

# **Second UNCTAD Illicit Trade Forum**

*6<sup>th</sup> to 7<sup>th</sup> September 2022  
Room XVII, Palais des Nations, Geneva*

## **Case Study: Mapping the impact of illicit trade on the UN Sustainable Development Goals: SDG 8 Decent Work and Economic Growth**

Contribution  
by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

## ABOUT TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to drive change to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

## FOR MORE INFORMATION

This case study was prepared for the 2nd UNCTAD Illicit Trade Forum on 6-7 September 2022. The TRACIT full report on the impacts of illicit trade on SDG 8 plus references can be found at: [www.tracit.org/featured-report-illicit-trade-and-the-unsdgs.html](http://www.tracit.org/featured-report-illicit-trade-and-the-unsdgs.html)

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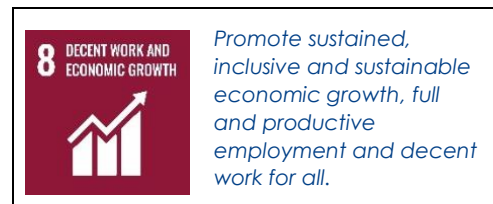
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In October 2021, member States participating in the fifteenth session of the United Nations Conference on Trade and Development (UNCTAD 15) added the challenge of mitigating illicit trade as the only new area of work in their 4-year work program. Notably, this was the first time that illicit trade had been addressed by UNCTAD at the highest institutional level.

In defining the vision for UNCTAD's role in combatting illicit trade, the adopted Bridgetown Covenant called for:

*"[...]addressing the challenge faced by many developing countries in the estimation of illicit trade, including the assessment of their impact on resource mobilization for development, specifically, and on national development strategies. Illicit trade creates a triple threat to the financing of development: crowding out legitimate economic activity, depriving Governments of revenues for investment in vital public services and increasing the costs of achieving the Sustainable Development Goals (SDGs)."*

Clearly, UNCTAD member States understood that illicit trade has severe negative impacts on the economy and, more widely, on the achievement of the UN Sustainable Development Goals (SDGs). For the same concern, TRACIT published in July 2019, a report that mapped the impacts of illicit trade against all the SDGs. One of the most significant findings was that SDG 8 (Decent work and economic growth) is the development goal most at risk from illicit trade because all forms of illicit trade drain revenue, jobs and tax incomes from the legitimate economy.



This is especially troubling because the sustained, inclusive economic growth envisaged in SDG 8 underpins the achievement of the other goals and is fundamental to driving progress, creating decent jobs and improving living standards that support development and human well-being, while minimizing impacts on the Earth's natural capital and associated ecosystems.

Consequently, mitigating illicit trade is imperative for the achievement of SDG 8 and, arguably, the overall success of the 2030 agenda.

- Illicit trade erodes the productivity and profitability of multiple commercial sectors, draining hundreds of billions from the legitimate economy each year and undermining economic development and growth. This illegal and essentially unfair competition from illicit trade diverts income from the balance sheets of legitimate businesses and undermines their ability to create jobs and pay taxes. Lost excise duties along with unexercised corporate and personal income taxes, strip governments of funds intended for public investment, with relatively more severe impacts on developing countries.
- Additionally, there are indirect impacts on the economy. For example, by depleting fish stocks, IUU fishing threatens economic and employment opportunities for communities that depend on fishing for their livelihoods. Similarly, illegal logging and illicit timber trade have indirect impacts, threatening jobs in the tourism industry when protected forests and animal habitats are damaged. For farmers, the use of counterfeit pesticides creates cascading economic losses: money is wasted on fake pesticides that have little or no effectiveness in protecting crops, crop yields are reduced, and long-run environmental degradation is accelerated.

TRACIT's new report focuses on the negative impacts of illicit trade on the economy and employment is especially relevant to decision-makers participating in the UNCTAD 2<sup>nd</sup> Illicit Trade Forum.<sup>1</sup> The Forum will be the first official UNCTAD event on illicit trade following the Bridgetown Summit and comes in the wake of the COVID-19 pandemic. For this reason, the new TRACIT report also includes observations on how the pandemic has changed or exacerbated those impacts.

Collectively across illicit trade sectors, the report provides a useful starting point to more fully understand, estimate and assess how illicit trade negatively impacts sustainable economic development and employment. Augmented with further research, data and analysis, it could also shed light on the parameters needed to achieve UNCTAD's mandate to develop a methodology to produce estimates of the total value of inward and outward illicit trade as well as to assess the impact of illicit trade on the UN SDGs.<sup>2</sup>

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<sup>1</sup> The UNCTAD 2nd Illicit Trade Forum is scheduled to take place in Geneva from 6 to 7 September 2022.

<sup>2</sup> Bridgetown Covenant, Section D, Work Program of UNCTAD, para 127 (rr).

## Measurements on illicit trade

Measuring illicit markets involves developing statistics on activities that, by their nature, are intentionally difficult to observe as criminals do not report on their activities. The challenge is compounded by conflicting or a lack of internationally agreed upon definitions on what constitutes an illegal activity; a trade that is legal in one jurisdiction may be strictly illegal in another. Moreover, national statistics, if they exist, are based largely on custom seizures which are hard to relate to actual illicit market figures. Nonetheless, estimates on the value of illicit trade are a helpful starting point for policy discussions on corrosive impacts on society.

Table 1 provides a summary of the overall size of criminal markets in the 12 sectors examined in this report. The information is derived from an array of sources, including published reports, UN and governmental statistics and various estimates from academic and research studies (a more detailed examination of the costs and values can be found in the corresponding sector chapter).

The methodologies, assumptions and data fed into the models vary widely across the sectors or in some cases yield a wide range of values within sectors. For these reasons, the values are unique to their source and are not commutable in their current state, without further standardization. For example, some of the assessments account for direct losses based on the immediate value of the commodity (e.g., stolen oil, counterfeits), while others consider the amount of lost government revenue (e.g., tobacco). In the case of human trafficking, the values reflect the estimated income this illicit activity generates for traffickers.

Table 1

	LOW RANGE (\$US BILLION)	HIGH RANGE (\$US BILLION)
AGRI-FOOD	30	50
AGROCHEMICALS AND PESTICIDES	8	20
ALCOHOL	243	566
COUNTERFEIT AND PIRATED GOODS	509	1900
FORESTRY PRODUCTS	51	152
ILLEGAL, UNDERREPORTED AND UNREGULATED FISHING	26	50
PETROLEUM PRODUCTS	133	133
PHARMACEUTICALS	4	432
PRECIOUS METALS AND GEMSTONES	48	48
TOBACCO PRODUCTS	41	50
TRAFFICKING IN PERSONS	150	150
WILDLIFE	7	23
TOTAL	USD 1.250 Trillion	USD 3.574 Trillion

Even when correctly estimated, these values do not account for other significant drains on the economy or afflictions on society. Additional economic losses, for example, include lost tax revenues to governments and the preclusion of jobs due to employment opportunities that would otherwise have been created. Losses to society include health and safety risks to consumers and public expenses associated with increased criminal activity. The findings in this report do not also account for intangible costs, such as a general loss of trust in institutions, environmental degradation, or the erosion of social fabric and rule of law—all of which put downward pressures on economic growth, employment and generally the ability to achieve SDG 8. Hence, the numbers should only be taken as suggestive of what might, unfortunately, be a much greater order of magnitude of the illicit markets.

### **Illicit trade and the UN SDGs**

The UN Sustainable Development Goals (SDGs) lay out an ambitious set of 17 goals to address the world's most acute economic, social and environmental challenges.

Among the portfolio of tools available to achieve the SDGs is the expansion of international trade. This is because trade has historically proven to be an engine for development, boosting income generating capacity and contributing to unprecedented reductions in poverty levels. Over the last few decades cross-border trade has expanded significantly, supported rising living standards across the globe.

Concurrent with the expansion in legal trade has been the alarming emergence of illegal (or illicit) trade, with estimates quantifying it and associated transnational criminal activities at between 8 and 15 percent of global GDP.

In order to help governments and business better understand how their efforts to achieve sustainable development must account for the negative forces of illicit trade, the Transnational Alliance to Combat Illicit Trade (TRACIT) published the 2019 report, *Mapping the Impact of Illicit Trade on The Sustainable Development Goals*.

From smuggling, counterfeiting and tax evasion, to the illegal sale or possession of goods, services, humans and wildlife, the TRACIT report found that illicit trade is compromising the attainment of the SDGs in significant ways, crowding out legitimate economic activity, depriving governments of revenues for investment in vital public services, dislocating millions of legitimate jobs and causing irreversible damage to ecosystems and human lives.

### **Illicit trade and SDG 8 ambitions for decent work and economic growth**

All types of illicit trade hinder achievement of SDG 8 by significantly threatening decent work and inclusive economic growth. Lost taxes rob governments of revenues intended for schools, infrastructure and other public services. Illegal and unfair competition reduces sales and dampens the ability of companies to create lasting and dignified job opportunities. Taken together, economic leakages across the sectors susceptible to illicit trade create an annual drain on the economy of USD 2.2 trillion and present a triple threat to financing the necessary “billions to trillions” dollar gap needed to reach the SDGs.

In many ways, achieving SDG 8 is prerequisite for achieving all the other development goals, as sustained and inclusive economic growth is fundamental to driving progress, creating decent jobs and improving living standards that support development and human well-being, while minimizing impacts on the Earth's natural capital and associated ecosystem services. Illicit trade—in all its forms—stands in direct juxtaposition to SDG 8 and threatens achievement of its objective.

## Accounting for the impacts of COVID-19

The toll the COVID-19 pandemic has exacted on the global economy has been significant, with the International Monetary Fund (IMF) estimating that median global GDP dropped by 3.9 percent from 2019 to 2020, making it the worst economic downturn since the Great Depression.

Following a strong rebound in 2021, the global economy is entering a pronounced slowdown amid fresh threats from COVID-19 variants and a rise in inflation, debt, and income inequality that could endanger the recovery in emerging and developing economies. Global growth is expected to decelerate markedly from 5.5 percent in 2021 to 4.1 percent in 2022 and 3.2 percent in 2023 as pent-up demand dissipates and as fiscal and monetary support is unwound across the world.

TRACIT's new report recognizes that the COVID-19 pandemic has also fundamentally changed the global illicit trade economy. While the pandemic's immediate effect was predictably to slow down all forms of economic activity, including the illicit, findings suggest that criminal groups have swiftly adapted to the new normal, exploited the situation and entrenched their positions in illicit markets.

The choices policymakers make in the next few years to move from crisis management into recovery mode will decide the course of the next decade. For governments looking at ways to restart and grow their economies, it will be important to formulate policies and implement programs that deter and preclude illicit trade actors from consolidating roots in the post-pandemic economy.

Addressing the threat of illicit trade on the SDGs will also require renewed political will of government officials at all levels to prioritize the problem. This includes ramping up implementation of enforcement measures to ensure that illicit trade activities caused or incentivized by the pandemic do not become permanent features of the post-pandemic economy.

The full TRACIT report provides a sector review of illicit trade and SDG 8 across 11 sectors. The report shows that illicit trade:

- Costs legitimate businesses billions in revenue losses each year.
- Impacts government revenues from uncollected taxes.
- Hurts job creation.
- Supports forced labor and human rights abuses.

The full report is available at:  
<https://www.tracit.org/featured-report-illicit-trade-and-the-unsdgs.html>