country	Date	Group	Deaths	Description
Somalia	14.10.2017	Al-Shabaab	588	A suicide bomber detonated an explosives-laden truck outside the Safari Hotel at the K5 intersection in Hodan neighbourhood, Mogadishu, Somalia
Egypt	24.11.2017	Sinal Province of the Islamic State	311	Assailants detonated an explosive device and opened fire on Al-Rawda mosque in Al-Rawda, Beir al-Abd, North Sinai, Egypt
Iraq	17.03.2017	ISIL	230	Assailants stormed a residential building and took civilians hostages in Maawsil al-Jadidah neighbourhood, Mosul, Nineveh, Iraq
Iraq	04.06.2017	ISIL	200	Assailants abducted 200 Turkmen civilians from Tal Afar, Nineveh, Iraq. The hostages were executed on July 4, 2017
Iraq	01.06.2017	ISIL	163	Snipers opened fire on fleeing civilians in Zanjili neighbourhood, Mosul, Iraq
Libya	18.05.2017	Misrata Brigades	141	Assailants attacked Brak al-Shati Airbase near Brak, Wadi Al Shatii, Libya.
CAR	08.05.2017	Union for peace in Central Africa (UPC)	133	Assailants attacked civilians in Alindao, Basse-Kotto, Central African Republic (CAR)
Syria	02.10.2017	ISIL	128	Assailants overtook the town and abducted approximately 128 residents in Qaryatayn, Homs, Syria. All 128 hostages were executed
Syria	15.04.2017	Jaysh Al-Islam	127	A suicide bomber detonated an explosives-laden vehicle near an evacuation bus convoy in Rashidin neighbourhood, Aleppo, Syria
CAR	13.05.2017	Anti-Balaka Militia	108	Assailants armed with projectiles and firearms attacked Muslim civilians and a UN Multidimensional Integrated Stabilization Mission in the CAR base

A fall in the intensity of conflict in the Middle East, the decline of ISIL, and an increase in counterterrorism activity has meant that the total number of deaths from terrorism declined for the third consecutive year, falling by 27 % to 18 814 deaths in 2017. This compares to 25 774 the year before. The number of deaths has now fallen 44 % from its peak in 2014.

4.3. The Economic Impact of Terrorism

The global economic impact of terrorism peaked in 2014 and has since declined in line with the decline of terror-related deaths committed by ISIL. The global economic impact of terrorism was US \$ 52 billion in 2017, a 42 % decline from 2016. This is the third consecutive year of decline in the cost of terrorism from its peak in 2014 of US \$ 108 billion. The economic impact in 2017 was less than half the impact seen in 2014 [32].

Countries suffering from armed conflict experience a significantly higher economic impact from terrorism.

Afghanistan is the country most affected by the economic impact of terrorism as a percentage of GDP at 12.8 %. Afghanistan has experienced a consistent increase in the level of violence from terrorism and ongoing conflict over the past three years. Iraq is the only other country that experienced costs of terrorism greater than ten % of its total economic activity, with the economic impact of terrorism equivalent to 10.8 % of Iraqi GDP [32].

Table 4.3 shows the ten countries with the highest economic impact from terrorism as a percentage of their GDP in 2017.

Table 4.3 – The ten worst affected countries by economic impact of terrorism as percentage of GDP, 2017 [32]

Country	% of GDP
Afghanistan	12.8 %
Iraq	10.8 %
Syria	5.8 %
Somalia	5.0 %
South Sudan	3.9 %
Central African Republic	3.6 %
Nigeria	2.6 %
Libya	1.8 %
Egypt	0.8 %
Yemen	0.7 %

The economic impact of terrorism model includes costs from deaths, injuries and property destruction. The model also includes losses in economic activity, where terrorism causes more than 1 000 deaths.

Deaths from terrorism accounted for 72 % of the global economic impact of terrorism.

Indirect GDP losses are the second largest category at 15 % of the total.

Property destruction is estimated at two per cent of the global economic impact of terrorism. However, property cost estimates are missing for a large number of incidents.

Table 4.4 shows the breakdown of the economic impact of terrorism by category.

Table 4.4 – Breakdown of the economic impact of terrorism, 2017 [32]

Category	Percentage
Death	72 %
GDP loss	25 %
Property destruction	2 %
Injures	1 %

Deaths account for 72 % of the economic impact of terrorism. The economic impact of terrorism is smaller than many other forms of violence, accounting for approximately 0.4 % of the total global cost of violence in 2017, which was an estimated \$14.76 trillion, equivalent to 12.4 % of global GDP [32].

This is a very conservative estimate of the costs associated with terrorism and only calculates globally quantifiable and comparable costs. It does not take into account the costs of counterterrorism or countering violent extremism, nor the impact of diverting public resources to security expenditure away from other government activities. Nor does it calculate any of the longer-term economic implications of terrorism from reduced tourism, business activity, production and investment.

Studies from developed and developing countries have tried to quantify at a more granular level the adverse effects of terrorism on the economy. For example [32]:

1) after the outbreak of terrorism in the Basque country in Spain in the late 1960s, economic growth declined by 10 %;

2) a study of the economic impact of terrorism in Israel found that per capita income would have been ten per cent higher if the country had avoided terrorism in the three years up to 2004;

3) results from research on Turkey show that terrorism has severe adverse effects on the economy when the economy is in an expansionary phase.

The level of economic disruption is relatively large and long-lasting for small and less diversified economies. In contrast, advanced and diversified economies are economically more resilient and have shorter recovery periods from incidents of terrorism. These effects are mainly explained by the ability of the diversified economies to reallocate resources, such as labour and capital, from the terrorism-affected sectors. Advanced and more peaceful countries also have more resources and better institutions to avert future terrorism.

Let's analyze the impact of terrorism on developing countries. The limited short-term economic impact of the attacks on advanced economies helped allay fears over the fallout on developing countries. The widening of bond spreads, the fall in commodity prices and the weakening of currencies that plagued many emerging markets soon after the attack, have been quickly, if sometimes only partly, reversed. If domestic demand recovers as expected in OECD countries, prospects for emerging markets should improve further. Over the longer term however, the overall impact of the terrorist attacks on developing countries could be substantial. This impact could come from three main channels: shipping costs, the tourism industry and workers' remittances [20]:

1. The effect of the proposed tightening of security on the cost of trading internationally is likely to be asymmetrical. Developing country exports often have higher ad valorem transportation costs (notably bulky commodities and perishable goods transported by air) and should thus be affected disproportionately. A “certification” procedure with selected foreign ports could be discriminatory if developing country ports fail to qualify. “Know-your-partner” initiatives, whereby pre-registered intermediaries go through simplified border procedures, may also favour large trading companies over smaller developing country-based firms. These proposed measures risk creating a “slow lane” for developing country exports, increasing relative compliance costs and eroding their competitiveness.

2. Heightened fear of travelling following the attacks led to a number of cancellations and a drop in new bookings. Reservations world-wide fell by an estimated 12 to 15 % in October 2001 compared with the previous year, and had still not fully recovered by early 2002 according to the World Tourism Organization. In developing countries, travel services account on average for about 7 per cent of total exports of goods and services and 2 to 3 % of GDP. The number is considerably higher in the Caribbean, the South Pacific and for some countries in the Middle East and North Africa region (Egypt, Jordan, Morocco and Tunisia) as well as in South and Southeast Asia (Nepal, Sri Lanka, Thailand and Vietnam). The drop in tourism traffic has also been asymmetrical, with some of the countries that depend most heavily on the industry experiencing the largest number of cancellations. Although the tourism industry is expected to recover as consumers gradually

revert to a business-as-usual attitude towards travelling, the increase in the perception of risk for some destinations is likely to be more permanent.

3. For security reasons, visa requirements and the control of illegal immigration have started to be tightened in advanced countries. This has the potential to lower the number of developing country workers employed abroad, affecting the level of remittances. The fact that a disproportionate share of these emigrants work in the tourism industry (hotels especially) should also affect transfers. Emigrants' remittances are an important source of income for most of Central America, the Caribbean and South Asia, as well as for some countries in the Pacific and in Southeast Asia. Although the exact level of transfers is difficult to determine, since part of them transit through unofficial channels, emigrants' remittances are higher than exports for several countries.

Besides the loss-of-life and sometimes life-changing injuries for the victims, terrorism leads to significant economic effects, with businesses, cities and nations losing billions in the aftermath of attacks. Calculations show that terrorism has a large negative association with economic growth in Europe. Between 2004 and 2016, the 28 EU member states lost around €180 billion in GDP terms due to terrorist attacks. Let's take a closer look at some findings concerning the cost of terrorism in the Europe [83]:

1. Terrorism is negatively associated with economic growth in Europe. The 28 EU member states have lost around €180 billion in GDP terms due to terrorism between 2004 and 2016.

2. The UK (€43.7 billion) and France (€43 billion) were the nations that suffered the highest economic losses in GDP terms due to terrorism. This was closely followed by Spain (€40.8 billion) and then Germany (around €19.2 billion).

3. The extensive coverage of terrorist attacks through the multiple media and social media channels has led to an exponential growth of eyewitnesses of terror attacks. This means that even those not directly involved in attacks may be psychologically affected.

4. The psychological impacts of witnessing terror attacks can lead to people and companies changing their behaviours, which has a direct impact on the economies of EU nations. For example, EU citizens are likely to consume more and save less, with this leading to an increase in consumption; however, there is also likely to be a decrease in savings and investment rates by companies.

5. Despite the economic losses in GDP terms, consumer purchasing habits remained relatively stable across the EU and sometimes even increased in the aftermath of a terrorist attack. There is also no significant change in the share of government expenditure from EU member states relative to their GDP in light of terrorism.

6. The negative effects on EU economic growth following terrorism tend to be short-lived and only apply within the year of the terrorist incident. For example, the tourism sector, despite taking a significant economic hit initially, seems to return to normal within one to three months following a terrorist attack.

7. The human and physical capital costs of terrorism in the EU were estimated to be an additional €5.6 billion between 2004 and 2016.

These include the costs of homicides through lost life-time earnings, injuries through medical treatment costs and property damage costs.

8. More terrorist attacks are associated with lower levels of life satisfaction and happiness among the EU population. Terrorist attacks also lower EU citizens' trust in fellow citizens, national political institutions, the legal system and the police.

4.4. Counter-Terrorism Measures

The Organization for Security and Co-operation in Europe (OSCE) implements effective measures to countering terrorism, as a serious crime that has no justification, whatever its motivation or origin may be.

OSCE participating States agree that terrorism is one of the most significant threats to peace, security and stability, as well as to the enjoyment of human rights and social and economic development, in the OSCE area and beyond. Terrorism seeks to undermine the very values that unite the OSCE. At the same time, participating States unequivocally reject the association of terrorism with any particular race, nationality or religion. The organization is therefore resolute in implementing effective measures to prevent and combat terrorism, in all its forms and manifestations, as a serious crime that has no justification, whatever its motivation or origin may be.

The OSCE makes a comprehensive contribution to international efforts against terrorism led by the United Nations, addressing the manifestations of terrorism, as well as the various social, economic,

political and other factors, which might engender conditions in which terrorist organizations could engage in recruitment and win support.

The OSCE promotes a co-operative and co-ordinated approach to countering terrorism at all levels, including co-ordination among national authorities, co-operation among states, co-operation with relevant international and regional organizations and, where appropriate, establishment of public-private partnerships between state authorities, the private sector (business community, industry), civil society and the media. These efforts are guided by and supportive of the United Nations Global Counter-Terrorism Strategy and relevant resolutions of the UN Security Council, in accordance with the OSCE Consolidated Framework for the Fight against Terrorism.

Strategic focus areas for OSCE counter-terrorism activities [12]:

1. Promoting the implementation of the international legal framework against terrorism and enhancing international legal co-operation in criminal matters related to terrorism.
2. Countering violent extremism and radicalization that lead to terrorism, following a multidimensional approach.
3. Preventing and suppressing the financing of terrorism.
4. Countering the use of the Internet for terrorist purposes.
5. Promoting dialogue and co-operation on counter-terrorism issues, in particular, through public-private partnerships between State authorities and the private sector (business community, industry), as well as civil society and the media.

6. Strengthening national efforts to implement United Nations Security Council resolution 1540 (2004) on non-proliferation of weapons of mass destruction.

7. Strengthening travel document security.

8. Promoting and protecting human rights and fundamental freedoms in the context of counter-terrorism measures.

The United Nations Global Counter-Terrorism Strategy. The United Nations General Assembly adopted the Global Counter-Terrorism Strategy on the 8th of September 2006. The strategy is a unique global instrument to enhance national, regional and international efforts to counter terrorism.

Through its adoption that all Member States have agreed the first time to a common strategic and operational approach to fight terrorism, not only sending a clear message that terrorism is unacceptable in all its forms and manifestation but also resolving to take practical steps individually and collectively to prevent and combat it. Those practical steps include a wide array of measures ranging from strengthening state capacity to counter terrorist threats to better coordinating United Nations system's counter-terrorism activities.

The General Assembly reviews the Strategy every two years, making it a living document attuned to Member States' counter-terrorism priorities. The Global Counter-Terrorism Strategy in the form of a resolution and an annexed Plan of Action (A/RES/60/288) composed of four pillars [96]:

- 1) addressing the conditions conducive to the spread of terrorism;
- 2) measures to prevent and combat terrorism;

3) measures to build states' capacity to prevent and combat terrorism and to strengthen the role of the United Nations system in that regard;

4) measures to ensure respect for human rights for all and the rule of law as the fundamental basis for the fight against terrorism.

Measures to address the conditions conducive to the spread of terrorism [96]:

1. To continue to strengthen and make best possible use of the capacities of the United Nations in areas such as conflict prevention, negotiation, mediation, conciliation, judicial settlement, rule of law, peacekeeping and peacebuilding , in order to contribute to the successful prevention and peaceful resolution of prolonged unresolved conflicts. The OSCE recognizes that the peaceful resolution of such conflicts would contribute to strengthening the global fight against terrorism.

2. To continue to arrange under the auspices of the United Nations initiatives and programmes to promote dialogue, tolerance and understanding among civilizations, cultures, peoples and religions, and to promote mutual respect for and prevent the defamation of religions, religious values, beliefs and cultures. In this regard, the OSCE welcomes the launching by the Secretary-General of the initiative on the Alliance of Civilizations. The OSCE also welcomes similar initiatives that have been taken in other parts of the world.

3. To promote a culture of peace, justice and human development, ethnic, national and religious tolerance, and respect for all religions, religious values, beliefs or cultures by establishing and encouraging, as appropriate, education and public awareness programmes involving all

sectors of society. In this regard, the OSCE encourage the United Nations Educational, Scientific and Cultural Organization to play a key role, including through inter-faith and intra-faith dialogue and dialogue among civilizations.

4. To continue to work to adopt such measures as may be necessary and appropriate and in accordance with our obligations under international law to prohibit by law incitement to commit a terrorist act or acts and prevent such conduct.

5. To reiterate our determination to ensure the timely and full realization of the development goals and objectives agreed at the major United Nations conferences and summits, including the Millennium Development Goals. The OSCE reaffirms its commitment to eradicate poverty and promote sustained economic growth, sustainable development and global prosperity for all.

6. To pursue and reinforce development and social inclusion agendas at every level as goals in themselves, recognizing that success in this area, especially on youth unemployment, could reduce marginalization and the subsequent sense of victimization that propels extremism and the recruitment of terrorists.

7. To encourage the United Nations system as a whole to scale up the cooperation and assistance it is already conducting in the fields of rule of law, human rights and good governance, to support sustained economic and social development.

8. To consider putting in place, on a voluntary basis, national systems of assistance that would promote the needs of victims of terrorism and their families and facilitate the normalization of their lives.

In this regard, the OSCE encourages States to request the relevant United Nations entities to help them to develop such national systems. The OSCE will also strive to promote international solidarity in support of victims and foster the involvement of civil society in a global campaign against terrorism and for its condemnation. This could include exploring at the General Assembly the possibility of developing practical mechanisms assistance to victims.

Measures to prevent and combat terrorism within the Global Counter-Terrorism Strategy [96]:

1. To refrain from organizing, instigating, facilitating, participating in, financing, encouraging or tolerating terrorist activities and to take appropriate practical measures to ensure that our respective territories are not used for terrorist installations or training camps, or for the preparation or organization of terrorist acts intended to be committed against other States or their citizens.

2. To cooperate fully in the fight against terrorism, in accordance with our obligations under international law, in order to find, deny safe haven and bring to justice, on the basis of the principle of extradite or prosecute, any person who supports, facilitates, participates or attempts to participate in the financing, planning, preparation or perpetration of terrorist acts or provides safe havens.

3. To ensure the apprehension and prosecution or extradition of perpetrators of terrorist acts, in accordance with the relevant provisions of national and international law, in particular human rights law, refugee law and international humanitarian law. The OSCE will endeavor to conclude and implement to that effect mutual judicial assistance and

extradition agreements, and to strengthen cooperation between law enforcement agencies.

4. To intensify cooperation, as appropriate, in exchanging timely and accurate information concerning the prevention and combating of terrorism.

5. To strengthen coordination and cooperation among States in combating crimes that might be connected with terrorism, including drug trafficking in all its aspects, illicit arms trade, in particular of small arms and light weapons, including man-portable air defence systems, money laundering and smuggling of nuclear, chemical, biological, radiological and other potentially deadly materials.

6. To consider becoming parties without delay to the United Nations Convention against Transnational Organized Crime and to the three protocols supplementing it, and implementing them.

7. To take appropriate measures, before granting asylum, for the purpose of ensuring that the asylum seeker has not engaged in terrorist activities and, after granting asylum, for the purpose of ensuring that the refugee status is not used in a manner contrary to the provisions set out in paragraph 1 of this section.

8. To encourage relevant regional and sub-regional organizations to create or strengthen counter-terrorism mechanisms or centres. Should they require cooperation and assistance to this end, the OSCE encourages the United Nations Counter-Terrorism Committee and its Executive Directorate and, where consistent with their existing mandates, the United Nations Office of Drugs and Crime and the International Criminal Police Organization, to facilitate its provision.

9. To acknowledge that the question of creating an international centre to fight terrorism could be considered, as part of the international efforts to enhance the fight against terrorism.

10. To encourage States to implement the comprehensive international standards embodied in the Financial Action Task Force's Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing, recognizing that States may require assistance in implementing them.

11. To invite the United Nations system to develop, together with Member States, a single comprehensive database on biological incidents, ensuring that it is complementary to the International Criminal Police Organization's contemplated Biocrimes Database. The OSCE also encourages the Secretary-General to update the roster of experts and laboratories, as well as the technical guidelines and procedures, available to him for the timely and efficient investigation of alleged use. In addition, the OSCE notes the importance of the proposal of the Secretary-General to bring together, within the framework of the United Nations, the major biotechnology stakeholders, including industry, scientific community, civil society and governments, into a common programme aimed at ensuring that biotechnology's advances are not used for terrorist or other criminal purposes but for the public good, with due respect to the basic international norms on intellectual property rights.

12. To work with the United Nations, with due regard to confidentiality, respecting human rights and in compliance with other obligations under international law, to explore ways and means to:

- coordinate efforts at the international and regional level to counter terrorism in all its forms and manifestations on the Internet;
- use the Internet as a tool for countering the spread of terrorism, while recognizing that States may require assistance in this regard.

13. To step-up national efforts and bilateral, sub-regional, regional and international co-operation, as appropriate, to improve border and customs controls, in order to prevent and detect the movement of terrorists and to prevent and detect the illicit traffic in, inter alia, small arms and light weapons, conventional ammunition and explosives, nuclear, chemical, biological or radiological weapons and materials, while recognizing that States may require assistance to that effect.

14. To encourage the United Nations Counter Terrorism Committee and its Executive Directorate to continue to work with States, at their request, to facilitate the adoption of legislation and administrative measures to implement the terrorist travel-related obligations, and to identify best practices in this area, drawing whenever possible on those developed by technical international organizations such as the International Civil Aviation Organization, the World Customs Organization and the International Criminal Police Organization.

15. To encourage the Committee established pursuant to Security Council resolution 1267 (1999) to continue to work to strengthen the effectiveness of the travel ban under the United Nations sanctions regime against Al-Qaida and the Taliban and associated individuals and entities, as well as to ensure, as a matter of priority, that fair and transparent procedures exist for placing individuals and entities on its

lists, for removing them and for granting humanitarian exceptions. In this regard, the OSCE encourages States to share information, including by widely distributing the International Criminal Police Organization-United Nations Special Notices concerning people subject to this sanctions regime.

16. To step up efforts and co-operation at every level, as appropriate, to improve the security on manufacturing and issuing identity and travel documents and to prevent and detect their alteration or fraudulent use, while recognizing that States may require assistance in doing so. In this regard, the OSCE invites the International Criminal Police Organization to enhance its database on stolen and lost travel documents, and the OSCE will endeavor to make full use of this tool as appropriate, in particular by sharing relevant information.

17. To invite the United Nations to improve co-ordination in planning a response to a terrorist attack using nuclear, chemical, biological or radiological weapons or materials, in particular by reviewing and improving the effectiveness of the existing inter-agency co-ordination mechanisms for assistance delivery, relief operations and victim support, so that all States can receive adequate assistance. In this regard, the OSCE invites the General Assembly and the Security Council to develop guidelines for the necessary co-operation and assistance in the event of a terrorist attack using weapons of mass destruction.

18. To step up all efforts to improve the security and protection of particularly vulnerable targets such as infrastructure and public places, as well as the response to terrorist attacks and other disasters, in

particular in the area of civil protection, while recognizing that States may require assistance to that effect.

Conclusions

1. Terrorism is an extreme expression of the fragmentation of social life, as it involves the infringement of all existing moral and legal standards, as well as the violations of public order on a micro-social and international scale.

2. There are different types of terrorism: nationalist terrorism, religious terrorism, state-sponsored terrorism, left-wing terrorism, right-wing terrorism, anarchist terrorism, and etc. Terrorists are inspired by many different motives. These motives can be grouped into three categories: rationale, psychological, and cultural.

3. The increase in attacks and deaths across more countries has meant that the impact of terrorism is becoming more widespread, even as deaths from terrorism are decreasing. In 2002, the first year for which there was sufficient data to produce the Global Terrorism Index, 44 countries recorded no impact from terrorism, meaning that there had not been a single death or attack in the previous five years. In 2017, that number had decreased to 26.

4. The economic impact of terrorism model includes costs from deaths, injuries and property destruction. The model also includes losses in economic activity, where terrorism causes more than 1,000 deaths. Deaths from terrorism accounted for 72 % of the global economic impact of terrorism. Indirect GDP losses are the second largest category

at 15 % of the total. Property destruction is estimated at two per cent of the global economic impact of terrorism.

5. The Organization for Security and Co-operation in Europe (OSCE) implements effective measures to countering terrorism, as a serious crime that has no justification, whatever its motivation or origin may be.

End-of-chapter tasks:

1. Define the global terrorism.
2. Explain the motives behind the terrorist attacks.
3. Classify the types of terrorism.
4. Identify terrorist organizations and their global impact.
5. Use the Global Terrorism Index to report its expansion.
6. Arrange the counter-terrorism measures.

CHAPTER 5. HUMAN TRAFFICKING

5.1. Criminalization of Human Trafficking

5.2. Human Smuggling

5.3. Human Trafficking in Numbers

5.4. Universal Declaration on Human Rights

Key words: human trafficking, human smuggling, organized crime, forced labor, sweatshops, modern slavery, human rights

5.1. Criminalization of Human Trafficking

Trafficking in persons is a serious crime and a grave violation of human rights. Every year, thousands of men, women and children fall into the hands of traffickers, in their own countries and abroad. Almost every country in the world is affected by trafficking, whether as a country of origin, transit or destination for victims.

The United Nations defines human trafficking as [103] “the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation”.

Elements of human trafficking. On the basis of the definition given above, it is evident that trafficking in persons has three constituent elements [38]:

1. The act (what is done): recruitment, transportation, transfer, harbouring or receipt of persons.

2. The means (how it is done): threat or use of force, coercion, abduction, fraud, deception, abuse of power or vulnerability, or giving payments or benefits to a person in control of the victim.

3. The purpose (why it is done): for the purpose of exploitation, which includes forced labour, slavery or similar practices and the removal of organs.

A person who has been trafficked may [103]:

- 1) show signs that their movement is controlled;
- 2) have false identity or travel documents;
- 3) not know their home or work address;
- 4) have no access to their earnings;
- 5) be unable to negotiate working conditions;
- 6) work excessively long hours over long periods;
- 7) have limited or no social interaction;
- 8) have limited contact with their families or with people outside of their immediate environment;
- 9) think that they are bonded by debt.

Trafficking in persons is a truly global phenomenon: in data recently reported to UNODC, victims from at least 127 countries were detected, and 137 countries reported having detected victims. While this sample may not be representative of the entire victim pool, two thirds of the victims reported were women, and 79 % of the victims were subjected to unethical exploitation. The European Union has one of the best documented pools of victims of trafficking for the purposes of

unethical exploitation, with a greater variety of nationalities (at least 95) than any other part of the world [85].

With the end of the Cold War, a large number of labourers of all sorts moved from Eastern to Western Europe. Some of these labourers were involved into unethical exploitation, and not all came voluntarily. 51 % of human trafficking victims detected in Europe were from the Balkans or the former Soviet Union, in particular Romania, Bulgaria, Ukraine, the Russian Federation and the Republic of Moldova [85]. But this appears to be changing, as women trafficked from other parts of the world are becoming more prominent. In many instances, women, some of whom may have once been victims themselves, play an important role in exploiting the victims.

The traffickers are often of the same nationality as the victim, although there are important exceptions. The techniques used to recruit victims seem to vary by source country: in Eastern Europe, for example, victims may be collected through employment agencies, while in West Africa, family and social networks are utilized.

Experts estimated that there are 140 000 trafficking victims in Europe, generating a gross annual income of US\$ 3 billion for their exploiters. With an average period of exploitation of two years, this would suggest over 70 000 new entries every year. The trend appears to be stable.

The origins of trafficking victims detected in West and Central Europe are represented in the Table 5.1.

Table 4.1 – The origins of trafficking victims detected in West and Central Europe [85]

Regions of origin	Percentage
Balkans	32 %
Former Soviet Union	19 %
South America	13 %
Central Europe	7 %
Africa	5 %
East Asia	3 %
Others	21 %

The United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children, which supplements the Convention against Transnational Organized Crime, is cast broadly enough to encompass a wide range of forms of exploitation, but in practice, two major categories of transnational activity can be identified:

- trafficking for the purposes of unethical exploitation;
- labour exploitation, including the use of child labour.

Trafficking for the purpose of forced labour appears to be limited to labour-intensive enterprises with rigid supply curves: typically, the so called *dirty, dangerous or demeaning* jobs. As a country develops and public welfare protections are established, fewer citizens are willing or able to take on these jobs at an internationally competitive wage. In some circumstances, demand for trafficked labour, including the labour of children, can be generated. Coerced labour is more profitable for short-run productions. The longer the exploitation, the

lower the net productivity of the coerced labourer and the greater the risk to the offender. Labourers are forced to work at the sweatshops.

Sweatshop is a workplace in which workers are employed at low wages and under unhealthy or oppressive conditions. In England, the word *sweater* was used as early as 1850 to describe an employer who exacted monotonous work for very low wages. “Sweating” became widespread in the 1880s, when immigrants from eastern and southern Europe provided an influx of cheap labour in the United States and central Europe. An increase in industrialization in the 20th century saw sweatshops emerge in parts of Latin America and Asia, a trend that accelerated with increased demand for consumer goods in the West and a lowering of international trade barriers.

Sweatshops often involve poverty-level wages, excessive hours of labour, and unsafe or unhealthful workplace conditions. Certain social and economic conditions are necessary for sweatshops to be possible [22]:

- a mass of unskilled and unorganized labourers, often including children;
- management systems that neglect the human factor of labour;
- lack of accountability for poor working conditions, or failure of governments to intervene on the behalf of workers.

Historically, the sweatshop has depended on homework (literally, work done in the home) and the development of contracting. In the homework system, members of a family receive payment for piecework done in their own home or in a residence that has been converted into a small factory. In contracting, individual workers or groups of workers

agree to do a certain job for a certain price. Sometimes they carry out this contract themselves; sometimes they sublet it to subcontractors at lower prices. This arrangement can lead to labour exploitation (often of women, children, and, in the developed world, undocumented workers or recent immigrants), erratic employment, and poor quality in the final product. When trade is brisk, extremely long hours are worked in seriously overcrowded workrooms. When trade is slack, the subcontractors – whose overhead costs are far lower than those of factory employers – typically dismiss workers without consideration. One of the earliest objectives of factory and minimum-wage legislation was to improve conditions for workers.

In the 19th century, sweatshops were common in the manufacturing of shoes, soap, cigars, and artificial flowers. Conditions have tended to be worse in large cities, where sweatshops can be hidden in slum areas. Although legislation had by the middle of the 20th century controlled sweatshops in most developed countries, the system was still operating in many countries in Asia, where large numbers of people were engaged in homework and in small factory shops. Factors contributing to the control of sweatshops in the 20th century included the growth of national labour laws, pressures from trade unions, the political influence of labour parties, social awareness stemming from activism, and, on the part of industry, recognition of the efficiencies of factory production and increased interest in human relations. Around the world, the International Labour Organisation has attempted to raise labour standards in countries where sweatshops are still common. Sweatshops in the garment and shoe industries became headline stories in the 1990s

when popular American brands were discovered to have been made in sweatshops in the United States and its territories and in overseas factories.

There are many factors that can render a source country vulnerable to human trafficking, the most commonly cited of which is poverty. But there are many poor countries that do not seem to produce large numbers of trafficking victims, so poverty alone is not enough to explain the phenomenon.

5.2. Human Smuggling

Human smuggling and trafficking are rapidly growing transnational criminal activity that involve the recruitment, movement, and delivery of migrants from a sending region to a destination. The two activities are differentiated as follows: smuggled migrants have a consensual relationship with their smugglers and are free at the end of their journey, while trafficked persons are enslaved and exploited by their traffickers.

The United Nations has adopted a legislative framework to define human smuggling and trafficking. Distinct protocols were adopted on the two crimes in 2000 in conjunction with the United Nations Convention against Transnational Organized Crime. The adoption of these protocols in tandem with the convention reflects the international understanding that human smuggling and trafficking are part of organized crime. Human smuggling and trafficking are thought to be the most lucrative forms of organized crime after drug trade.

Let's consider human trafficking and smuggling from the European perspective. These criminal activities into the above mentioned region have grown since the 1980s. Emigrants are attracted by generous welfare support and perceived economic advantages, as well as the demand in Western Europe for “Three-D” workers – those willing to take dirty, dangerous, and degrading jobs that national citizens are unwilling to do. The increase can also be attributed to a number of converging global factors in the past few decades: economic crises in Asia; the conflict in Iraq, Afghanistan and Pakistan; and poverty in the global south have all encouraged emigration.

Human smuggling and trafficking are not evenly distributed across Europe. According to the United Nations, five countries of Western Europe – Belgium, Germany, Italy, and the Netherlands – have recorded the highest number of trafficking victims. These same countries are also principal destinations for individuals who enlist the services of human smugglers.

The next largest hubs of human trafficking are Austria, Denmark, France, Spain, and Switzerland. Greece and Spain are not only recipient countries for unauthorized migrants but also have been exploited by transnational smuggling organizations because of their geographic location on the periphery of Europe.

Different regions of Europe receive victims from different source countries. Europol identified five major **hubs of organized crime** [71]. Each is connected to particular source countries, and specializes in certain types of labor placement. The five hubs are: in the northwest, the Netherlands and Belgium; in the northeast, the Baltic states and

Kaliningrad; in the southeast, Bulgaria, Romania, and Greece; in the south, southern Italy; and in the southwest, Spain and Portugal.

The southwest hub (Spain and Portugal) receives victims from the Iberian Peninsula and redistributes them throughout Europe according to market demand. Chinese victims often work in textile sweatshops, Eastern Europeans in agriculture, while Roma children are forced to beg and commit thefts.

The southern criminal hub (southern Italy) is a transit and destination area for individuals who come from North and West Africa, Eastern Europe, the Balkans, and China. They work in the textile industry, entertainment sector, elder and child care, and construction.

The major **source countries** of smuggling and trafficking victims were identified by Europol as Bulgaria, Moldova, Nigeria, Romania, the Russian Federation, and Ukraine. In many cases, trafficking to Europe is facilitated by members of victims' own migrant communities. Identified source countries include some of the poorest nations in Europe [71].

Among child victims, leading source regions are Eastern Europe, North Africa and Asia. A significant number come from the Middle East and the Indian subcontinent by way of Turkey and often Balkans. Most of these children, defined as trafficking victims, will work in illegal labor markets.

The Arab Spring had a significant impact on illegal immigration into Western Europe. Many migrants from sub-Saharan Africa who were working in North Africa when the unrest started escaped to Europe.

There are many **routes** into Europe from different regions of the world – North Africa, Latin America, and Eastern Europe and Asia [71].

These routes change over time as traffickers and smugglers adapt to enforcement and effective border patrols. The accession of the Czech Republic and Poland into the European Union in 2004 reduced the use of routes across these countries, as borders control were tightened with training and support from the European Union. By contrast, the accession of Romanian and Bulgaria to the European Union in 2007 has not been as successful in shutting off Balkan smuggling rings. These countries still suffer high levels of corruption at the borders and in law enforcement generally. Many of the routes used for humans are the same as those used for traded goods.

The primary transit routes are across the Mediterranean, the Balkans, Eastern Europe, and Turkey. The individuals trafficked into Europe usually travel by air, sea, and land. The most recently identified route is from North Macedonia, through Serbia and Hungary, and into Austria. Entry from the Baltic Sea and through the northern parts of Europe is less common. Many routes – whether from Africa, China, or Afghanistan and Pakistan – are circuitous and involve long distances. The routes from Latin America are more direct; those smuggled and trafficked often fly straight to Spain or Portugal [71].

For migrants from Nigeria, there are many routes from exit point of Lagos into Europe. These routes change and reorganize on a constant basis to avoid intervention by the police or immigration patrol guards. During the civil conflict in Libya, new routes were used as smugglers and traffickers exploited the internal chaos in Libya to move individuals from sub-Saharan to Italy's island of Lampedusa. Overall, approximately 8 % of unauthorized migrants from North Africa enter

Europe by sea [71]. And a significant number enter legally by air, then stay on beyond their visa authorization.

Trafficking and smuggling are logistically complicated, and the barriers to entry these activities have created an enormous variety of facilitators who assist those seeking illegal entry into the particular region, ranging from small groups to complex international organizations. Other facilitators are not part of criminal networks, but instead either knowingly or unknowingly aid the process. For example, employment agencies are often used to facilitate the movement of victims, apartment owners may rent apartments to smuggled and trafficked individuals, and businesses – particularly in the travel and entertainment industries – may employ smuggled or trafficked workers.

Traffickers are logistics specialists who can move individuals across vast distances. They often require numerous safe houses along the way where they can lodge their human cargo until it is safe to move them further. For individuals traveling the Balkan route into Western Europe, these safe houses are often in Turkey and Eastern Europe. Routes are often indirect, as traffickers carefully avoid policed roads, border checkpoints, and jurisdictions where there is efficient and honest law enforcement.

5.3. Human Trafficking in Numbers

Human trafficking can be a transnational process where victims are recruited abroad and transported across borders into another country where they are exploited for labor and/or unethical activity. However,

human trafficking can also be a domestic phenomenon, where little or no transportation is required.

Human trafficking as a global problem. According to a September 2017 report from the International Labor Organization (ILO) and Walk Free Foundation [39]:

1. An estimated 24.9 million victims are trapped in modern-day slavery. Of these, 16 million (64 %) were exploited for labor, 4.8 million (19 %) were unethically exploited, and 4.1 million (17 %) were exploited in state-imposed forced labor.

2. Forced labor takes place in many different industries. Of the 16 million trafficking victims exploited for labor:

- 7.5 million (47 %) forced labor victims work in construction, manufacturing, mining, or hospitality;

- 3.8 million (24 %) forced labor victims are domestic workers;

- 1.7 million (11 %) forced labor victims work in agriculture.

3. 71 % of trafficking victims around the world are women and girls and 29 % are men and boys.

4. 15.4 million victims (75 %) are aged 18 or older, with the number of children under the age of 18 estimated at 5.5 million (25 %).

5. The Asia-pacific region accounts for the largest number of forced laborers – 15.4 million (62 % of the global total). Africa has 5.7 million (23 %) followed by Europe and Central Asia with 2.2 million (9 %). The Americas account for 1.2 million (5 %) and the Arab States account for 1 % of all victims.

6. Human trafficking does not always involve travel to the destination of exploitation: 2.2 million (14 %) of victims of forced labor

moved either internally or internationally, while 3.5 million (74 %) of victims of sexual exploitation were living outside their country of residence.

7. Victims spend an average of 20 months in forced labor, although this varied with different forms of forced labor.

Human trafficking as a big business. Human trafficking earns profits of roughly \$150 billion a year for traffickers, according to the ILO report from 2014. The following is a breakdown of profits, by sector [39]:

- \$99 billion from commercial unethical exploitation;
- \$34 billion in construction, manufacturing, mining and utilities;
- \$9 billion in agriculture, including forestry and fishing;
- \$8 billion dollars is saved annually by private households that employ domestic workers under conditions of forced labor.

While only 19 % of victims are trafficked for unethical exploitation earns 66 % of the global profits of human trafficking. The average annual profits generated by each woman in forced unethical servitude (\$100 000) is estimated to be six times more than the average profits generated by each trafficking victim worldwide (\$21 800), according to the Organization for Security and Co-operation in Europe (OSCE). OSCE studies show that unethical exploitation can yield a return on investment ranging from 100 % to 1 000 %, while an enslaved laborer can produce more than 50 % profit even in less profitable markets (e.g., agricultural labor in India). In the Netherlands, investigators were able to calculate the profit generated by two traffickers from a number of victims. One trafficker earned \$18 148 per

month from four victims (for a total of \$127 036) while the second trafficker earned \$295 786 in the 14 months that three women were unethically exploited according to the OSCE.

While unethical exploitation generates profits, forced labor saves costs. In one case, Chinese kitchen workers were paid \$808 for a 78-hour work week in Germany. According to German law, a cook was entitled to earn \$2 558 for a 39-hour work week according to the OSCE.

Number of people in forced labour worldwide (estimates by the 2012 International Labour Organization) [102]:

- 24.9 million people across the world;
- 11.7 million in Asia and Pacific;
- 3.7 million in Africa;
- 1.8 million in Latin America and the Caribbean;
- 1.5 million in developed economies (US, Canada, Australia, European Union, Japan, Australia, New Zealand);
- 1.6 million in Central, Southeast and Eastern Europe (non-EU) and the Commonwealth of Independent States;
- 600 000 in the Middle East;
- 16 million people in the private economy;
- 14.2 million are in labour exploitation in industries such as agriculture, construction, domestic work and manufacturing;
- 10 million children are in forced labour;
- 4.1 million are forced to work under governments and military rules.

According to the 2017 State Department Trafficking in Persons (TIP) report, there were only 14 894 prosecutions and 9 071 convictions for trafficking globally in 2016 [39]:

- 1 251 prosecutions, 1 119 convictions and the identification of 18 296 victims occurred in Africa;
- 2 137 prosecutions, 1 953 convictions and the identification of 9 989 victims occurred in East Asia & the Pacific;
- 2 703 prosecutions, 1 673 convictions, and the identification of 11 416 victims occurred in Europe;
- 996 prosecutions, 1 187 convictions, and the identification of 3 292 victims occurred in the Near East;
- 6 297 prosecutions, 2 193 convictions, and the identification of 14 706 victims occurred in South & Central Asia;
- 1 513 prosecutions, 946 convictions, and the identification of 8 821 victims occurred in the Western Hemisphere.

Of the estimated 16 million forced labor victims worldwide, only 1 038 cases of forced labor were prosecuted globally in 2016, according to the US Department of State. In 2016, the Department of Justice convicted a total of 439 human traffickers, up from 297 in 2015 and 184 in 2014.

5.4. Universal Declaration on Human Rights

Human trafficking violates human rights, which are declared by the Universal Declaration on Human Rights. This Declaration remains as relevant today as it was on the day in 1948 that it was proclaimed and

adopted by the United Nations General Assembly. The extraordinary vision and resolve of the drafters produced a document that, for the first time, articulated the rights and freedoms to which every human being is equally and inalienably entitled.

This Declaration is a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of Member States themselves and among the peoples of territories under their jurisdiction [99].

Article 1. All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.

Article 2. Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing or under any other limitation of sovereignty.

Article 3. Everyone has the right to life, liberty and security of person.

Article 4. No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

Article 5. No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment.

Article 6. Everyone has the right to recognition everywhere as a person before the law.

Article 7. All are equal before the law and are entitled without any discrimination to equal protection of the law. All are entitled to equal protection against any discrimination in violation of this Declaration and against any incitement to such discrimination.

Article 8. Everyone has the right to an effective remedy by the competent national tribunals for acts violating the fundamental rights granted him by the constitution or by law.

Article 9. No one shall be subjected to arbitrary arrest, detention or exile.

Article 10. Everyone is entitled in full equality to a fair and public hearing by an independent and impartial tribunal, in the determination of his rights and obligations and of any criminal charge against him.

Article 11. Everyone charged with a penal offence has the right to be presumed innocent until proved guilty according to law in a public trial at which he has had all the guarantees necessary for his defence. No one shall be held guilty of any penal offence on account of any act or omission which did not constitute a penal offence, under national or international law, at the time when it was committed. Nor shall a heavier penalty be imposed than the one that was applicable at the time the penal offence was committed.

Article 12. No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence, nor to attacks upon his honour and reputation. Everyone has the right to the protection of the law against such interference or attacks.

Article 13. Everyone has the right to freedom of movement and residence within the borders of each State. Everyone has the right to leave any country, including his own, and to return to his country.

Article 14. Everyone has the right to seek and to enjoy in other countries asylum from persecution. This right may not be invoked in the case of prosecutions genuinely arising from non-political crimes or from acts contrary to the purposes and principles of the United Nations.

Article 15. Everyone has the right to a nationality. No one shall be arbitrarily deprived of his nationality nor denied the right to change his nationality.

Article 16. Men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family. They are entitled to equal rights as to marriage, during marriage and at its dissolution. Marriage shall be entered into only with the free and full consent of the intending spouses. The family is the natural and fundamental group unit of society and is entitled to protection by society and the State.

Article 17. Everyone has the right to own property alone as well as in association with others. No one shall be arbitrarily deprived of his property.

Article 18. Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his

religion or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion or belief in teaching, practice, worship and observance.

Article 19. Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.

Article 20. Everyone has the right to freedom of peaceful assembly and association. No one may be compelled to belong to an association.

Article 21. Everyone has the right to take part in the government of his country, directly or through freely chosen representatives. Everyone has the right to equal access to public service in his country. The will of the people shall be the basis of the authority of government; this will shall be expressed in periodic and genuine elections which shall be by universal and equal suffrage and shall be held by secret vote or by equivalent free voting procedures.

Article 22. Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 23. Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. Everyone, without any discrimination, has the right to equal pay for equal work. Everyone who works has the right to

just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection. Everyone has the right to form and to join trade unions for the protection of his interests.

Article 24. Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

Article 25. Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Article 26. Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit. Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace. Parents have a prior right to choose the kind of education that shall be given to their children.

Article 27. Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits. Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.

Article 28. Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.

Article 29. Everyone has duties to the community in which alone the free and full development of his personality is possible. In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society. These rights and freedoms may in no case be exercised contrary to the purposes and principles of the United Nations.

Conclusions

1. The United Nations defines human trafficking as “the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to

achieve the consent of a person having control over another person, for the purpose of exploitation”.

2. Trafficking in persons is a truly global phenomenon: in data recently reported to UNODC, victims from at least 127 countries were detected, and 137 countries reported having detected victims. There are 140 000 trafficking victims in Europe, generating a gross annual income of US\$ 3 billion for their exploiters. With an average period of exploitation of two years, this would suggest over 70 000 new entries every year. The trend appears to be stable.

3. Policy solutions that are likely to reduce human trafficking flows need to be multifaceted, addressing a variety of contributing factors simultaneously. Primarily, policymakers must address the demand for the migrants through education, prevention efforts, and prosecution; harmonize policy efforts both within and across countries so that traffickers don't just move to take advantage of the most permissive regulatory environment; decrease the profits of traffickers; and improve labor laws so that legal migrants may fill in the demand for the work that currently employs smuggled migrants.

End-of-chapter tasks

1. Distinguish between human trafficking and smuggling.
2. Try to reason why human trafficking is a global issue.
3. Define the elements of human trafficking.
4. Debate the problem of human trafficking in numbers.
5. Identify the most vulnerable individuals to human trafficking.
6. Suggest policy solution to reduce trafficking flows.

CHAPTER 6. COMMERCIAL CRIMES IN GLOBAL DIMENSION

6.1. Corruption Across Nations

6.2. Transnational Money Laundering

6.3. Commercial Fraud and Embezzlement

Key words: corruption, bribery, CPI, money laundering, cash smuggling, commercial fraud, check fraud, embezzlement

6.1. Corruption Across Nations

Defining corruption can be a challenge. It takes many forms, and perpetrators are skilled in developing new ways to be corrupt and cover their tracks. Corruption may be defined as the abuse of entrusted power for private gain. It captures three elements of corruption [101]:

1. **Public and private sectors.** Corruption occurs in both the public and private sectors. This includes media and civil society actors. Actors can be individuals, companies, or organizations such as a political parties.

2. **Abuse of power.** Corruption involves abusing power held in a state institution or a private organization.

3. **Benefit.** Both sides involved in the corrupt act benefit, either in terms of money or undue advantage.

Sometimes the “advantage” gained may not be “undue” or clear-cut, but is nonetheless an advantage. For example, in some corrupt societies people can only secure access to public health or education if

they pay bribes. In such situations, those who can afford to pay have an advantage over those who cannot. The bribe-giver's 'benefit' is merely that which is anyway his or her rightful due. Bribe-takers receive an advantage for carrying out functions that are anyway their duty to perform.

Grand vs petty corruption. We often describe corruption as either “grand” or “petty” and “administrative”.

Grand corruption. Grand corruption typically takes place at the public sphere's top tiers, and within the highest levels in private business. It includes actors that make rules, policies and executive decisions. It often involves large sums of money. Grand corruption is also often called **political corruption**, highlighting the negative influence of money in political processes, campaigns and political parties.

Petty/administrative corruption. Small-scale, administrative or petty corruption is the everyday corruption at the interface between public institutions and citizens. We find petty corruption as bribery linked to the implementation of existing laws, rules and regulations – for example when civil servants issue documents only if they receive a payment that is higher than the advertised official price for this service. Petty corruption also refers to the abuse of power in daily situations. For example, traffic police take payments from taxi drivers in return for not going after them for the breach of traffic rules. Usually, modest sums of money change hands in each case. However, when petty corruption is endemic, it can result in great costs. It can place stress on

the functioning of state systems – similar to the effect of grand corruption.

Often, it is not clear where petty corruption ends and grand corruption begins. For example, political corruption, in addition to the features above, can also encompass vote buying and other forms of petty corruption. And junior officials who demand illegal payments from citizens may do so because their managers demand a cut of their salaries in return for having been hired. These managers may have superiors who, in turn, expect money from them. This corrupt chain may stretch all the way up to senior state officials.

Corruption impedes development. Corruption undermines economic development and threatens state security. It also undermines democratic values. UN member states acknowledge the threat corruption poses to development and have included Goal 16 into the 2030 Agenda for Sustainable Development – calling on states to “substantially reduce corruption and bribery in all their forms”.

Financial costs of corruption [101]:

1. Officials in public institutions force citizens to pay for services that should be free.
2. Corrupt politicians pillage state budgets.
3. Decision makers distort public spending as they focus on activities that yield large bribes, such as major public works.
4. International companies avoid highly corrupt environments – economic development is slower than it would be with more foreign investment.

The cost of corruption to society

Human lives. When people cannot get access to healthcare, safe places to live and clean water, their lives are at risk. When buildings collapse because developers have bribed their way out of adhering to health and safety standards, the lives of occupants are at risk, too.

Trust. Corruption has more than just financial costs. It reduces public trust and citizens' willingness to participate in society. For example, citizens who perceive politicians as corrupt may not bother to vote in elections, get engaged in politics, or pay taxes.

Human rights. Human rights are violated as a result of corruption. For example, courts violate the fundamental right of access to justice when they only hear cases if parties bribe staff and judges .

Inequality. Corruption perpetuates inequality. Data shows that poor people suffer disproportionately from corruption. In modest income households, petty bribes to a nurse can cut deep into a family's disposable income.

Gender. Women sometimes bear worse consequences of corruption than men. For example, since women attend to family health issues more frequently, they receive more bribe requests from medical staff. In public life, female politicians may have less access to corrupt networks that generate votes and other support.

Crime and conflict. Corruption is often linked to organized crime. It thrives in conflict and war. High levels of corruption can make prolonged conflict more likely, and push post-conflict societies back into war. Corruption also undermines the responsible management of natural resources.

Environment. Corruption can undermine climate change initiatives, as powerful actors bribe their way out of environmental responsibilities in pursuit of profits.

In many countries, criminal and administrative laws prohibit various types of corrupt acts. The UN Convention against Corruption (UNCAC) defines corrupt criminal behaviour that signatory states should include in their legal systems. Actions may be corrupt even if there is no law against them. The nature of corruption is often slippery and complex. It can evolve into new forms that criminal or administrative law does not capture. Therefore, anti-corruption practitioners emphasize prevention in addition to punishment.

Common types of corruption include [101]:

1. Bribery. We call it bribery when a person with entrusted authority accepts or asks for an undue advantage (money, but also other material or immaterial valuables) to exercise a function, or to exercise it in a particular way.

2. Kickbacks. A kickback usually refers to a payment given in return for receiving a contract (for example, a building company that receives a government contract to build a road or other infrastructure). This payment goes to someone involved in awarding the contract.

3. Foreign bribery. Bribery of foreign officials by private sector actors is also a crime in many countries. This means that bribes that take place outside a company's country of origin may be punishable by the home country's authorities. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is an important international legal instrument that

criminalises foreign bribery, with a focus on the party paying the bribe (the “supply side”). The fact that not all countries prohibit such bribes illustrates the point above that not all corrupt acts are illegal.

4. Trading in influence. Trading in influence – or influence peddling – is a form of corruption where, for example, a person exerts improper influence over a public or private sector decision-making process in return for an undue advantage. It is mostly people in prominent positions, with political power or connections, who trade in influence. These people abuse their channels of influence to gain money or favours. UNCAC recommends criminalizing this form of corruption, but not all countries do.

Conditions that facilitate corruption. Corruption can grow in a variety of political and economic environments. It particularly thrives where accountable governance structures and processes are weak. However, weak governance does not necessarily always lead to corrupt acts – most people will still act honestly.

Imperatives and incentives. Certain imperatives and incentives encourage people to engage in corruption. These may include, for example, low and irregular salaries for officials with large dependent families. Such officials may feel compelled to become corrupt. Social norms can also create incentives to participate in corruption. Some norms encourage giving favourable treatment to particular people – for example family members, or those affiliated with one's political group.

Opportunities for personal enrichment. Actors holding extensive discretion over resource allocation in environments where

there is weak supervision likely have ample opportunities for corrupt enrichment.

Means of corruption – access and control. Incentives and opportunity create possibility, but perpetrators need ways of actually engaging in corruption. These may include control over an administrative process – such as tendering – or having access to offshore accounts and money laundering methods.

Limited risk of detection and punishment. Corruption will thrive where there are inadequate and ineffective controls. A lack of policing, detection and prosecution encourages corruption. Weak internal controls such as financial management, auditing, and personnel systems are also facilitating conditions. When authorities control and censor the media and civil society, corrupt politicians and officials have less to fear.

Measuring corruption. Due to its nature, the scale of corruption is impossible to measure with complete accuracy. But there are informed estimates available, and Transparency International regularly publishes a number of assessments, surveys and indices which measure corruption:

1. Corruption Perceptions Index (CPI).
2. Global Corruption Barometer.
3. Bribe Payers Index.

Corruption Perceptions Index allows to rank 180 countries and territories by their perceived levels of public sector corruption according to experts and businesspeople, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean.

In 2018, more than two-thirds of countries score below 50 on this year's CPI, with an average score of just 43. While there are exceptions,

the data shows that despite some progress, most countries are failing to make serious inroads against corruption (Table 6.1).

Table 6.1 – Corruption Perceptions Index in 2018 [37]

Country	Score	Rank
Top countries		
Denmark	88	1
New Zealand	87	2
Finland	85	3
Singapore	85	4
Sweden	85	5
Switzerland	85	6
Bottom countries		
North Korea	14	176
Yemen	14	177
South Sudan	13	178
Syria	13	179
Somalia	10	180

The top countries are Denmark and New Zealand with scores of 88 and 87, respectively. The bottom countries are Somalia, Syria and South Sudan with scores of 10, 13 and 13, respectively. While no country earns a perfect score on the CPI, countries that tend to do best also protect democratic rights and values. In the last seven years, only 20 countries significantly improved their CPI scores, including Estonia, Senegal, Guyana and Côte D’Ivoire. Equally troubling, 16 countries significantly decreased their scores, including Australia, Chile, Malta, Hungary and Turkey. With a score of 71, the United States lost four points since 2017, dropping out of the top 20 countries on the CPI for the first time since 2011. The low score comes at a time when the US is experiencing threats to its system of checks and balances as well as an erosion of

ethical norms at the highest levels of power. Brazil dropped two points since 2017 to 35, also earning its lowest CPI score in seven years. Alongside promises to end corruption, the country’s new president has made it clear that he will rule with a strong hand, threatening many of the democratic milestones achieved to date. With a score of 59, the Czech Republic increased two points since 2017 and eight points since 2014. However, events in the past year suggest gains may be fragile. The prime minister has been found guilty of conflict of interest in relation to his media holdings and accused of another conflict of interest over connections to a company that has received millions of euros in EU subsidies.

The **Global Corruption Barometer** is the only world-wide public opinion survey on corruption. This is the world’s largest survey asking citizens about their direct personal experience of bribery in their daily lives, their perceptions of corruption challenges in their own countries, and their willingness to act against corruption. Some findings from this survey are represented in the Tables 6.2.–6.3.

Table 6.2 – Places where the public sector is perceived to be most corrupt [64]

Country	Score
Moldova	69 %
Yemen	68 %
Lebanon	67 %
Liberia	65 %
Venezuela	64 %

According to this survey, Moldova is considered to be the most corrupt country in the world.

Table 6.3 – Places where the public sector is perceived to be least corrupt [64]

Country	Score
Germany	6 %
Switzerland	8 %
Sweden	8 %
Australia	10 %
Netherlands	11 %

The findings presented by the Global Corruption Barometer reflect global public opinion on corruption and the experience of bribery. Negative ratings of governments’ efforts to curb corruption suggest that more must be done to reduce public sector graft and clean up political institutions so that they act in the interests of citizens rather than in their own interests. There is a clear need to hold the corrupt accountable. Governments and other actors will have to win more trust before ordinary people change their views about the anti-corruption efforts of those in power. Particularly in countries such as Moldova, Yemen and Lebanon, where people perceived high levels of public sector corruption, and in Mexico, India, Liberia and Vietnam, which have very high rates of bribery for public services, the results suggest real and urgent issues that must be addressed. The good news is that there are many citizens around the world are ready and willing to help fight against corruption. However, governments must work harder and show

progress in their efforts to fight corruption if they are to convince citizens of real progress [64].

Addressing corruption. There are different elements of anti-corruption work. However, there is no formula that will always work. How to address corruption always depends on the context. Experience of anti-corruption programming since the 1990s shows a constant tension between holistic and targeted approaches. Corruption results from a system of factors that facilitate and drive it. These factors range from individual attitudes to international opportunity structures – which points towards favouring holistic approaches. However, not all reforms are feasible in every setting. This, in turn, argues in favour of focused approaches, and to seek out context-specific opportunities.

Decision-makers and practitioners must seek ways to reinforce anti-corruption programming approaches with inputs from other parts of the system. If civil society shall monitor budgets, the authorities must publish these in a useable way. Organizations like the World Bank, the United Nations, Transparency International and others have sought to capture what anti-corruption means. Their explanatory frameworks differ slightly, but there is a broadly agreed “menu” of anti-corruption efforts [101].

Anti-corruption efforts should not just be aimed at strengthening specific institutions or functions that are weak. They should build and strengthen mutually-reinforcing systems that include a range of interdependent actors, institutions, laws and policies. Two corruption issues concern donor aid:

1. Donor aid delivery modalities are vulnerable to corruption.

2. Aid flows may contribute to increased corruption levels in recipient countries.

Researchers have studied which aid modalities are less vulnerable to corruption. Findings show little evidence that aid delivered through budget support is more or less prone to corruption than project support. However, evidence shows that for countries with both high levels of aid and corruption, there are compelling arguments against budget support. Donor aid can fuel corruption in recipient countries. It provides new resources to plunder.

However, aid effectiveness depends on the quality of policymaking and governance – both within donor aid agencies and recipient country governance structures. Without good governance, aid effectiveness declines because of increased leakage of funds from development projects or national budgets. This is often due to corruption. Corruption may happen at all stages of aid disbursement. Programme design, the bidding process, the implementation phase, and even audits are at risk.

Corruption can cause inefficient and incompetent companies to win contracts at excessive cost. It can lead to inappropriate and failed aid projects. The danger of corruption in development assistance is clear: aid is diverted from its original aims by corrupt politicians and officials. The perpetrators rather spend the funds on projects that allow for personal enrichment. Because of this, the funds never reach the poorest and most vulnerable citizens.

6.2. Transnational Money Laundering

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source [66]. Money laundering is the process of making large amounts of money generated by a criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. The money from the criminal activity is considered dirty, and the process “launders” it to make it look clean. Money laundering is itself a crime [6].

Illegal arms sales, smuggling, and the activities of organized crime, including for example drug trafficking, can generate huge amounts of proceeds. Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive to “legitimize” the ill-gotten gains through money laundering.

When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention [6]. Criminals use a wide variety of money laundering techniques to make illegally obtained funds appear clean. Online banking and cryptocurrencies have made it easier for criminals to transfer and withdraw money without detection.

By its very nature, money laundering is an illegal activity carried out by criminals which occurs outside of the normal range of economic and financial statistics. Along with some other aspects of underground economic activity, rough estimates have been put forward to give some sense of the scale of the problem.

The United Nations Office on Drugs and Crime (UNODC) conducted a study to determine the magnitude of illicit funds generated by drug trafficking and organized crimes and to investigate to what extent these funds are laundered. The report estimates that in 2009, criminal proceeds amounted to 3.6 % of global GDP, with 2.7 % (or USD 1.6 trillion) being laundered [52]. This falls within the widely quoted estimate by the International Monetary Fund, who stated in 1998 that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world's gross domestic product. Using 1998 statistics, these percentages would indicate that money laundering ranged between USD 590 billion and USD 1.5 trillion [52]. At the time, the lower figure was roughly equivalent to the value of the total output of an economy the size of Spain.

However, the above estimates should be treated with caution. They are intended to give an estimate of the magnitude of money laundering. Due to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year. The FATF therefore does not publish any figures in this regard.

Money laundering is essential for criminal organizations that wish to use illegally obtained money effectively. Dealing in large amounts of

illegal cash is inefficient and dangerous. Criminals need a way to deposit the money in legitimate financial institutions, yet they can only do so if it appears to come from legitimate sources.

The process of laundering money typically involves three steps [6]:

- placement;
- layering;
- integration.

Placement puts the “dirty money” into the legitimate financial system. Layering conceals the source of the money through a series of transactions and bookkeeping tricks. In the final step, integration, the now-laundered money is withdrawn from the legitimate account to be used for whatever purposes the criminals have in mind for it.

1. **Placement.** In the initial – or placement – stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location [52].

2. **Layering.** After the funds have entered the financial system, the second – or layering – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channelled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is

especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance [52]. Common layering tactics include [49]:

1) wire transfers between bank accounts, often held in multiple names, at multiple banks, and in multiple countries;

2) property or service transactions with shell companies (legal business entities that exist only on paper and perform no legitimate economic function);

3) high-dollar purchases of tangible goods or commodities, such as yachts, luxury cars, and gold;

4) purchases of real estate investment properties, including luxury homes and condominiums.

3. **Integration.** Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – integration – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures. Examples of integration include [49]:

1. Sale or transfer of high-dollar items purchased with laundered funds.

2. Sale or transfer of real estate purchased with laundered funds.

3. Legitimate purchases of securities or other financial instruments in the launderer's or launderer's legitimate business entities' name(s).

4. Legitimate transactions with legal entities controlled by the launderer or their associates.

There are many ways to launder money, from the simple to the very complex. One of the most common techniques is to use a legitimate, cash-based business owned by a criminal organization. For example, if the organization owns a restaurant, it might inflate the daily cash receipts to funnel illegal cash through the restaurant and into the restaurant's bank account. After that, the funds can be withdrawn as needed. These types of businesses are often referred to as “fronts” [6].

In another common form of money laundering, called smurfing (also known as “structuring”), the criminal breaks up large chunks of cash into multiple small deposits, often spreading them over many different accounts, to avoid detection. Money laundering can also be accomplished through the use of currency exchanges, wire transfers and “mules”, or cash smugglers, who sneak large amounts of cash across borders and deposit them in foreign accounts, where money-laundering enforcement is less strict [6].

Other money-laundering methods involve investing in commodities such as gems and gold that can easily be moved to other jurisdictions, discreetly investing in and selling valuable assets such as real estate, gambling, counterfeiting, and using shell companies (inactive companies or corporations that essentially exist on paper only) [6].

Money laundering vectors and strategies [49]:

1. Casinos and gambling venues.

Gambling is an effective way to clean illicit funds. In a simple operation, a launderer or accomplice might use illicit funds to purchase casino chips, hold onto the pile for a period of days during which they may or may not actually gamble, and then cash the chips in for a check

made out to the chip-holder or a third party. More complex operations may involve multiple casinos in different countries or territories. If you need to transfer illicit funds from, say, the United States to China or vice versa, you might purchase chips at a casino in Las Vegas, ask the casino to transfer your credit to a sister property in Macau, and then have the Macau property cut you a check next time you're there. Horse tracks are popular laundering vectors as well. In a typical scheme, the launderer pays a premium for a winning ticket, then exchanges the ticket at the cashier window for a check made out to the launderer or a third party. This arrangement has an added financial benefit (and potential legal liability) for the original ticketholder: Since the launderer pays cash for the ticket, the original holder can conceal the proceeds from state and federal tax authorities with relative ease.

2. Cash smuggling. The proverbial suitcase stuffed with cash is one of the oldest money laundering vectors around. It's also among the simplest, and consequently quite risky, especially in international operations that require customs clearance. Still, for criminals engaged in cash-heavy commercial activities, such as wholesale drug or arms dealing, smuggling large amounts of cash is the most straightforward way to physically transfer proceeds without using traditional banking networks. In an ironic twist, says the Peterson Institute, the prevalence of cash smuggling has actually increased in recent years due to the success of banks' anti-laundering measures. U.S.-based people or entities generally have less trouble smuggling U.S. currency out of the United States, as federal authorities devote more resources to interceding large incoming cash shipments.

3. Life insurance policies. Life insurance policies are more lightly regulated than some other financial instruments, making them ideal money laundering vectors. Paul Manafort used a multimillion-dollar life insurance policy to launder funds – and, later, to put up collateral for his bail package. In a typical scheme, the launderer purchases a single-premium life insurance policy that names the launderer or a trusted associate (often a relative or spouse) as the primary beneficiary. The launderer holds the policy for a period of time, then cashes out its value with a “clean” check from the insurer. In a more complex scheme, the launderer might draw directly upon the policy’s value (if permitted) or use it as collateral for a third-party loan from a bank or other financial institution. According to the Peterson Institute, clever launderers favor policies sold through intermediaries, which provide additional layers of separation between the policyholder and issuer. Years may elapse between a policy’s purchase and cash-out dates, further quelling regulators’ concerns.

4. Securities. The securities industry is ripe for fraud and abuse, of which money laundering is just one aspect. One common securities-aided laundering scheme, according to the Peterson Institute, involves the use of stock option transactions: simultaneous puts and calls representing mirror-image bets on a particular security’s price action, purchased with illicit funds. Under normal circumstances, the value of a given security’s put and call contracts rises and falls in roughly inverse relation, meaning the value of one of the two bets made by the launderer should increase. The launderer can sell the profitable contract and cancel the loss-making contract at any time before their expiration dates, likely

breaking even (or close to it) before accounting for transaction fees. The proceeds appear legitimate, complete with capital gains tax liability if applicable.

5. Real estate. The lightly regulated real estate industry is awash in laundered funds. Laundering transactions often feature shell corporations – companies that exist for the sole purpose of holding other corporate entities or assets, whose ownership may or may not be anonymous – to conceal buyers’ true identities or the sources of their funds. Due to the high value of the assets involved and the inherent opacity of properly executed transactions, luxury real estate is a common wealth-sheltering tool for wealthy individuals based in authoritarian or corrupt countries, such as China and Russia. Particularly if they’re politically active or engaged in business activities that run counter to the ruling party’s interests, it’s safer for such individuals to invest in high-end properties in Miami, San Francisco, or Vancouver – expensive markets in politically stable countries – than to stash cash in home-country bank accounts. Even if they must subsequently sell their overseas real estate holdings at a loss, the alternative – entirely frozen or seized accounts – is worse.

6. Currency exchange bureaus. Currency exchange bureaus are lightly regulated, deal in large amounts of cash, and routinely facilitate international value exchanges: all music to money launderers’ ears. The only real downside for launderers is currency exchange bureaus’ high exchange fees, which can range up to 8 %. That might make them less than ideal for frugal international travelers, but it’s a small price to pay for relatively low-risk laundering transactions.

In general, money laundering techniques can be grouped in the following way [53]:

1. **Bulk cash smuggling** involves literally smuggling cash into another country for deposit into offshore banks or other type of financial institutions that honor client secrecy.

2. **Structuring**, also referred to as “smurfing,” is a method in which cash is broken down into smaller amount, which are then used to purchase money orders or other instruments to avoid detection or suspicion.

3. **Trade-based laundering** is similar to embezzlement in that invoices are altered to show a higher or lower amount in order to disguise the movement of money.

4. **Cash-intensive business** occurs when a business that legitimately deals with large amounts of cash uses its accounts to deposit money obtained from both everyday business proceeds and money obtained through illegal means. Businesses able to claim all of these proceeds as legitimate income include those that provide services rather than goods, such as strip clubs, car washes, parking buildings or lots, and other businesses with low variable costs.

5. **Shell companies** and trusts are used to disguise the true owner or agent of a large amount of money.

6. **Bank capture** refers to the use of a bank owned by money launderers or criminals, who then move funds through the bank without fear of investigation.

7. **Real estate laundering** occurs when someone purchases real estate with money obtained illegally, then sells the property. This makes it seem as if the profits are legitimate.

8. **Casino laundering** involves an individual going into a casino with illegally obtained money. The individual purchases chips with the cash, plays for a while, then cashes out the chips, and claims the money as gambling winnings.

Common money laundering use cases [49]:

1. Drug trafficking. Drug trafficking is a cash-intensive business. Its supply chain is often formidably complex, crossing oceans and multiple international boundaries, and it's usually illegal from start to finish. Though simplified and dramatized, the drug trafficking operation featured in the 1983 film "Scarface" nicely illustrates the complexity at play here. Its eponymous mafioso, played by Al Pacino, worked with a South American kingpin who ran a vast, vertically integrated cocaine operation. The kingpin grew coca on a sprawling Bolivian estate, processed the harvested plant material into cocaine, and leveraged a multimodal smuggling network (planes, boats, submarines) to get the finished product into the United States. On the U.S. side, Pacino's character used a shady Miami bank to launder millions in cash proceeds, financing an ostentatious South Beach lifestyle (and steadily worsening cocaine habit).

2. International terrorism. For ideologically motivated terrorist groups, money is a means to an end. Still, every terrorist organization – and lone wolves too – require some source of funds. Terrorism-related money laundering operations range from the breathtakingly simple to

the dizzyingly complex. According to an FBI report, the deadliest terrorist attack in American history cost no more than \$400 000 to pull off. At no point during the planning process did any U.S. financial institution detect suspicious activity by any of the twenty 9/11 hijackers – likely because, per the FBI, “Al-Qa’ida funded the hijackers in the United States primarily by three unremarkable means: wire transfers from overseas to the United States; the physical transport of cash or traveler’s checks into the United States; and the accessing of funds held in foreign financial institutions by debit or credit cards” [49]. Terrorism-related laundering is also complicated by the fact that some groups that directly or indirectly support terrorist activities have legitimate or apparently legitimate functions, such as political advocacy. For instance, while Hezbollah’s political arm is an established and functional (if antagonistic) presence in Lebanon’s parliament, its militant wing brazenly launders money from Iran and elsewhere to purchase weapons and support battlefield operations across the Middle East.

3. Embezzlement. According to FindLaw, embezzlement is “defined in most states as theft/larceny of assets (money or property) by a person in a position of trust or responsibility over those assets...[and] typically occurs in the employment and corporate settings” [49]. Whether you take cash directly out of the cash register or mastermind a complex scheme to relieve your bank’s clients of funds held in their accounts, you’re committing embezzlement. The “Office Space” guys’ ill-fated scheme is a perfect example. Since embezzled funds are by definition illicit, their source needs to be concealed before they’re safe to spend.

4. Arms trafficking. Like drug traffickers, arms dealers trade in illegal, expensive products that need to be bought and sold off the books. But not all money laundering prosecutions arising out of arms trafficking investigations involve thousands of weapons and vast sums of money. This case, reported by MLive in 2015, is typical of an arms-related laundering effort: It involved the sale of a relatively small number of illegal automatic weapons through the dark web, using cryptocurrencies to hide the provenance of transaction funds.

The Internet has put a new spin on the old crime. The rise of online banking institutions, anonymous online payment services and peer-to-peer (P2P) transfers with mobile phones have made detecting the illegal transfer of money even more difficult. Moreover, the use of proxy servers and anonymizing software makes the third component of money laundering, integration, almost impossible to detect – money can be transferred or withdrawn leaving little or no trace of an IP address. Money can also be laundered through online auctions and sales, gambling websites, and virtual gaming sites, where ill-gotten money is converted into gaming currency, then back into real, usable, and untraceable “clean” money. The newest frontier of money laundering involves cryptocurrencies, such as Bitcoin. While not totally anonymous, they are increasingly being used in blackmail schemes, the drug trade, and other criminal activities due to their relative anonymity compared with more conventional forms of currency [6].

As money laundering is a consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out countries or sectors in

which there is a low risk of detection due to weak or ineffective anti-money laundering programmes. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through stable financial systems. Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the under-lying activity; often, but not in every case, in the country where the funds originate. With the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre – any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination. Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities [52].

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution. If funds from criminal activity can be easily processed through a particular institution – either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds – the institution could be drawn into active

complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers. As for the potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law [52].

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes. Differences between national anti-money laundering systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures. Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crime can become. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of

organized crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development [52].

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments. The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue [52].

Money is laundered in the international financial centers. The biggest financial centers are represented in the Table 6.4.

Table 6.4 – Offshore financial centers [88]

Rank	Country	Rank	Country
1	British Virgin Islands	13	Bahamas
2	Luxembourg	14	Western Samoa
3	Hong Kong	15	Gibraltar
4	Jersey	16	Monaco
5	Bermuda	17	Seychelles
6	Cyprus	18	Belize
7	Taiwan	19	Guyana
8	Malta	20	Liberia
9	Mauritius	21	Marshall Islands
10	Cayman Islands	22	St. Vincent
11	Lichtenstein	23	Nauru
12	Curacao	24	Anguilla

Governments around the world have stepped up their efforts to combat money laundering in recent decades, with regulations that require financial institutions to put systems in place to detect and report suspicious activity. The amount of money involved is substantial: according to a 2018 survey from PwC, global money laundering transactions account for roughly \$1 trillion to \$2 trillion annually, or some 2 % to 5 % of global GDP [6].

In 1989, the Group of Seven (G-7) formed an international committee called the **Financial Action Task Force** (FATF) in an attempt to fight money laundering on an international scale. In the early 2000s, its purview was expanded to combating the financing of terrorism. As of 2015, the FATF is comprised of 34 different countries, but the agency is always seeking to expand its membership to more regions. Headquartered in Paris, France, the FATF also works to combat the financing of terrorism.

The FATF has developed recommendations to combat money laundering, and the agency has three functions in regards to this criminal activity [53]:

1. Monitoring the progress of member countries in their anti-money laundering measures.
2. Reviewing trends and techniques in money laundering, reporting these, as well as new countermeasures, to member countries.
3. Promoting FATF anti-money laundering measures and standards globally.

The United States passed the **Banking Security Act** in 1970, requiring financial institutions to report certain transactions to the

Department of the Treasury, such as cash transactions above \$10 000 or any others they deem suspicious, on a suspicious activity report (SAR). The information the banks provide to the Treasury Department is used by the Financial Crimes Enforcement Network (FinCEN), which can share it with domestic criminal investigators, international bodies or foreign financial intelligence units.

While these laws were helpful in tracking criminal activity, money laundering itself wasn't made illegal in the United States until 1986, with the passage of the Money Laundering Control Act. Shortly after the 9/11 terrorist attacks, the USA Patriot Act expanded money-laundering efforts by allowing investigative tools designed for organized crime and drug trafficking prevention to be used in terrorist investigations.

The Association of Certified Anti-Money Laundering Specialists (ACAMS) offers a professional designation known as a Certified Anti-Money Laundering Specialist (CAMS). Individuals who earn CAMS certification may work as brokerage compliance managers, Bank Secrecy Act officers, financial intelligence unit managers, surveillance analysts and financial crimes investigative analysts.

Anti-money laundering laws reflect an effort made the government to stop money laundering methods that involve financial institutions. Under the guidelines set forth by anti-money laundering, or “AML” financial institutions are required to verify large sums of money passing through the institution, and they are required to report suspicious transactions. It is estimated that money laundering is so prominent globally, that it is impossible for the Financial Action Task Force to produce estimates or figures as to its scope.

Since the BSA was created, many other legislative acts and money laundering regulations have come about to strengthen the movement. These include [53]:

1. **The Money Laundering Control Act of 1986**, which prohibits engaging in any transactions involving proceeds generated from illegal activities.

2. **The 1988 Anti-Drug Abuse Act**, which expanded the definition of “financial institution” to include car dealers and real estate personnel, requiring them to file reports on transactions involving large amounts of currency.

3. **The 1992 Annunzio-Wylie Anti-Money Laundering Act**, which requires more strict sanctions for violations of the BSA, and requiring additional verifications, recordkeeping, and reporting for wire transfers.

4. **The Money Laundering Suppression Act of 1994** requires banks to develop and institute training in anti money laundering examination procedures.

5. **The Money Laundering and Financial Crimes Strategy Act of 1998** requires banking agencies to develop training for examiners.

Unfortunately, as these money laundering regulations are put into place, criminals work to find new methods to prevent their activity from becoming detected or considered suspicious.

In this age of electronic transactions to and from financial institutions around the globe, anti money laundering laws attempt to quell money laundering by requiring these institutions to identify and report suspicious activities. Technology has also paved the way for anti-

money laundering software, detects large increases in account balances or large withdrawals, and which filters data and classifies it according to levels of suspicion. Software is also used to detect transactions with banking institutions in blacklisted or hostile countries. When such transactions are identified, the program alerts bank managers who then study the information and decide whether it should be reported to the government.

The penalties for money laundering vary greatly depending on the circumstance and the amount of funds involved. The penalties may also vary if the acts occurred in more than one jurisdiction. In addition to imprisonment, punishment for money laundering may include large fines, restitution, and community service. Typically, the more money involved, the harsher the punishment.

Money laundering is not uncommon, but some money laundering cases have met the spotlight due to the severity of the act, or the amount of money involved in the crime. Large-scale money laundering cases often involve global transactions. Below are some famous examples of money laundering cases [53].

In 2012, HSBC Holdings, a London-based company, paid nearly \$2 billion in fines after it was discovered that the financial institution laundered money for drug traffickers, terrorists, and other organized crime groups throughout Iran. The laundering went on for many years before the activity was detected.

In 2014, BNP Paribas, a French bank with global headquarters in London, pled guilty to falsifying business records after it was discovered the institution violated U.S. sanctions against Cuba, Sudan, and Iran. As

a result, BNP was forced to pay a fine of \$8.9 billion which is the largest fine ever imposed for violating those sanctions.

In the 1980s, the Bank of Credit and Commerce International, a bank registered in Luxembourg and with offices in London, was found guilty of laundering an amount of money estimated to be in the billions for drug traffickers.

6.3. Commercial Fraud and Embezzlement

Fraud is a broad legal term referring to dishonest acts that intentionally use deception to illegally deprive another person or entity of money, property, or legal rights. Unlike the crime of theft, which involves the taking of something of value through force or stealth, fraud relies on the use of intentional misrepresentation of fact to accomplish the taking [47].

Fraud is the intentional use of false or misleading information in an attempt to illegally deprive another person or entity of money, property, or legal rights. In order to constitute fraud, the party making the false statement must know or believe that it is untrue or incorrect and intended to deceive the other party. Fraud may be prosecuted as both a criminal and civil offense. Criminal punishments for fraud can include a combination of prison, fines, and restitution to victims.

In proven cases of fraud, the perpetrator – a person who carries out a harmful, illegal, or immoral act – may be found to have committed either a criminal offense or a civil wrong. In committing fraud, perpetrators may be seeking either monetary or non-monetary assets by

deliberately making false statements. For example, knowingly lying about one's age to obtain a driver's license, criminal history to get a job, or income to get a loan may be fraudulent acts. A fraudulent act should not be confused with a "hoax", – a deliberate deception or false statement made without any intention of gain or of materially damaging another person. Perpetrators of criminal fraud may be punished by fines and/or imprisonment. Victims of civil fraud may file lawsuits against the perpetrator seeking monetary compensation. To win a lawsuit claiming civil fraud, the victim must have suffered actual damages. In other words, the fraud must have been successful. Criminal fraud, on the other hand, can be prosecuted even if the fraud failed. In addition, a single fraudulent act may be prosecuted as both a criminal and civil offense. Thus, a person convicted of fraud in criminal court may also be sued in civil court by the victim or victims [47].

Fraud is an extremely serious legal matter. Persons who believe they have been the victim of fraud, or have been accused of committing fraud, should always seek the expertise of a qualified attorney.

While the specifics of laws against fraud vary from state to state and at the federal government level, there are five essential elements necessary to prove in court that a crime of fraud has been committed [47]:

1. **A misrepresentation of a material fact:** A false statement involving a material and pertinent fact must be made. The gravity of the false statement should be adequate to substantially affect the victim's decisions and actions. For example, the false statement contributes to a person's decision to purchase a product or approve a loan.

2. **Knowledge of falsehood:** The party making the false statement must know or believe that it is untrue or incorrect.

3. **Intent to deceive:** The false statement must have been made expressly with the intent of deceiving and influencing the victim.

4. **Reasonable reliance by the victim:** The level to which the victim relies on the false statement must be reasonable in the eyes of the court. Reliance on rhetorical, outrageous, or clearly impossible statements or claims may not amount to “reasonable” reliance. However, persons known to be illiterate, incompetent, or otherwise mentally diminished may be awarded civil damages if the perpetrator knowingly took advantage of their condition.

Fraud comes in many forms from many sources. Popularly known as “scams,” fraudulent offers may be made personally or arrive through regular mail, email, text messages, telemarketing, and the internet.

Commercial fraud is a legal term that relates to deceptive practices and illegal actions taken by corporate executives in significant positions of power within a company [36].

Although the wording may differ in each state, commercial fraud generally has several elements, including:

1) the practice of deceit through information that is incorrect, incomplete or intentionally misleading;

2) deceitful information causes the business being defrauded to make a purchase or give up some valuable asset;

3) there are actual damages or loss as a result of the fraud.

There are a number of ways that corporate executives can commit commercial fraud, including [36]:

1. **Misappropriation of Corporate Funds** – Taking money intended for business use and using that money for personal gain is a common type of commercial fraud. Corporate executives can commit this fraud by creating fake expense reports, deleting payments from vendors and clients, and not reporting sales and revenue.

2. **Making False Statements About Company's Performance** – Another type of commercial fraud occurs when a corporate executive knowingly makes false statements about the current and future prospects of a business to increase stock value or generate investment.

3. **Kickbacks** – Kickbacks are payments that a third party pays to a corporate executive to obtain a contract, obtain favorable terms on a loan, or influence any type of order. An executive who accepts consistent kickbacks often faces corruption charges in addition to charges of receiving kickbacks.

4. **Insider Trading** – The U. S. Securities and Exchange Commission (SEC) defines insider trading as *buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material [or] nonpublic information about the security*. In other words, corporate executives who provide confidential information about their company to a third party in exchange for some type of financial gain are guilty of insider trading. This often occurs when a company is about to go public with a stock, and an executive tips off an investor ahead of time so that they can buy a significant amount of shares.

One of the most common types of commercial fraud is **check fraud**, the use of paper checks to commit fraud. One of the main goals

of check fraud is identity theft – the gathering and use of personal financial information for illegal purposes. From the front of every check written, the identity thief can get the victim's: name; address; phone number; bank name; bank routing number; bank account number; and signature. In addition, the store may add more personal information, such as date of birth and driver's license number. This is why identity theft prevention experts recommend against using paper checks whenever possible.

Common varieties of check fraud include [47]:

1. **Check theft:** stealing checks for fraudulent purposes.
2. **Check forgery:** signing a check using the actual drawer's signature without their authorization or endorsing a check not payable to the endorser, both usually done using stolen checks. Counterfeit checks are considered the equivalent of forged checks.
3. **Check kiting:** writing a check with the intent of accessing funds that have not yet been deposited in the checking account. Also referred to as "floating" a check, kiting is the misuse of checks as a form of unauthorized credit.
4. **Paper hanging:** writing checks on accounts that are known by the perpetrator to have been closed.
5. **Check washing:** chemically erasing the signature or other handwritten details from checks in order to allow them to be rewritten.
6. **Check counterfeiting:** illegally printing checks using information from the victim's account.

According to the U. S. Federal Reserve, American consumers and businesses wrote 17.3 billion paper checks in 2015, four times the

number written in all of the countries of the European Union combined that year [47]. Despite the trend toward debit, credit, and electronic payment methods, paper checks remain the most often-used way of making large payments for expenses like rent and payroll. Clearly, there is still plenty of opportunity and temptation to commit check fraud.

Potential penalties for conviction of fraud typically involve prison or probation, stiff fines, and repayment of fraudulently-acquired gains. Prison sentences can range from 6 months to 30 years for each separate violation. Fines for fraud can be very large. Convictions for mail or wire fraud can bring fines of up to \$250 000 for each violation [47].

Frauds that harm large groups of victims or involve large sums of money can result in fines of tens of millions of dollars or more. For example, in July 2012, drug maker Glaxo-Smith-Kline pleaded guilty to falsely branding its drug Paxil as being effective in treating depression in patients under age 18. As part of its settlement, Glaxo agreed to pay \$3 billion to the government in one of the largest health-care fraud settlements in U. S. history [47].

Embezzlement is defined as the misappropriation of funds or property by someone who lawfully controls such funds/property, without the knowledge of the owner. It is considered a crime under the federal criminal code and state statutes, and is punishable by jail time, fines, and/or restitution [75].

One of the most famous embezzlement cases in U.S. history was that of Bernie Madoff, who embezzled over \$50 billion from investors through a Ponzi scheme [75]. A **Ponzi scheme** is an investment fraud that pays existing investors with funds collected from new investors.

Ponzi scheme organizers often promise to invest your money and generate high returns with little or no risk. But in many Ponzi schemes, the fraudsters do not invest the money. Instead, they use it to pay those who invested earlier and may keep some for themselves [65].

With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors, or when large numbers of existing investors cash out, these schemes tend to collapse. Ponzi schemes are named after Charles Ponzi, who duped investors in the 1920s with a postage stamp speculation scheme. Many Ponzi schemes share common characteristics [65]:

1. **High returns with little or no risk.** Every investment carries some degree of risk, and investments yielding higher returns typically involve more risk. Be highly suspicious of any “guaranteed” investment opportunity.

2. **Overly consistent returns.** Investments tend to go up and down over time. Be skeptical about an investment that regularly generates positive returns regardless of overall market conditions.

3. **Unregistered investments.** Ponzi schemes typically involve investments that are not registered with the SEC or with state regulators. Registration is important because it provides investors with access to information about the company’s management, products, services, and finances.

4. **Unlicensed sellers.** Federal and state securities laws require investment professionals and firms to be licensed or registered. Most Ponzi schemes involve unlicensed individuals or unregistered firms.

5. Secretive, complex strategies. Avoid investments if you don't understand them or can't get complete information about them.

6. Issues with paperwork. Account statement errors may be a sign that funds are not being invested as promised.

7. Difficulty receiving payments. Be suspicious if you don't receive a payment or have difficulty cashing out. Ponzi scheme promoters sometimes try to prevent participants from cashing out by offering even higher returns for staying put.

According to the U. S. Criminal Code, in order to charge a person with embezzlement, the prosecutor must prove four elements [75]:

1) there was a trusted relationship between the person accused of embezzling funds and the institution or owner of the funds;

2) the person was given control of the funds through employment;

3) the person took the funds for private use;

4) the person "acted with the intent to deprive the owner of the use of this property."

In order to prove embezzlement, a prosecutor must show that the defendant was "substantially in control" of the misappropriated funds. Substantial control can be demonstrated through employment status or contractual agreement.

When proving embezzlement, it doesn't matter whether the defendant remained in control of the funds. An individual can still be charged with embezzlement even if they transferred the funds to another bank account or a separate party. Embezzlement charges also hinge on intent. The prosecutor must show that the embezzler intended to use the funds for himself.

There are multiple types of embezzlement. For example, some embezzlers go undetected for years by “skimming off the top” of the funds that they are employed to control. This means that they take small amounts of money from a large fund over a long period of time, hoping that the missing amounts will go unnoticed. In other cases, an individual will take a large amount of money at once, then attempt to hide the embezzled funds or even disappear [75].

Embezzlement is generally considered a white-collar crime, but smaller forms of embezzlement also exist, such as taking funds from a cash register before balancing it at the end of a shift and adding extra hours to an employee timesheet.

White-collar crime is nonviolent crime committed for financial gain. According to the FBI, a key agency that investigates these offenses, “these crimes are characterized by deceit, concealment, or violation of trust”. The motivation for these crimes is to obtain or avoid losing money, property, or services, or to secure a personal or business advantage [7].

Other forms of embezzlement can be more personal. If someone cashes their spouse or relative’s social security check for personal use, he or she can be brought up on embezzlement charges. If someone “borrows” money from a PTA fund, sports league, or community organization, they can likewise be charged with embezzlement.

Jail time, restitution, and fines may vary based on how much money or property was stolen. In some states, embezzlement may also be a civil charge. A plaintiff might sue someone for embezzlement to

receive a judgment in the form of damages. If the court finds in favor of the plaintiff, the embezzler is liable for the sum of damages.

Larceny is sometimes used interchangeably with embezzlement, even though the two terms are legally very different. Larceny is the theft of money or property without consent. According to U. S. federal code, larceny charges must be proved through three elements. Someone accused of larceny must have [75]:

1. Taken funds or property.
2. Without consent.
3. With the intent to deprive the institution of the funds.

The need for embezzlement as a separate charge arose out of these elements. People engaged in embezzlement schemes do in fact have consent to be controlling the funds they take. On the other hand, a defendant charged with larceny never lawfully possessed the funds. Larceny is commonly referred to as outright theft, while embezzlement can be viewed as a form of deception.

The most famous embezzlement cases unsurprisingly come with the highest price tags. The startling sums of money taken by the defendants accused and convicted of fraud have made some of them household names [75].

In 2008, an investment advisor named Bernie Madoff was arrested for taking over \$50 billion in funds from investors – the largest embezzlement case in history. Madoff carried out his scheme undetected for years. His Ponzi scheme used money from new investors to pay off old investors, making them believe that their investments were a success. Madoff pled guilty in 2009 and received a 150-year prison

sentence for his conduct. The scandal rocked the investment banking world and altered the lives of the people and institutions who had invested their savings with Madoff.

In 1988, four employees of the First National Bank of Chicago attempted to steal a total of \$70 million in funds from three separate accounts: the Brown-Forman Corporation, Merrill Lynch & Company and United Airlines. They planned to charge the accounts with overdraft fees and transfer the money to Austrian bank accounts through three separate transfers. The employees were arrested by the Federal Bureau of Investigation after the outrageously large overdraft fees were flagged.

In 2012, a court sentenced Allen Stanford to 110 years in prison for embezzling over \$7 billion. The international Ponzi scheme gave Stanford and his associates control of investors' assets with the promise of returns from safe investments. Instead, prosecutors alleged that Stanford pocketed the money and used it to fund a luxurious lifestyle. Some of Stanford's investors lost everything, including their homes, after a Securities and Exchange Commission (SEC) investigation landed Stanford in prison.

Conclusions

1. Corruption may be defined as the abuse of entrusted power for private gain. It captures three elements of corruption: public and private sectors, abuse of power, and benefit. Grand corruption typically takes place at the public sphere's top tiers, and within the highest levels in private business. It often involves large sums of money.

Small-scale, administrative or petty corruption is the everyday corruption at the interface between public institutions and citizens. Petty corruption also refers to the abuse of power in daily situations.

2. Money laundering is the process of making large amounts of money generated by a criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. The money from the criminal activity is considered dirty, and the process “launders” it to make it look clean. Money laundering is itself a crime.

3. Fraud is a broad legal term referring to dishonest acts that intentionally use deception to illegally deprive another person or entity of money, property, or legal rights. Unlike the crime of theft, fraud relies on the use of intentional misrepresentation of fact to accomplish the taking. Fraud is the intentional use of false or misleading information in an attempt to illegally deprive another person or entity of money, property, or legal rights.

End-of-chapter tasks

1. Reveal major factors contributing to the expansion of corruption.
2. List the schemes of money laundering.
3. Review the Corruption Perceptions Index.
4. Explain how financial offshore centers perform.
5. Relate the white-collar crimes to the organized crimes.
6. Comment on the most impressive embezzlement cases.

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