

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.

ABOUT EU-ABC

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region. It is formally recognized by the European Commission and accredited as an entity associated with ASEAN. The Council works on a sector and cross-industry basis through influencing policy and decision makers throughout the region and in the EU.

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EXAMINING THE NEGATIVE IMPACT OF ILLICIT TRADE ON THE ASEAN COMMUNITY VISION 2025

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I. INTRODUCTION

The Association of Southeast Asian Nations (ASEAN) has set an ambitious goal to achieve economic integration by 2025. With this deadline drawing near, ASEAN ministers are actively working to build new pathways, overcome obstacles and make progress on their objectives.

Among the challenges is illicit trade, which has been a persistent issue throughout the region. From illegal production, distribution, and sale of goods and services, to smuggled goods and falsified and substandard medicines to forced labor and human trafficking, illicit trade has a significant negative impact on the ASEAN community's economic, political, and social well-being.

With respect to ASEAN's Community Vision 2025 goals, Leaders have little choice but to address the possibility of illicit trade to forestall progress.

- Illicit trade poses a threat to the political stability and security of the region. The poly-criminal nature of illegal trade in *inter alia* tobacco, petroleum, alcohol, pharmaceuticals, fuels organized crime, perpetuates corruption, trafficking in humans and threatens the region's rule of law and democratic institutions.
- Illicit trade undermines the economic growth and development of the region. It deprives legitimate businesses of income and customers, leading to reduced tax revenues for governments. This loss of revenue undermines resource mobilization for developing economies, hindering the ability of governments to invest in vital services such as education, healthcare and infrastructure. Regarding consumer protection, illicit trade often involves the production and distribution of counterfeit or substandard products, which present safety risks and harm to consumers.
- Illicit trade harms the socio-cultural fabric of the ASEAN community. For example, illegal trade in *inter alia* wildlife, timber, and precious minerals robs the region of marketable natural resources, threatens ASEAN's social and cultural heritage and undermines environmental sustainability. Regarding human rights, illicit trade can lead to unsafe and exploitative working conditions, particularly for vulnerable groups such as women and children. Further, the sale of higher risk products such as pharmaceuticals, pesticides, alcohol and tobacco are regulated by governments for multiple reasons. For example, there's a minimum age restriction for purchase of alcohol and tobacco products, prescription medicines can only be sold to those who possess a valid ordinance, and pesticides can be sold only by licensed traders. Criminals that trade in illicit goods circumvent all the regulations and restrictions on sale and make it available to the general public impacting their well-being.

Compounding these troubles, ASEAN lost several important years in the countdown to 2025, when the COVID-19 pandemic escalated fundamental aspects of global illicit trade – exposing consumers to a wider range of illicit products, abetting criminal operations, and entrenching shares in black markets.

The ASEAN Community Vision 2025

In November 2015, during the 27th ASEAN Summit ASEAN Leaders signed the 'ASEAN 2025: Forging Ahead Together' Declaration. The Declaration adopted *inter alia* the ASEAN Community Vision 2025 and the strategic plans (Blueprints) to promote increased integration of the region's economies and to boost sustainable development and growth.

The Vision presents its objectives for improving ASEAN consolidation, integration and cohesiveness in three distinct Communities:



**ASEAN
Political-Security
Community**



**ASEAN
Economic
Community**



**ASEAN
Socio-Cultural
Community**

To achieve the goals and aspirations for each Community, and to guide the implementation process to 2025, each Community Blueprint details actions, timelines and sets out specific targets to strengthen regional integrity, stability and cohesiveness.



Since the formal establishment of the ASEAN Community in 2015, Member States have endeavored to establish an ASEAN Community that is “politically cohesive, economically integrated, and socially responsible.” These efforts have included measures to encourage growth and development and to defend the region from destructive forces that interfere with aspirations for peace, security and stability.¹ For example, the ASEAN Regional Forum established the Work Plan for Counter Terrorism and Transnational Crime and the Work Plan for Maritime Security that are valuable new initiatives which can help ASEAN members secure their economies.² Other examples include the development of the ASEAN Rapid Alert System for Food and Feed (ARASFF), the ASEAN Working Group on Illicit Trafficking in Wildlife and Timber, and the ASEAN Convention Against Trafficking in Persons, Especially Women and Children (ACTIP).

Illicit trade in the region

Amongst the forces that are counterproductive to ASEAN goals is illicit trade, occurring in all corners of the region and impacting a number of key economic sectors, including but not limited to falsified medicines, illegal alcoholic beverages, fraudulent food, counterfeiting and wildlife trafficking.

For example,

- The market for counterfeit products in Southeast Asia is worth approximately USD 35 billion annually.³
- Myanmar's illicit trade market, including gemstones, timber, and alcohol, is valued at USD 4.6 billion per year.⁴
- The value of falsified medicines purchased in ASEAN nations can reach up to USD 2.6 billion a year.⁵
- In Vietnam, 57% of alcohol consumption remains unrecorded, which means less than half of the market is paying taxes.⁶
- Estimates of illegal logging in Indonesia is around 1.6 to 2.8 million hectares annually.⁷
- Over the last several years, the threat of Illegal, underreported and unregulated (IUU) fishing in ASEAN has grown, generating economic losses amounting to about USD 6 billion per year.⁸

Report objectives

The purpose of this report is to explain how illicit trade presents significant deterrence to achieving the objectives of each of ASEAN's three Communities. With the objective to facilitate and support the achievement of ASEAN Community Vision 2025, this report:

1. Examines how illicit trade negatively impacts each of the three associated communities: the Political-Security Community, the Economic Community, and the Socio-Cultural Community.

2. Provides tangible examples from key economic sectors operating throughout ASEAN, exposing vulnerabilities to illicit trade that could be mitigated through corrective measures by ASEAN policy and regulations.
3. Presents policy recommendations for consideration by ASEAN leaders.

Because illicit trade amplifies problems with economic growth, investment, job creation, crime prevention and environmental stewardship, it has significant potential to derail the objectives of the Community Vision 2025. It is, foremost, critical to explain how illicit trade presents significant deterrence to achieving the objectives of each of ASEAN's three Communities.

- The ASEAN Political-Security Community is vulnerable because illicit trade is notorious for nurturing violence and feeding organized crime including terrorist activities as well as undermining trust in institutions and the rule of law.
- The ASEAN Economic Community is vulnerable because illicit trade undermines economic growth and legitimate job creation and can put consumers at risk.
- The ASEAN Socio-Cultural Community is also vulnerable because of the repercussions of illicit trade on the environment and its links to human trafficking and forced labor.

To help ASEAN governments better understand how illicit trade holds back progress on their efforts to achieve the Community Vision 2025, this report examines the impacts of 11 sectors most impacted by illicit trade in ASEAN, notably: agri-foods, alcohol, fisheries, forestry, petroleum, pharmaceuticals, precious metals and gemstones, pesticides, tobacco, wildlife and counterfeiting across multiple sectors. It also examines how the Community Vision 2025 is impacted by trafficking in persons across the region.

Critically addressing the threat of illicit trade will require renewed political will of ASEAN 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 findings from this report suggest that the ability of ASEAN Leaders to develop

mechanisms to deter illicit trade and associated criminal activities will be critical to support Member States in their pursuit of the goals outlined in ASEAN Community Vision 2025.

By working collectively in tackling illicit trade, the ASEAN community can foster greater economic growth, political stability, and social cohesion, which are crucial for a more prosperous and secure future for the region.

NOTES

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⁴UNCTAD. (2020). Myanmar steps up fight against illicit trade. *UNCTAD*. <https://unctad.org/news/myanmar-steps-fight-against-illicit-trade>

⁵UNODC. (2019). *Transnational Organized Crime in Southeast Asia: Evolution, Growth and Impact*. Bangkok: UNODC. https://www.unodc.org/documents/southeastasiaandpacific/Publications/2019/SEA_TOCTA_2019_web.pdf

⁶WHO. (2021). The Global Health Observatory. *Alcohol, unrecorded per capita 915+ consumption (in litres of pure alcohol) with 95% CI*. WHO. [https://www.who.int/data/gho/data/indicators/indicator-details/GHO/alcohol-unrecorded-per-capita-\(15-\)-consumption-\(in-litres-of-pure-alcohol\)-with-95-ci](https://www.who.int/data/gho/data/indicators/indicator-details/GHO/alcohol-unrecorded-per-capita-(15-)-consumption-(in-litres-of-pure-alcohol)-with-95-ci)

⁷Hunter, M. (2018). *Tainted timber*. n.p.: Global Initiative Against Transnational Organized Crime. https://globalinitiative.net/analysis/tainted_timber/

⁸Lee, W. C. & Viswanathan, K. K. (2020). Framework for Managing Illegal, Unreported and Unregulated Fishing in ASEAN. *Asian Fisheries Society*, 33, 65-73. https://www.researchgate.net/publication/340364289_Framework_for_Managing_Illegal_Unreported_and_Unregulated_Fishing_in_ASEAN

II. EXAMINING THE IMPACT OF ILLICIT TRADE ON THE ASEAN COMMUNITY VISION 2025



Illicit trade and the ASEAN Political-Security Community

The ASEAN Political-Security Community establishes objectives for countries in the region to live at peace – with one another and with the world – in a just and harmonious environment. As such, the corresponding Political-Security Blueprint contains targets to advance political development, combat corruption, promote good governance, and protect human rights. It also adopts a comprehensive approach to strengthen cooperation in addressing non-traditional security issues, particularly transnational crimes such as trafficking in persons, international economic crimes and cybercrimes. It also calls for action on emerging crimes including illicit trafficking of wildlife and timber.^{1,2}

Specifically, the Political-Security objectives are embodied in these targets:³

- Transparent, just, corruption-free, rules-based and inclusive community (A1),
- Protection of human rights and fundamental freedoms and combatting corruption (A2),
- Strengthening security and addressing transnational crimes (B1), and
- Fighting terrorism and creating a drug-free ASEAN, eliminating trafficking and smuggling of persons, elimination of the smuggling of small arms and light weapons, and combating cybercrimes (B3).

In many ways, achieving the ASEAN Political-Security Community objectives is a prerequisite for achieving the overall Community Vision 2025, as it aims to

deliver peaceful and inclusive societies with effective governance based on rule-of-law principles.

Illicit trade, however, is notorious for nurturing violence and feeding criminal activity as well as breeding corruption and undermining trust in institutions and the rule of law. Consequently, illicit trade threatens achievement of the Political-Security Community and several of its underlying targets:

- **Erodes peace and stability, fuels corruption.** Illicit trade feeds violence, undermines trust in institutions and the rule of law, and generates enormous illicit financial flows. The available literature links illicit trade in all its forms to corruption in law enforcement, customs and tax collection.⁴ Corruption, in turn, enables both human rights abuses and democratic decline⁵ and is an enabler in many forms of serious organized crime in ASEAN. This is of particular concern because the region is already characterized by high levels of corruption.^{6,7} Transparency International's 2021 *Corruption Perception Index* ranks countries around the world on a scale of 0 (highly corrupt) to 100 (very clean). Most ASEAN countries (with the exception of Singapore), sit firmly below the global average of 43. Cambodia (23) is one of the countries with the lowest scores in the world followed by Myanmar (28), Philippines (33), Thailand (35), Indonesia (38) and Vietnam (39).

- **Supports organized crime.** The links between illicit trade and organized crime are well established, from human trafficking networks and tobacco smuggling to fuel theft and the involvement of the mafia and organized criminal groups in the trade of illicit goods. Communities and economies are further destabilized when billions of dollars of criminal profits are reinvested into other illicit activities. Perhaps most frightening are links to terrorist financing that heighten threats to national and global security.⁸



Illicit trade and the ASEAN Economic Community

The vision for the ASEAN Economic Community is a deeply integrated and highly cohesive economy that supports sustained, high economic growth and job creation, along with sufficient resilience to withstand global economic shocks and volatilities. The Blueprint for the Economic Community takes a holistic approach and provides broad-range targets intended to achieve sustainable economic advancement in the region.

Various aspects of the Blueprint include:

- Enhancing the region's attractiveness as a destination for investment by improving financial stability and establishing an open, transparent and predictable investment regime.
- Supporting a better environment for conducting business across the region by curbing anti-competitive and unfair practices.
- Improving consumer protections as an integral part of the modern and fair marketplace, by ensuring that they have access to safe products and are sufficiently protected from online fraud.⁹

- Emphasizing the role that intellectual property (IP) plays in contributing to the achievement of national and regional socio-economic development goals.¹⁰

Specifically, the Economic Community objectives are embodied in these targets:¹¹

- Create sustained economic growth and financial stability and generate employment (A),
- Safeguard consumer health and safety (B2),
- Protect innovation and IP rights (B3-B4),
- Sustainably advance in economic development while prioritizing the protection of the environment and natural resources (B8),
- Create a clean e-commerce environment (C3), and
- Enable sustainable and equitable agricultural practices and food security and safety (C5).

The more a country is vulnerable to illicit trade, the fewer prospects it has to create employment, attract investment and improve its overall economic performance.¹² Consequently, mitigating illicit trade is imperative for the advancement of the economic goals and, arguably, the overall success of the Community Vision 2025.

Below are the key associated risks from illicit trade with an impact on the achievement of the Economic Community:

- **Costs legitimate businesses billions in revenue losses each year.** 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. Illegal and essentially unfair competition from illicit trade diverts income from the balance sheets of legitimate companies.

- **Impacts government revenues from uncollected taxes.** Illicit trade exacerbates budget deficits and stifles resource mobilization. Lost excise taxes along with uncollected corporate and personal income taxes, strip governments of funds intended for public investment, with relatively more severe impacts on developing countries.
- **Hurts job creation.** Illegal and essentially unfair competition from illicit trade undermines the ability of legitimate businesses to create jobs.¹³
- **Indirectly impacts the economy.** For example, by depleting fish stocks, Illegal, Unreported and Unregulated (IUU) fishing threatens economic prospects 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.
- **Hurts innovation and technology growth and intellectual property rights (IPR) protection.** The protection and enforcement of IPRs play an important role as an incentive for innovation. Legitimate companies spend time and money in developing a product and protecting their IPRs through patents, copyrights, design rights and trademarks. This investment is undermined by counterfeiters copying legal brands which can have a highly adverse effect on investment into scientific research and the industrial growth of the market. Unless IPRs are protected, innovation and technology development will not be properly incentivized, consequently

undermining industrialization and sustainable economic development.

- **Presents health and safety risks for consumers.** Illicit goods, including counterfeit items and other products manufactured outside legitimate regulated channels, can pose significant health and safety risks to consumers. Hazardous ingredients, unsafe and ineffective products and unsanitary production expose consumers to health hazards.
- **Poses a risk to food security and food safety.** Illicit trade in agri-foods can pose immense risk to food safety and overall food security. Furthermore, the use of illicit pesticides with little or no effectiveness in protecting crops limits or destroys agricultural yields for local consumption or export – potentially keeping millions of people undernourished and lacking food security.



Illicit trade and the ASEAN Socio-Cultural Community

The ASEAN Socio-Cultural Community has the widest ranging objectives, undertaking efforts to lift quality of life through cooperative activities that are people-oriented, environmentally friendly and geared toward the promotion of sustainable development.¹⁴

This Community recognizes that while ASEAN countries have progressed much in improving the quality of life of its citizens, there is much more left to be achieved. In particular, the Socio-Cultural Community addresses some of the most intractable societal challenges facing ASEAN, including lifting tens of millions out of extreme poverty, enhancing public health systems, providing quality education, and combatting pollution, environmental degradation and climate change.

Pushing for progress, the Socio-Cultural Community Blueprint targets include:

- Promote high quality of life and reduce inequalities (B1),
- Equitable access to opportunities for all and protect human rights (B2),
- Provide social infrastructure in the form of healthcare and schools (B2),
- Promote human rights by the removal of social threats including eliminate trafficking and abuse of children, women and migrant workers (B3), and
- Promoting overall well-being through actions to build a sustainable community that promotes social development and environmental protection (C1-4).

Many incidents of illicit trade are associated with social degradation, environmental and sustainability losses. Below are the key associated risks from illicit trade with an impact on the achievement of the Socio-Cultural Community:

- **Impacts poverty eradication targets.** International trade has proven to be an engine for development, boosting income generating capacity and contributing to unprecedented reductions in poverty levels. Ending poverty goes hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, job opportunities and environmental stewardship. Illicit trade undermines all economic goals aimed at poverty alleviation and the capacity of legitimate businesses to support job creation and drive economic development.

- **Disastrous effects on health and well-being.** Access to healthy and affordable food are prerequisites for addressing global poverty and hunger. Illicit trade in agri-food and illicit trade in pesticides contributes directly to food insecurity, poverty and malnutrition by disrupting food supplies and contaminating and adulterating food products. Illicit trade in medicines presents another major threat to public health, depriving patients of medicines with sufficient active ingredients or exposing them to expired products or harmful chemicals.
- **Threatens human rights of women, children and migrant workers.** Illicit trade exposes vulnerable sectors of the population, specifically women, children and migrant workers to elevated risks of being forced into slave labor and other forms of exploitation, abuse, and violence.
- **Serious threat to sustainability and environment.** Illicit trade undermines government efforts to build sustainable communities that promote social development and environmental protection. Food fraud, commodity smuggling, and illegal agrochemicals undermine sustainable farming, limit crop yields and jeopardize delivery of fair, safe and sustainable food supplies. Illegal logging destroys the carbon sink capacity of forests and restricts achievement of the goal to end climate change. Illicit wildlife trade is almost entirely responsible for pushing some of the world's species to the brink of extinction and robs countries of their natural heritage.

NOTES

- ¹ ASEAN Secretariat. (2012). *ASEAN Political-Security Community Blueprint 2025*. Jakarta: Association of Southeast Asian Nations. <https://www.asean.org/wp-content/uploads/2012/05/ASEAN-APSC-Blueprint-2025.pdf>
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- ⁶ Idris, I. (2019). Drivers and enablers of serious organised crime in Southeast Asia. *K4D Helpdesk Report 655*. Brighton, UK: Institute of Development Studies. https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/14714/655_Drivers_and_Enablers_of_Serious_Organised_Crime_in_Southeast_Asia.pdf?sequence=1
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- ¹¹ The letters in brackets correspond to the targets per the ASEAN Economic Community Blueprint 2025 available at <https://www.asean.org/wp-content/uploads/images/archive/5187-10.pdf>
- ¹² TRACIT. (2021). *The Link Between Illicit Trade and Sovereign Credit Ratings*. New York: Transnational Alliance to Combat Illicit Trade. <https://www.tracit.org/featured-report-illicit-trade-and-sovereign-credit-ratings.html>
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- ¹⁴ ASEAN Secretariat. (2021). *ASEAN Socio-Cultural Community Blueprint 2025*. Jakarta: Association of Southeast Asian Nations. <https://www.asean.org/wp-content/uploads/2012/05/8.-March-2016-ASCC-Blueprint-2025.pdf>

III. SECTOR REVIEW OF ILLICIT TRADE AND THE ASEAN COMMUNITY VISION 2025

In order to help ASEAN Leaders better understand how illicit trade can stifle and obstruct their efforts to achieve the objectives and targets embodied in the Community Vision 2025, this chapter maps each of the three Community objectives against the impacts of illicit trade occurring in 11 key commercial sectors.

For each sector, only the most relevant targets outlined in each of the three Blueprints will be assessed. Where targets are interlinked across the three Communities, the chapters assess these targets where it appears to be most appropriate within each sector. For example, boosting economic growth and income generating capacity (Economic Community target A) will contribute to reductions in poverty levels and promote well-being (Socio-Cultural Community target B2). For the purposes of this sectoral review, poverty will thus also be discussed under the Economic Community target. Similarly, issues of consumer health (Economic Community target B2) and well-being (Socio-Cultural Community target B2-B3) are interconnected and have implications for a wide range of commercial sectors. Accordingly, these multifaceted issues are addressed under both the Socio-Cultural Community and the Economic Community.

Key sectors examined:



AGRI-FOOD INDUSTRY



AGROCHEMICALS AND PESTICIDES



ALCOHOL



COUNTERFEIT AND PIRATED GOODS



FORESTRY



ILLEGAL, UNDERREPORTED AND UNREGULATED (IUU) FISHING



PETROLEUM PRODUCTS



PHARMACEUTICALS



PRECIOUS METALS AND GEMSTONES



TOBACCO PRODUCTS



WILDLIFE



TRAFFICKING IN PERSONS

ILLICIT TRADE IN THE AGRI-FOOD INDUSTRY



POLITICAL
SECURITY

Promotes criminal activities and underpins wider risks to national security.



ECONOMIC

Siphons GDP, jobs and tax revenues from governments, jeopardizes businesses and destabilises food security.



SOCIO-CULTURAL

Undermines robust agricultural markets, threatens sustainability agricultural practices and exposes people to harmful ingredients.

Illicit trade in the agri-food sector comes in many forms, ranging from food fraud to large scale smuggling of agriculture commodities and products. Food fraud is the intentional sale of sub-standard or adulterated food products or ingredients for the purpose of economic gain. It impacts many different types of foods, the most notorious of which include meat, dairy products, fish and seafood, fruit juices, oils, honey, spices and wine.

In ASEAN, food fraud occurs across the region:

- The ASEAN Rapid Alert System for Food and Feed (ARASFF),¹ which was built to prevent unsafe or adulterated food/feed products from reaching consumers,² shows that the highest incidence of food fraud reported is in herbs and spices, followed by fish and fish products and meat and poultry products. The countries with the most reported incidences of food fraud in recent years are Thailand, Indonesia and Vietnam.³
- The Cambodia Ministry of Commerce's Consumer Protection and Fraud Repression Department (CPFR) reports incidents of imports of illicit food from Thailand and Vietnam. They seized and destroyed 97 tons of counterfeit, damaged or altered goods, containing banned or expired ingredients in the first six months of 2021.⁴
- Indonesia and Vietnam participated in INTERPOL's Operation Opson with 70 other countries, where more than USD 53 million worth of potentially dangerous fake food and drink, including dairy products, meat from illegally slaughtered animals and fake honey were seized.⁵

Regulatory inconsistencies and the lack of harmonized standards can create trade barriers and opportunities for criminals to engage in illegal agri-food trade, including restrictions on import/distribution licensing

arrangements, onerous product regulatory standards or a lack of uniform food security and trade standards.⁶

Illicit trade in agri-foods undermines robust and resilient agricultural markets that support economic development and poverty reduction. It destabilizes food security, undermines sustainable food production and access to food and exposes consumers to harmful ingredients or deprives them of active beneficial ingredients. These destabilizing impacts directly threaten the ASEAN Community Vision 2025.

The following sections present examples and illustrate how illicit trade in the agri-food sector obstructs and stifles progress in each the three Community objectives and targets.



Impacts on ASEAN Political-Security Community (APSC)

The Political-Security Community aims to promote closer cooperation among Member States and create mechanisms to achieve ASEAN's political and security objectives. Among these, and most relevant for this report, are the objectives to combat transnational crimes and build a just and peaceful environment. Illicit trade in agri-foods jeopardizes government efforts to achieve these objectives.⁷

APSC Blueprint target A1-2: To build a just, democratic environment / Target B3: To combat transnational crime, trafficking in persons and terrorism

Illicit trade in agri-food can underpin wider risks to national and regional security, undermining targets for promoting rule of law and good governance and reducing corruption. This is especially the case when organized criminal groups are involved

and when smuggling routes for trafficking drugs and arms are used for cross-border smuggling of foodstuffs by same or similar criminal groups, including non-state armed actors.⁸



Impacts on ASEAN Economic Community (AEC)

Agriculture production constitutes a large portion of GDP in most ASEAN countries. On the consumption side, a healthy agricultural sector is vital to eradicating hunger and poverty. Illicit trade in agri-food adversely impacts these objectives and jeopardizes government efforts to achieve sustainable economic development, business competitiveness and achieve food security objectives.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

ASEAN countries have witnessed phenomenal growth in agricultural production in recent years: exports rose from around USD 6 billion in 1990 to approximately USD 50 billion in 2014.⁹ In the least developed countries such as Myanmar and Laos, the sector accounts for more than 40% of GDP.¹⁰ This has led to an increase in incomes in the agri-industry across the region and considerable economic growth. Growth in the agriculture sector is twice as effective in raising incomes among the poorest compared to other sectors.¹¹

Consequently, strong, legal agricultural trade is crucial to achieving a deeply integrated and cohesive ASEAN economy that supports sustained high economic growth and resilience. Conversely, illegal agri-food trade globally undermines farming and global food trade systems, destabilizes rural

economies and jeopardizes production and delivery of fair, safe and sustainable food supplies.¹²

AEC Blueprint target B1: To improve business competitiveness and curb anti-competitive activities

For a legitimate company, illicit agri-food creates unfair competition by reducing sales and employment opportunities and disincentivizing investment. This is especially the case for small-scale food producers and those in developing countries. Reportedly, in 2016 Cambodia's rice industry was on the "brink of collapse" due to unfair competition from cheaper illegal rice imports.^{13,14} In cases where illegal agri-food trade results in injury or harm, a corporation's reputation and economic sustainability can be severely damaged.

AEC Blueprint target C5: To ensure sustainable production, food security and safety

Access to healthy and affordable food is a prerequisite for human health and well-being, addressing global poverty and hunger. Illicit trade in agri-food undermines sustainable production, equitable distribution and impacts food security and food safety goods.^{15,16} Developing countries and low-income communities, which lack strong food-safety control systems or cannot afford to buy safer products are particularly vulnerable to these illegal practices.¹⁷

Food fraud conveys a number of severe indirect impacts on human health and safety. For example, long term exposure to low-level toxic contaminants or the continuous omission of active or beneficial ingredients, such as preservatives or vitamins can have harmful health consequences. Likewise, health risks emerge when unlabeled or adulterated ingredients cause consumer allergy, intolerance, or sensitivity.

Finally, food fraud also deceives some consumers into unknowingly consuming ingredients that would otherwise be avoided for religious or ethical reasons.



Impacts on ASEAN Socio-Cultural Community (ASCC)

At the heart of the ASEAN Socio-Cultural Community is the commitment to promote sustainable development and encourage practices that conserve and protect the environment. Illicit trade in agri-food presents impediments to the realization of this commitment.

ASCC Blueprint Target C: To protect the environment and progress on sustainability

The sustainability of the agriculture sector is currently at threat from climate change and unsustainable farming methods.¹⁸ Rapid population growth and increased demand can drive markets for illicit agri-food and exacerbate unsustainable food production patterns, such as when tropical forests not meant for agricultural land are illegally converted to palm oil plantations. Unsustainable food production patterns contribute to declining arable land, degradation of key ecosystems, natural resource depletion, and deterioration of soil, water and biotic resource bases on which all food production depends.

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ILLICIT TRADE IN AGROCHEMICALS AND PESTICIDES



POLITICAL
SECURITY

Lucrative profits for organised crime groups, undermines governments' capacity to promote the rule of law, eradicate corruption and combat other criminal activities.



ECONOMIC

Drains farmer profitability, hinders agricultural productivity and food security and safety, and exposes consumers to toxic chemicals.



SOCIO-CULTURAL

Prevents environmentally sound, life-cycle management of chemicals and wastes and significantly contaminates the environment – air, water and soil.

Agrochemicals and specifically pesticides play an important role in stimulating agricultural productivity and crop yields, thus generating a positive impact on global food supply, poverty eradication, economic growth, development and job creation.

Unfortunately, illegally traded pesticides are finding their way into markets worldwide.¹ Illegal agrochemicals include obsolete, banned or unauthorized pesticides; untested, unregulated, or unlicensed pesticides; unauthorized imports; counterfeit and fake pesticides; relabeled or mislabeled pesticides; and refilled pesticides containers.²

In its 2020 study, the OECD found that the global trade in illegal pesticides has been steadily increasing, posing threats to agriculture, food supply, the environment, farmer health, and national economies.³ According to various estimates, the share of illegal pesticides on the global pesticides market ranges from 10 percent to as high as 25 percent.⁴ With the global pesticide market valued at over USD 80 billion in 2021,⁵ global revenues associated with the trade of illegal pesticides are estimated at more than USD 8 to 20 billion per annum.

Trade in illegal pesticides is a growing problem in Southeast Asia,⁶ posing real and serious risks to the environment and sustainable agriculture. This problem is exacerbated in the region due to its proximity to China and India, two of the world's largest sources of illicit pesticides.⁷ For example, about 10 tons of fake pesticides were seized and criminals were detained during a Chinese-Cambodian police operation;⁸ and in 2016, nearly 70 tons of smuggled pesticides were confiscated in Vietnam, as a result of cooperative investigations with law enforcement.⁹

Further, a recent trend is also the growing use of e-commerce and social media platforms to trade in pesticides. Insufficient enforcement online by regulatory authorities, the lack of compliance by several e-commerce platforms to local pesticides

laws, and lack of sufficient awareness and education of farmers has enabled an increase in illicit pesticides being sold online.

The high demand for affordable pesticides in ASEAN countries is another factor that may contribute to the increase in illicit trade. Farmers may be attracted to the cheaper prices offered by illicit traders, even if it means buying substandard or fake products.

Illegal pesticides also generate a number of serious economic and social impacts and undermine the importance and value of legitimate crop protection products on sustainable development, global stability and national food security, thereby hindering social development.¹⁰ Consequently, illicit agrochemicals and pesticides upset progress in all three ASEAN Communities: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections explain how illicit trade in the sector impedes achievement of key targets for each of these Communities including actions delineated in their respective Blueprints.



Impacts on ASEAN Political-Security Community (APSC)

The ASEAN Political Security Community aims at building a peaceful and secure region by, among others, instilling anti-corruption principles and curbing emerging security threats including transnational crime. Illicit pesticides undermine these goals. As noted by Europol, “the trade in illegal and counterfeit pesticides is organized by highly sophisticated criminal networks. Criminals have developed complex global supply chains and exploit legal companies to camouflage their activities. The global revenues associated with this crime are

estimated to be billions of euros a year.”¹¹ This is not just an issue for industry, whose products are being counterfeited, but more significantly poses risks to human and animal health and the wider environment as these illegal substances are not subject to the same rigorous safety tests that are required before legitimate pesticides are allowed into the marketplace.

APSC Blueprint target A1-2: To build a just, democratic environment

Illicit pesticides are associated with large scale losses and increased poverty. They also contribute to social unrest in rural areas, thereby undermining rule of law in these regions.¹²

Trade in illegal pesticides can also have detrimental effects on the functioning of public authorities as it is often associated with corruption.¹³ Organized crime networks engaged in the production and distribution of illegal pesticides often rely on corrupt custom officers, law enforcement officials and staff in charge of pesticide procurement.^{14,15} Attractive profit margins contribute to further criminality levels at every stage of the pesticide life cycle.¹⁶ Finally, trade in illegal pesticides undermines national registration and risk reduction schemes, weakening public confidence in regulatory and compliance policies put in place by governments. All of this impacts efforts towards building a just regime and promoting good governance.

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

Profits from the trade in illegal pesticides represent a highly lucrative activity for organized crime, with criminal networks hiding their operations in complex global supply chains including repackaging, remarking and changing labels.¹⁷ According to a report by the United Nations Interregional Crime and Justice Research

Institute (UNICRI), “Illicit pesticides represent (...) a concrete threat to security, development, health and the environment.”¹⁸



Impacts on ASEAN Economic Community (AEC)

Agriculture drives economic development and provides a livelihood for many of the poorest and most vulnerable people. According to the World Bank, economic growth in agriculture sectors is at least twice as effective in reducing poverty as growth in any other sector.¹⁹ Pesticides play an important role in stimulating agricultural productivity and crop yields, thus generating a positive impact on global food supply, and poverty eradication, job creation and economic growth. Consequently, it is imperative to protect markets from illegal pesticides which jeopardize crop yields and the production of safe, stable and nutritious food supplies.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

The Global Agrochemicals Market was valued at USD 221 billion in 2021 and is predicted to reach at USD 286 billion by 2030. In 2021, Asia-Pacific was the dominant geographical market, accounting for 30% of total sales,²⁰ mostly because the region is the leading agricultural producer worldwide. This indicates that pesticides account for a sizeable market that contributes heavily to economic growth in the region.

There are a number of negative economic impacts extending from the growth in illicit pesticides, starting with lost government revenues from uncollected taxes. Illicit pesticides exacerbate budget deficits and preclude government spending on health

care, infrastructure and job creation, thereby hindering national economic growth and development. Governments also end up spending more on enforcement-related activities to clear markets of illicit products, further burdening limited resources that could be used for *inter alia* farmer stewardship and training.

AEC Blueprint target B1: To improve business competitiveness and curb anti-competitive activities

Legitimate producers and distributors are confronted with unfair competition from counterfeit, “look alike” and low-cost, substandard products that tarnish their brand reputation and damage customer trust. For individual farmers, the use of counterfeit pesticides creates a triple loss: money is wasted on pesticides that have little or no effectiveness in protecting crops, crop yields are reduced or even lost, and long-run land-use degradation is an ever-present risk.²¹ They also cause reputational damage to established food producers, products, and brands and exporters.²²

AEC Blueprint target B2: To protect consumer health

On a macro level, illicit pesticides can devastate markets for particular products by eroding public confidence in established producers, agricultural producing countries, and perceptions of food safety. Exposure to and handling of illegal pesticides containing chemicals which are banned, obsolete or restricted – such as persistent organic pollutants (POPs) and other highly hazardous pesticides (HHPs) – can present significant long-term health, food and environmental risks to agricultural and farm workers.²³ Illegal pesticides are also often sold without warning labels or directions for proper use. Illicit pesticides have also been reported to include false claims like “harmless to human beings and animals” and “safe to use.”²⁴

There is also a direct link between using illicit pesticides and food safety as residue of illicit chemicals may be found on agricultural produce post-harvest. For example, reports from Thailand, Indonesia and Vietnam note several incidences of food fraud from unsafe agri-products due to the usage of illicit glyphosate, paraquat and chlorpyrifos by the farmers to treat their crops.²⁵

AEC Blueprint target C5: To ensure sustainable production, food security and safety

The long-term usage of illegal pesticides on agricultural land can cause resistance in pests, reduce soil fertility or render the land infertile, and contaminate ground water, thereby causing environment degradation throughout and impacting food security and sustainability. It can reduce crop yields and quality, leading to lower production and potential food shortages. Illicit pesticides may not contain the necessary active ingredients or may have incorrect dosage recommendations, leading to inadequate pest or disease control, and reducing the productivity of crops.

Consequently, it is imperative to protect markets from illegal pesticides which jeopardize crop yields and the production of safe, stable and nutritious food supplies.



Impacts on ASEAN Socio-Cultural Community (ASCC)

Illegal pesticides generate a number of serious social impacts and undermine the importance and value of legitimate crop protection products on sustainable development. The proliferation of illicit pesticides presents a range of threats to farm yield, farmer health and safety, and

environmental systems that support human, animal, plant and aquatic life. Consequently, it is imperative to protect markets from illegal pesticides which jeopardize crop yields and the production of safe, stable and nutritious food supplies.

ASCC Blueprint Target B2-B3: To achieve well-being and eradicate poverty

The use of illegal pesticides presents significant risks to human health and safety in the form of exposure to unsafe chemicals and safety hazards associated with transportation and handling, thereby compromising the wellbeing of people exposed to these pesticides including farmers and eventually consumers. Undeclared active ingredients in illegal and counterfeit pesticides can leave unacceptable levels of toxic residues on crops, rendering them unfit for human (or animal) consumption. Farmers face potentially irreversible damage to their crops, fields and livelihoods, with large scale losses compromising food supply and increasing risks of poverty.

ASCC Blueprint Target C1-4: To protect the environment and progress on sustainability

Run-offs from the toxic, illegal substances in illicit pesticides into waterways and ground cause pollution of water and land, sometimes rendering it unfit for human consumption or for further agricultural production. Additionally, the long-term usage of illegal pesticides on agricultural land can cause resistance in pests, reduce soil fertility or render the land infertile, and contaminate ground water. In addition, criminals dealing in illegal pesticides facilitate the pollution of fresh water supplies by illegally – and irresponsibly – disposing harmful chemicals used during the manufacturing process. For example, the widespread use of illegal pesticides in Cameron Highlands in Malaysia has tainted rivers and local water supplies with toxic chemicals, including globally banned substances such as Endosulfan.²⁶

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ILLICIT TRADE IN ALCOHOL



Promotes criminal activities and underpins wider risks to national security.



Siphons GDP, jobs and tax revenues from governments, poses consumer health risks and jeopardizes legitimate businesses.



Increases accessibility to vulnerable groups, and limits governments ability invest in social services due to impact on tax collection.

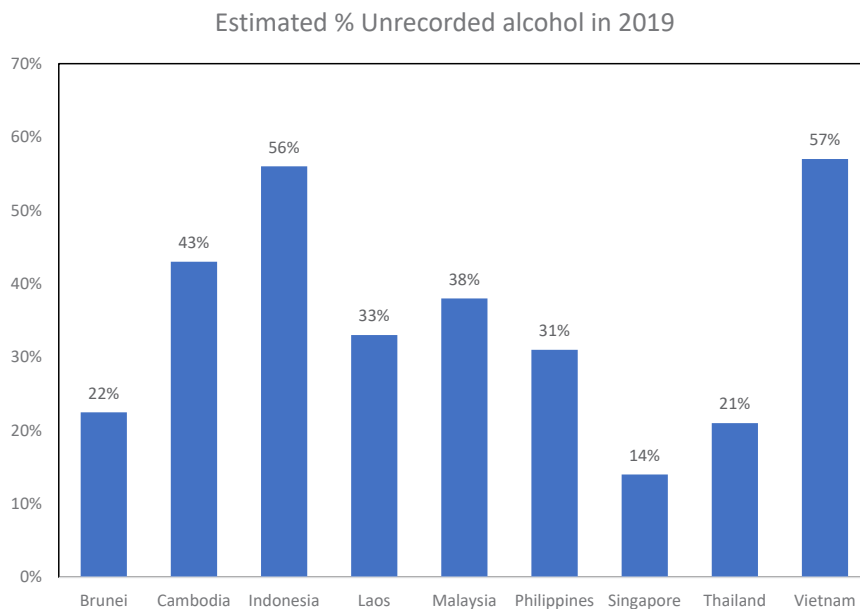
According to 2019 WHO data, unrecorded alcohol represented roughly 32% of total consumption in the ASEAN region.¹ In some countries, the rate was much higher: 43% Cambodia, 45% in Indonesia, and 57% in Vietnam (see table below).² Overall alcohol consumption in ASEAN is expected to grow by 16-18% by 2025.³ Consequently, it is important that ASEAN governments do not allow illicit consumption to grow alongside overall growth in alcohol consumption.

Smuggling of alcohol is significant throughout ASEAN, primarily due to weak controls across the many shared borders and discrepancies in excise tax policies. Since alcohol is heavily regulated across ASEAN, limited product availability and sales through bans or high excise tax regimes incentivize illicit traders to fill the gap in demand by smuggling cheaper illicit substitutes across borders. More recently, bans and restrictions on the sale / supply of alcohol during the COVID-19 pandemic created additional markets for illicit supplies and strengthened the production and supply capabilities of illicit traders. For example, Thailand’s ban on sale of alcohol during the pandemic exacerbated the problem of demand and sale of illicit alcohol.⁴

According to the OECD, the public health costs and personal tragedies from illicit alcohol are staggering. In general, the biggest concern is consumer exposure to health risks associated with toxic illicit alternatives. Moreover, illicit alcohol is often consumed by more vulnerable populations, such as people of low socioeconomic status, rural populations, and people with alcohol dependence.⁵

In addition to the health risks, illicit alcohol trade: i) deprives governments of tax revenues; ii) reduces sales by legitimate, tax-paying businesses and tarnishes their reputation when inferior, illicit products are sold under their brand; and iii) diverts resources to organized crime, which uses proceeds to sustain other illegal activities, undermining rule of law.

Given its far reaching impact on well-being of the population, businesses and governments, the illicit trade in alcohol impacts several targets outlined in the Blueprints of each of the three ASEAN Communities: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.



Source: WHO, The Global Health Observatory (2021)

The following sections illustrate how illicit trade in the alcohol sector impedes achievement of key targets for each of these Communities including actions delineated in their respective Blueprints.



Impacts on ASEAN Political-Security Community (APSC)

Illicit trade in alcohol is a significant threat to society, businesses and consumers, undermining good governance, the rule of law and citizens' trust in government and legal businesses and trade.

APSC Blueprint target A1-2: To build a just, democratic environment

Illicit alcohol undermines the aims of the Political-Security Community in view of its implications on smuggling, money laundering and human trafficking, all which undermine the rule of law.⁶ Further, the available literature links illicit trade in alcohol to corruption in law enforcement, customs and tax collection.⁷

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

The involvement of organized criminal groups in illicit trade in alcohol has been well documented in a number of countries.⁸

The substantial proceeds of illicit sales are used to fund other illegal activities, empowering criminal organizations while undermining the rule of law. Notably, the success of organized criminals comes at the cost of legitimate producers in the case of counterfeit and low-cost unbranded items, and at the cost of governments as a result of uncollected taxes.⁹



Impacts on ASEAN Economic Community (AEC)

Illicit alcohol undermines sustainable economic growth, full and productive employment, financial stability and business competitiveness and deprives governments of an important source of tax revenue. For developing countries, lost excise tax collections can have a particularly debilitating effect on efforts to improve domestic resource mobilization.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

Since illicit alcohol is unregulated and not taxed, it also undermines efforts towards narrowing the economic development gap amongst ASEAN countries. Illicit trade in alcohol undermines sustainable economic growth, full and productive employment and job creation thereby also impact targets for poverty alleviation. Illicit alcohol diverts income from the balance sheets of legitimate businesses – unfair competition from illicit trade undermines their ability to create jobs and pay taxes. Lost corporate and personal income taxes, along with avoided excise duties, strips governments of income intended for public investment, with relatively more severe impacts on developing countries. For example, in Vietnam, 57% of alcohol consumption remains unrecorded, which means less than half of the market is paying taxes.¹⁰ Vietnam's fiscal loss in 2019 was approximately USD 441 million.¹¹

AEC Blueprint target B2: To protect consumer health

Illicit alcoholic beverages present significant health risks to consumers. Illicit alcohol is unregulated and not subject to the stringent requirements and quality standards of legally produced beverages. In general, one of the biggest health concerns with respect to illicit alcohol is consumer exposure to risks associated with toxic illicit alternatives. In addition to failing to meet sanitary, quality, and safety standards, illicit substitutes pose a serious risk due to contamination with toxic chemical additives.¹² The use of methanol in the production of illicit alcohol is particularly alarming, as it has a strong causal connection to morbidity and mortality; it can result in a decreased level of consciousness, poor or no co-ordination, vomiting, abdominal pain, permanent blindness and death.¹³

In ASEAN, the unintended consequences of illicit alcohol on human lives are well documented: products are manufactured using poisonous compounds including cheaper or non-food grade alcohol which can have serious adverse health effects. Moreover, manufacturing facilities are often beyond the reach of health and safety inspectors, and production methods are unsanitary including the use of contaminated water.¹⁴

- In 2018, nearly 150 people in Indonesia died from organ failure after consuming homemade *oplosan* containing toxic ingredients such as mosquito repellent and cough medicine, resulting in the country's worst ever alcohol poisoning case.¹⁵
- In Malaysia, in 2018, 45 people died after consuming toxic alcohol. In May and June of 2019, at least 17 more joined the death toll, and one person was reported to have become blind.¹⁶

- In Cambodia, 11 villagers died from drinking toxic rice wine during a 2021 funeral, while 10 more were hospitalized.¹⁷

AEC Blueprint target B3-B4: To strengthen intellectual property (IP) and drive innovation

Legitimate alcohol companies spend a considerable amount of time and money in developing products and protecting their IP through patents, copyrights, design rights and trademarks. This investment is undermined by counterfeiters copying legal brands, which can have a highly adverse effect on investment into scientific research and the industrial growth of the market. Unless IP is protected, innovation and technology development will not be properly incentivized, consequently undermining industrialization and economic development.¹⁹



Impacts on ASEAN Socio-Cultural Community (ASCC)

Illicit trade in alcohol obstructs and stifles efforts to achieve ASEAN goals for social protection, health and wellbeing, and sustainable production. In many instances, this has implications on ASEAN's Socio-Cultural Community.

ASCC Blueprint Target B2-B3: To achieve well-being and eradicate poverty

As illicit and other forms of unrecorded alcohol are usually the least expensive form of alcohol available in many countries, it may contribute to higher rates of chronic and irregular heavy drinking impacting the well-being of the ASEAN population.¹⁹

Illegal alcohol exacerbates poverty and chronic illness, undermining goals for poverty eradication. The illicit products are often consumed by more vulnerable segments of the population, such as people of low socioeconomic status, rural populations, and people with alcohol dependence.²⁰ Access to cheap illicit alcohol means that these groups are more exposed and more vulnerable to tangible problems and negative consequences of alcohol consumption. The health consequences of consuming illicit alcohol can particularly be problematic for vulnerable groups and those living in poverty who have limited access to adequate healthcare.

As such, combatting illicit alcohol is part of WHO's global strategy to reduce the harmful use of alcohol.

ASCC Blueprint target B2: To enhance institutional capacity to promote greater access to basic social services

As noted in the Economic Community Blueprint Target A, trade in illicit alcohol causes huge financial losses to both governments and businesses. The drain on revenue collection due to unpaid taxes on illicit products, widespread smuggling and untaxed local production can have a particularly debilitating effect on efforts to improve domestic resource mobilization. This reduces government budgets and limits their ability to invest in social infrastructure such as for the development of schools and hospitals.

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ILLICIT TRADE IN COUNTERFEIT AND PIRATED GOODS



Funds organised criminal organisations, terrorism, fosters corruption and undermines rule of law, damages public trust and institutional structures.



Siphons GDP, jobs and tax revenues from governments, poses risks to consumer, creates unfair competition and reputational loss for businesses and stifles innovation.



Generates environmental hazards from unregulated manufacturing and improper waste disposal, creates opportunities for abuse and labor exploitation.

ASEAN has long been a major global hub for counterfeits, in part due to its proximity to China, the largest manufacturer of counterfeit products.¹ Though almost all industries are affected, the region is a hotbed for illicit trade in apparel and footwear,² consumer electronics, toys and games, automotive parts and pharmaceuticals.³ While some of it is for domestic consumption, these goods are mostly destined for international markets, with Singapore continuing to be a primary transit hub for this trade.⁴ Singapore has been identified as one of the primary transit hubs for fake textiles and footwear (along with Hong Kong, China and the United Arab Emirates), and also for toys, games, sports equipment and counterfeit jewelry (along with Hong Kong, China and Macau, China) to Europe.⁵ Other countries in the region are also important transshipment hubs and according to Chinese Seizure Punishment Decision data, Southeast Asia is now a rapidly growing destination for counterfeits.⁶

In a report published by the (OECD) and the European Union Intellectual Property Office (EUIPO), half the countries in ASEAN – notably Singapore, Thailand, Malaysia, the Philippines and Vietnam – are among the top provenance countries of counterfeit and pirated products.⁷

Further, the lack of proper enforcement at export and import, and no effective customs recordal systems in place in countries such as Malaysia, Cambodia, Indonesia act as an enabler to the counterfeit trade.⁸

Social distancing restrictions related to the COVID-19 pandemic created fertile ground for the sale of counterfeits online,⁹ and ushered a surge in counterfeits offered by online platforms such as Shopee, Bukalapak, Lazada and Tokopedia.¹⁰ Social media platforms such as Facebook, TikTok and Instagram also provided as avenues for people to find counterfeits online.¹¹

Counterfeiting and piracy severely impede the achievement of the targets in the ASEAN Community Vision 2025, and all three Communities and their targets as envisioned in their respective Blueprints: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections map the impacts of illicit trade against the objectives pursued by the three Communities:



Impacts on ASEAN Political-Security Community (APSC)

Counterfeiting and piracy are closely linked to transnational poly-criminality, including human trafficking and money laundering.¹² One of the key enabling factors of counterfeiting is corruption among public officials. Counterfeiting and piracy undermines trust in institutions and the rule of law and generates vast illicit financial flows, all of which are incompatible with the goal to achieve a stable Political-Security Community.

APSC Blueprint target A1-2: To build a just, democratic environment

Criminal networks engaged in counterfeiting are often also involved in trafficking other forms of illicit goods including arms and weapons, engage in smuggling, money laundering and human trafficking, all which undermine the rule of law.¹³ Corruption and bribery are inherently linked to the trafficking of counterfeit goods, especially when these are shipped across borders. Corruption may come in many forms: officials sell manufacturing licenses, falsify the inspection of goods, or take bribes at production sites to tip-off criminals to police raids or to “look the other way” as

counterfeiters use forced labor, dump waste, or otherwise violate national laws.¹⁴ Such crimes pose a severe threat to national security and public safety throughout ASEAN.¹⁵

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

IP crime has emerged as a lucrative and growing business opportunity for organized criminal networks – largely due to the high profits, low risk of discovery, and inadequate or minor penalties when and if caught.¹⁶ Some reports indicate the strategic and operational criminal link between counterfeiting and activities such as drug trafficking, with organized crime groups increasingly exchanging goods, such as swapping drugs for counterfeit items and vice-versa.¹⁷ Counterfeit goods can be used as commodities for full or part payment between organized criminal networks in contexts where these groups can reduce the amount of capital they need to exchange, thereby reducing their exposure and risk.¹⁸

APSC Blueprint target B6: Enhance maritime security

Mitigating counterfeit via maritime container shipping can significantly enhance maritime security. Given the poly-criminal nature of counterfeiting, enforcement measures can lead to discoveries of narcotics, other types of contraband and undocumented migrants.



Impacts on ASEAN Economic Community (AEC)

The Economic Community explicitly recognizes IP as one of the necessary factors in building a competitive region. The most recently adopted ASEAN IP Rights Action

Plan for 2016–2025 recognizes the important role of IP rights in the context of trade and investment flows, as well as the importance of cooperation in IP-related fields in the region. For governments and business, the losses from counterfeiting and piracy include illegal acquisition of IP, reduced returns to innovators and creators, lost tax revenue, and the diversion of public and private resources from more productive ends. As such, counterfeiting and piracy significantly impact the targets in the ASEAN Economic Community Blueprint.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

In Southeast Asia, the counterfeit goods market, excluding fraudulent medicines is estimated to generate illicit revenues that can reach up to approximately USD 36 billion annually.¹⁹ This robs ASEAN economies of their economic growth, especially in countries like Indonesia, Malaysia, the Philippines, Singapore, and Thailand where IP-based industries can contribute up to 60 percent of exports and half or more of GDP.²⁰

AEC Blueprint target A3: To enhance investments in the region

A strong IPR protection and enforcement regime has a direct influence on the inflow of FDI into countries, and this is especially important for the developing countries of ASEAN.²¹ By addressing weakness in IPR regimes, governments can enhance FDI, which contributes to long-term positive gains for employment, exports, local economic development and increased productivity.

AEC Blueprint target B1: To improve business competitiveness and curb anti-competitive activities

Counterfeiting and piracy distort marketplace competition for a wide range

of sectors and both local and international brands. Other potential costs to business include loss of market shares, particularly due to unfair competition practices, increased resources devoted to supply chain monitoring and policing, regulatory compliance costs, liability stemming from health and safety of consumers, reputational harm and security and insurance costs. For example, a study by Indonesian Anti-Counterfeiting Society estimates that the illicit counterfeit trade deprives the Indonesian economy of up to USD 4.8 billion per year.²² Further, in the long-term, countries that do not protect or enforce IPRs can become notorious for counterfeiting, thereby injuring legitimate industries and national reputation.

Separately, piracy can undermine the economic viability of creative industries and reduce the revenue streams that support future artistic and cultural production.

AEC Blueprint target B2: To protect consumer health

The circulation of counterfeit goods poses direct and indirect health and safety risks to consumers and the broader society, thereby undermining the goals of the Economic Community. Whereas legitimate manufacturers abide by regulations and invest heavily in innovation and product development, counterfeiters profit by sidestepping product safety regulations, environmental controls and labor laws. As a result, counterfeit goods are often of sub-standard quality or of unknown and sometimes dubious chemical/material composition.²³

Examples include counterfeit batteries and cigarette lighters that explode, toys with toxic paint, baby formula that provides no nourishment, and counterfeit electronic goods that may cause injury, burns or electric shock. For example, counterfeit versions of semi-conductors have been found in everything from automated external

defibrillators to airport landing lights and microcontrollers intended for use in brake systems.²⁴

Even relatively innocuous goods such as watches, apparel and handbags can pose health risks for consumers when counterfeiters use harmful, allergenic or toxic materials.²⁵ Examples include the use of prohibited carcinogenic dyes to color fabrics and children's clothing made from highly flammable fabrics.²⁶ Counterfeit cosmetics and personal care products containing dangerous levels of lead, mercury, cyanide and other carcinogens can cause severe allergic reactions and pose a particular threat to pregnant women and unborn babies.²⁷

AEC Blueprint target B3-B4: To strengthen IP and drive innovation

Today's increasingly knowledge-based economy is driven by innovation. In addition to stimulating economic growth, innovation has the potential to address some of the world's most intractable challenges, including climate change, decent employment, food security, combating infectious diseases, and ensuring access to affordable and clean energy.

In contrast, IP theft stifles economic growth and job creation by discouraging innovation, reducing incentives for companies to invest in R&D and inhibiting creative industries from realizing their full potential. Copyright piracy reduces the incentives for creators to produce new works since they may not receive full financial rewards for the efforts.

Unfortunately, some ASEAN economies lack clear legal and regulatory systems that sufficiently protect IPRs.²⁸ Further, in most ASEAN countries sanctions for IPR infringement are mostly weak and do not necessarily act as a deterrent. For example, in Vietnam enforcement raids and fines do not stop infringers from trading in counterfeits.²⁹

When IPR protections are weak or non-existent, it becomes easier to copy and distribute intellectual property without permission or compensation to the creators. A lack of IPR protections can also facilitate illicit trade by reducing the legal risks and penalties associated with the infringement of IPRs, making it easier and more profitable for individuals and organizations to engage in the illicit trade of counterfeit or pirated goods.

AEC Blueprint target C3: Clean e-commerce environment

The increased use of e-commerce platforms provides counterfeiters (as well as digital pirates) with a powerful global infrastructure to market and distribute fake goods to ever greater number of consumers at minimal expense.³⁰ Several platforms based in ASEAN, including Bukalapak, Tokopedia and Shopee are notorious for offering high levels of counterfeits.³¹ Further, several platforms in the region have not demonstrated adequate commitment not allocated sufficient resources both financial and manpower to clear their websites of counterfeit goods making the online environment unsafe for consumers to shop.

Along with the growing importance of e-commerce websites and social media platforms, an increasing quantity of counterfeits are distributed in small parcels via postal and express carrier services. Singapore, Thailand and Cambodia feature among the top provenance economies for shipping counterfeits through small parcels trade.³²

In addition, fraudulent advertising is rapidly emerging as a new risk to consumers shopping online. Misleading and fraudulent advertisements divert unsuspecting consumers to websites featuring counterfeits, fake services, and other fraud. These adverts are all over social media networks, search and video sharing platforms where people are not expecting such scams. Most

fraudulent websites also show a disregard for data privacy and expose consumers to credit card fraud, identity theft, and other cybercrimes. Even more alarming is evidence that coordinated criminal networks are often behind the adverts.³³



Impacts on ASEAN Socio-Cultural Community (ASCC)

The Socio-Cultural Community Blueprint recognizes the importance of sustainable development as an integral part of the region's growth strategy. This includes environmental conservation and sustainable management of natural resources and sustainable production with sound waste management systems and energy efficiency. However, counterfeiting has the potential to significantly slow down progress towards the achievement of sustainable development goals.³⁴ As such, counterfeiting and piracy impact several of the targets under the Socio-Cultural Community Blueprint.

Blueprint target B3: To eliminate all forms of exploitation and abuse

The Socio-Cultural Community heavily focuses on the protection of women, children and migrant workers, but there are significant human rights abuses associated with the manufacturing and sale of counterfeits.³⁵ The UNODC notes that, "migrants who have been smuggled into a country are coerced into selling counterfeit goods while irregular labor, including children, can be used in the production of counterfeit items."³⁶ The labor conditions in counterfeit manufacturing sites are often in stark contrast with basic human rights standards. The US Office of the Intellectual Property Enforcement Coordinator highlights that: "The behind-the-scenes production of counterfeit goods

often involves human rights violations, including the use of child labor, forced labor, human trafficking, long hours and dangerous 'sweatshop' working conditions, and payment of unlawfully low wages that do not cover living expenses.¹³⁷

ASCC Blueprint target B2: To enhance institutional capacity to promote greater access to basic social services

The massive direct and indirect economic effects of counterfeiting and piracy impact government budgets and create deficits for reinvestment for social infrastructure. This is especially concerning for developing countries where the tax loss and customs duty evasion can have relatively more severe impacts on governments' ability to spend on social infrastructure.

ASCC Blueprint Target C1-4: To protect the environment and progress on sustainability

The environmental cost of counterfeiting extends from cradle to grave: from manufacture to final destruction and disposal, counterfeit and pirated goods pose an ongoing threat to the environment. Consumers' ability to make educated and eco-friendly decisions are undermined when certificates of origin are falsified, quality assurance programs hampered, and claimed ingredients diluted with a cheaper product or entire species substituted.³⁸

Legitimate businesses are increasingly incorporating environmental sustainability into core business models, with companies making conscious sourcing a priority and substantial investments in waste management and adopting zero-waste strategies. In contrast, counterfeiters have no responsibilities for compliance with environmental standards and regulations and no incentive to keep toxic chemicals out of their products. Examples of violations

include the unlawful disposal of hazardous toxic substances into air and water³⁹ and the use of harmful chemicals and other contaminants in clothing.⁴⁰ Counterfeit electronics created from e-waste introduce potentially hazardous waste streams into water ways, creating health and environmental hazards for workers and nearby communities.⁴¹

The sub-standard quality and/or dubious and unknown composition of counterfeits introduces additional environmental risks – and costs – associated with their destruction and disposal.⁴² In some cases, the cost of destruction can exceed the cost of original production.⁴³ The situation is particularly acute in countries where technical capacity, appropriate storage and waste facilities, and regulatory control are limited. Common methods of destruction such as open burning, disposal into open landfills or improper recycling may result in the release of toxic gases, such as persistent organic pollutants (POPs) and other toxins linked to serious adverse effects on human health. Improper storage and destruction also may pollute soils, groundwater or watercourses, with potentially devastating and long-term effects on soil fertility, clean water supplies, marine life and other natural resources vital for human wellbeing.⁴⁴

NOTES

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ILLICIT TRADE IN FORESTRY PRODUCTS



POLITICAL
SECURITY

Lucrative profits for organised crime groups, undermines governments' capacity to eradicate corruption and combat other criminal activities.



ECONOMIC

Robs the ASEAN countries of as much as USD 11 billion a year, deprives taxes and government spending on public infrastructure.



SOCIO-CULTURAL

Exacerbates deforestation, undermines sustainable management of forests and efforts to preserve biodiversity and protect wildlife habitats.

ASEAN governments have in the last few years initiated several joint efforts to mitigate illicit trade in timber in the region. For example, the Working Group on Illicit Trafficking in Wildlife and Timber, formed in 2017, is enhancing cooperation on enforcement to undertake investigations, intelligence sharing and improving actions to stop timber trafficking.¹ Nonetheless, this illicit activity continues to persist:

- The United Nations Office on Drugs and Crime (UNODC) estimated illegal trafficking of timber at approximately USD 17 billion per year, making it the second highest value illicit commodity (after alcohol) in the Asia-Pacific region.²
- Whereas illegal timber trade is estimated to account for up to 90% of tropical deforestation in some countries.³ In Indonesia alone illegal logging is estimated at around 1.6 to 2.8 million hectares annually.⁴

Illegal logging and illicit trade in timber undermines sustainable economic growth, economic development and all efforts aimed at environmental conservation. It puts the livelihoods of forest-dependent communities at risk and undermines legitimate commerce within the forestry sector by distorting timber markets and reducing profitability.⁵ Consequently, illicit trade in forestry products obstructs progress on all three ASEAN Communities: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections illustrate how illicit trade in the sector impedes achievement of key targets for the three Communities.



Impacts on ASEAN Political-Security Community (APSC)

The Political-Security Community specifically delineates illicit timber trade as a transboundary challenge and calls for enhanced cooperation in addressing this emerging transnational crime.

APSC Blueprint target A1: To build a just, democratic environment

Corruption is entrenched in illegal logging operations, with a wide range of people involved at all stages of the supply chain, from field officers to high-level representatives (e.g., to obtain logging permits, to avoid controls, and to export and import illegal timber).⁶ These practices undermine rule of law and good governance in these regions.

In Indonesia, for example, allegations of bribery and corruption facilitating illegal logging are rampant.⁷ There are also reported instances of the military being involved in enabling illegal logging by providing protection to illicit timber traders in exchange for cash.⁸

Further, during the COVID-19 pandemic, the forest-based tourism sector witnessed massive losses from travel restrictions. Decline in conservation efforts in forests due to budget cuts may have also served as an opportunity for illegal loggers to exploit forests and advance their agendas.⁹

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

Illegal logging and forest crime generate billions in illicit profits for criminal networks – many of whom are also involved in other forms of trafficking, tax fraud and tax evasion.^{10,11} Non-state armed groups, terrorist groups and criminal networks are notorious for financing their criminal activities by exploiting forestry resources in conflict areas.

Deforestation due to illegal logging and destructive forest conversion is directly connected to corruption and crime, cronyism, curbs on transparency and accountability, selective law enforcement and compromised judiciaries, and often involves state officials and security apparatus.¹²



Impacts on ASEAN Economic Community (AEC)

The ASEAN nations account for a large part of the world's forests and related economic livelihoods and activities. However, largely unregulated areas and improper forest management, coupled with a growing demand for timber globally exacerbates the problem of illicit trade in timber in these regions. This threatens the economies and livelihoods of those in ASEAN that depend on these forests.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

Forestry products, especially in developing countries, can supply a significant percent of the household income for families, making the industry integral to rural economies

and poverty reduction.¹³ However, the illegal timber trade undermines the ability of people living in these areas to earn their livelihoods from forests or to be part of regional economic growth dynamics.

Illegal timber operations rob ASEAN of as much as USD 11 billion a year.¹⁴ This deprives ASEAN economies of crucial public expenditure budgets required to foster economic growth and development.¹⁵

Further, illegally logged timber has lower production costs, thus creating an unfair advantage for operators who do not adhere to laws and industry regulations. This further undermines the economic viability of investments required for responsible forest management and forest products consumption. Unsustainable forest practices leave large areas deforested, barren and unable to renew harvests for decades. Consequently, local employment opportunities are lost forever.

Illegal logging and illicit timber trade also threaten jobs within the tourism industry when protected forests and animal habitats are damaged.¹⁶



Impacts on ASEAN Socio-Cultural Community (ASCC)

The Socio-Cultural Community is significantly impacted by the illicit trade in forestry products, as it aims to support the well-being of the ASEAN population and increase cooperation toward conservation and sustainable management of natural resources and biodiversity.

ASCC Blueprint Target C1-4: To protect the environment and progress on sustainability

The impact of illegal logging on carbon emissions is particularly profound in ASEAN's tropical regions. Illegal logging can account for as much as 50 to 90 percent of all forestry activities in key producer tropical forests in Southeast Asia, making illicit trade in forestry a primary malefactor in the fight against climate change.¹⁸

Forests are "carbon sinks" in climate systems through carbon dioxide absorption.

Therefore, sustainable and proper management of forest resources is crucial to combatting climate change and protecting the environment.

Illegal logging and illicit trade in forestry products leads to deforestation and forest degradation, eroding the carbon sink capacities of forests, reducing their role in the fight against climate change and thereby undermining the Community vision to protect the environment and sustainability efforts in the region.

Case study: Forest crimes in Indonesia¹⁹

Indonesia has the world's third largest tropical rainforest and constitutes about 10 percent of global forest cover. This important natural resource has enabled Indonesia to become a key timber supplier for the legal world market. However, growing demand and inadequate management have also led Indonesia to become a major source for illegally produced and exported timber. The Ministry of Forestry estimates that as much as 2.8 million hectares are lost annually to illegal logging and land conversion. The country is especially vulnerable to forest crimes because of inadequate law enforcement, where a very small percentage of illegal logging cases are effectively prosecuted. Although Indonesia's forest law stipulates a penalty of up to 15 years in jail for buying, selling, or receiving illegal timber, offenders are more likely to receive light jail sentences or small fines.

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ILLEGAL, UNREPORTED, AND UNREGULATED FISHING



POLITICAL
SECURITY

Lucrative profits for organised crime groups, undermines governments' capacity to eradicate corruption and combat other criminal activities.



ECONOMIC

Destabilizes the livelihoods of those on dependent on fisheries, and threatens the legitimate industry's contributions to GDP and employment.



SOCIO-CULTURAL

Heavily linked to forced labor and other human rights abuses, hinders efforts to protect the most vulnerable species and undermines marine sustainability.

Over the last few years, the threat of Illegal, underreported and unregulated (IUU) fishing in ASEAN has grown, generating economic losses amounting to about USD 6 billion in 2019.¹ Within the ASEAN region, the areas that are most prone to IUU fishing are the Gulf of Thailand, Vietnam, Cambodia, Indonesian waters and Malaysia's exclusive economic zone (EEZ).² In response to IUU fishing in the region, the European Commission blacklisted fisheries imports from Cambodia in 2014, Thailand in 2015 and lifted in 2019,³ and Vietnam in 2017.⁴

While such efforts have improved the situation since 2019, IUU fishing is still rampant. This activity is difficult to track, trace and detect, especially when it occurs on the high sea, as it requires enhanced international cooperation as well as larger budgets and operational capacities.⁶

The primary enablers of IUU fishing in ASEAN are insufficient regulatory control over national fishers and fishing vessels and an absence of adequate maritime boundary agreements. In addition, there is

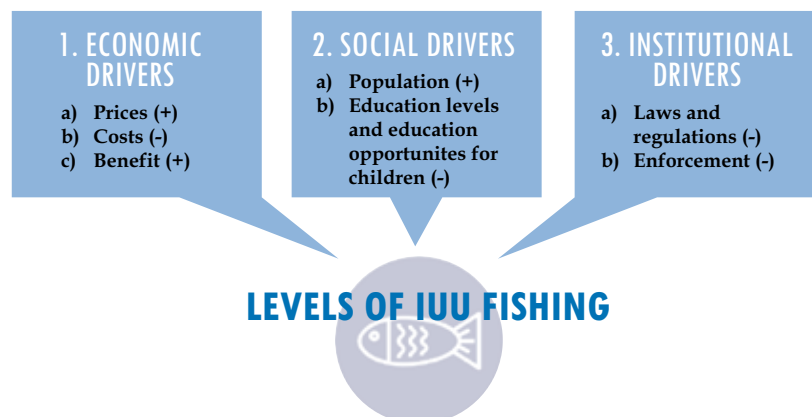
Case study: IUU fishing in Malaysian waters⁵

Approximately 980,000 metric tons of fish (worth RM6 billion) are reported to be stolen from Malaysian waters (mainly East Coast) annually by illegal foreign vessels, usually from Thailand, Vietnam and Indonesia. It has been estimated that roughly 50% of the fish caught in Malaysian are 'unreported', mainly because of illegal territorial sea encroachment by foreign fishing vessels. On the East Coast of the Malaysian Peninsula, encroachment of foreign fishers not only affects the livelihood of the local fishers, but also causes destruction to marine biodiversity, as well as entanglement with narcotics and firearms trafficking.

In response, ASEAN leaders have developed strategies to combat IUU fishing. The Strategic Plan of ASEAN Cooperation on Fisheries 2016 to 2020 and the ASEAN Guidelines for Preventing the Entry of Fish and Fishery Products from IUU Fishing Activities into the Supply Chain are aimed at enhancing the credibility and competitiveness of the region's fishing industry.

weak enforcement of fishing legislation/regulation, along with the evasion of fishing fees and taxes.⁷

IUU fishing comes with significant economic, societal and environmental costs. IUU fishing also supports associated illegal activity, including money laundering and tax evasion, and it creates a market for slave labor.



Drivers of IUU Fishing in ASEAN⁸

Consequently, mitigating IUU is instrumental to achieving the goals under the ASEAN Community Vision. IUU impacts several of the targets under the three Communities: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections map the impact of IUU fishing against the objectives set for the three Communities.



Impacts on ASEAN Political-Security Community (APSC)

The Political-Security Community specifically calls for enhancing maritime security which includes preventing transnational crimes and nurturing the sustainable use of maritime resources. It recognizes IUU fishing as a transboundary challenge to security in the region. Tackling IUU fishing is also relevant for the Political-Security Community's focus on combating trafficking in persons, as IUU fishing often involves forced labor, a form of human trafficking, and other crimes and human rights abuses.⁹

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

IUU fishers are often engaged in transnational organized crime, forced labor and human trafficking, and they make use of fishing vessels for related criminal activities such as drug, weapons and human trafficking, money laundering, tax fraud, bribery, migrant smuggling, and acts of terrorism. These crimes jeopardize international security on the high seas and are inherently hard to prosecute.¹⁰

Fishing vessels provide the opportunity for

criminal groups to use legitimate operations in coastal communities to exploit fishermen and create shell companies that conceal illicit activity. Fishermen suffering from low wages and depleted fish yields are often coerced into IUU fishing's wide net of organized criminal activity. Large-scale IUU fishing operations have constructed networks to launder profits and traffic fish products to buyers and markets.¹¹



Impacts on ASEAN Economic Community (AEC)

The Economic Community focuses on achieving high economic growth and job creation including cooperation on food, agriculture and forestry (FAF) trade as a means to strengthening income growth. Fish is one of the most traded food commodities on the global market, with about 50% coming from developing countries.¹²

The huge losses associated with IUU fishing negatively impact ASEAN's economic targets, stripping jobs and competitiveness from the legitimate fishing industry that local communities depend on. Furthermore, IUU fishing threatens the sustainability of certain fish species and the surrounding ecosystems, which could ultimately wipe out the viability of legitimate fishing economies throughout ASEAN.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

The importance of a sustainable fishing sector to attain economic growth, job creation and reduction of poverty cannot be overstated. Over 10 percent of the global population depends directly or indirectly on the fishery industry for their livelihoods.¹³

The ocean-economy is estimated to have an annual value of USD 2.5 trillion.¹⁴

ASEAN countries experience tremendous economic losses from IUU fishing. Reports suggest that Indonesia has witnessed the highest IUU losses of around USD 201 billion between 2013-2018. The Department of Fisheries in Malaysia stated that the country loses up to USD 1.4 billion from IUU fishing every year.¹⁵ Recently, governments have been implementing strategies to curb IUU. Given the clandestine nature of the activities, it is challenging to estimate the total economic losses. However, an estimate of losses from some ASEAN countries is provided in the table below.¹⁶ While there is a notable decrease in numbers since 2013-2018, this decrease in the estimated economic cost may result not from a decrease in IUU fishing, but more elusive IUU practices.

Economic losses from IUU fishing (2019)

Countries	Illegal fishing losses (USD M) ¹⁶
Brunei	13
Indonesia	3000
Philippines	620
Thailand	500
Vietnam	1600

AEC Blueprint target C5: To ensure sustainable production, food security and safety

Fisheries contribute significantly to global food security, with around 3.2 billion people receiving almost 20 percent of their average per capita intake of animal protein from fish.¹⁸ In several Asian countries, fish provide more than half of the animal protein supply and are a food staple.¹⁹ A recent study further predicts that 11% of the global population could face micro-nutrient and fatty-acid deficiencies if management of wild fisheries is not improved and fish populations are allowed to decline.²⁰

Fishing is a way of life for many people in ASEAN.²¹ Unfortunately, some are forced to turn to IUU fishing to obtain income for their livelihood.²² Consequently, IUU fishing serves as both cause and consequence of poverty. Large scale IUU fishing can lead to the collapse of local fisheries, resulting in a decrease in income and threatening livelihoods of fishing communities in some of the most vulnerable regions of the world. At the same time, poverty can serve as a driver of IUU fishing when fishers operating at very narrow profit margins are tempted to violate fishing quotas and regulations or to join illegal operations. This results in a circle of diminishing fish stocks, which in turn exacerbates poverty and food insecurity.²³



Impacts on ASEAN Socio-Cultural Community (ASCC)

An overarching goal of the ASEAN Community Vision 2025 is the “achievement of a sustainable environment especially in the face of social changes and economic development.” At the heart of the Vision is the sustainable management of biodiversity and natural resources. IUU fishing severely undermines efforts to protect populations of the most vulnerable and valuable species and undermines ocean and marine sustainability.

In addition, the Socio-Cultural Community places great emphasis on safeguarding and promoting human rights, which encompasses protection against human trafficking and abuse. IUU fishing, on the other hand, has been linked to widespread human rights violations, including forced labor and exploitation, posing a significant challenge to these efforts.

ASCC Blueprint target B3: To eliminate all forms of exploitation and abuse

IUU fishing vessels frequently employ migrant or slave labor for unpaid or cheap wages. They are often housed in inadequate, unsanitary conditions. In some cases, workers are enslaved at sea for extended periods of time. In recent years, investigations by the media and environmental justice groups have exposed these heinous crimes.²⁴

ILO reports that crews of IUU fishing vessels have been shown to be particularly prone to forced labor and human trafficking because of the isolation of the workplace, strong competition within the industry, and the ready supply of vulnerable workers.²⁵

ASCC Blueprint Target C1-4: To protect the environment and progress on sustainability

IUU fishing practices frustrate global efforts to ensure a sustainable marine environment. It has a debilitating impact on the sustainability of both coastal and offshore fisheries and the livelihoods of those living and working in fisheries-dependent economies. Unsustainable fishing has been identified as one of the most pervasive threats to coral reefs, with over 55 percent of

the world's reefs threatened by overfishing and/or destructive fishing. This figure can reach as much as 95 percent in some regions in Southeast Asia.²⁹

IUU fishing: Forced labor in Thailand

The IUU fishing industry in Thailand sees young men being forced into slavery without pay.²⁶ These injustices were depicted in the 2018 Vulcan film 'Ghostfleet,' a documentary following a Myanmar man kidnapped by human traffickers at fourteen years old and subjected to brutal working conditions at sea for the next eleven years. This struggle in the fishing industry is a sad reality for so many Thai crew members. The US government notes that, although there are some improvements in IUU fishing in Thailand, there is still a long way to go to ensure humane labor practices.²⁷ The EU and the European External Action Service have also been working with Thai authorities to address serious human rights abuses and forced labor. Thailand has recently announced the ratification of the International Labor Organisation's Convention No. 188 on Work in Fishing (C188), the first country in Asia to do so.²⁸

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ILLICIT TRADE IN PETROLEUM PRODUCTS



POLITICAL
SECURITY

Lucrative profits for organised crime groups, undermines governments' capacity to promote the rule of law, eradicate corruption and combat other criminal activities.



ECONOMIC

Siphons GDP and tax revenues needed to stimulate economic growth and finance development.



SOCIO-CULTURAL

Produce higher levels of harmful emissions, accelerates degradation of ecosystems and jeopardizes biodiversity.

Oil and fuel theft, along with various forms of fuel fraud, are persistent forms of illicit trade, with direct links to organized crime and terrorist groups.¹ Every year, it is estimated that USD 133 billion of fuels are illegally stolen, adulterated, or defrauded from legitimate petroleum companies,² with equally significant losses to governments through subsidy abuse and tax evasion.³

- Estimates on the value of the illegal fuel trade in Southeast Asia ranges from USD 2-10 billion a year, equivalent to around 3 percent of Southeast Asia's total fuel consumption.⁴
- Indonesia is estimated to lose as much as 15,000 barrels of oil per day from oil theft.⁵ This was equal to about 2% of the country's total production in 2019. While the percentage appears to be small, the volume is quite significant and impacts production targets and profitability.⁶
- In 2017, it was estimated that around three million liters of fuel was smuggled daily over land alone, from Malaysia to Thailand, valued per year at USD 1.2 billion in Thailand and USD 0.54 billion in Malaysia.⁷
- Singapore, which is home to the world's largest global marine bunkering hub, faces serious compliance issues and major credit risks among fuel traders. Fraud and malpractice have caused 19 bunkering companies to have their licenses revoked.⁸

Despite its severe negative effects on governments, business and the environment, the global problem of oil and fuel theft has so far been largely unchecked and remains mostly hidden from international attention.¹³ While the most immediate effects may be in the country or countries where fuel is being stolen or smuggled, the ripple effects include undercutting economic development, hastening environmental degradation and feeding organized criminal activity and terrorism. For all these reasons, the trade in illicit oil undermines all three pillars of the ASEAN Community: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections present examples that explain how illicit trade in the sector impedes achievement of the targets for each of these Communities.



Impacts on ASEAN Political-Security Community (APSC)

Illicit trade in petroleum adversely impacts the ASEAN's Political-Security objectives to combat transnational crimes and build a just and peaceful environment.

Fuel smuggling in Southeast Asia: Cases of cross-border price arbitrage

Large amounts of diesel and petrol are smuggled across the Thailand-Malaysia border. In Thailand's southern provinces, on the border with Malaysia, the problem is part of a complex web of security issues, including militant activities. Smuggling also takes place from Thailand into neighboring states, mainly subsidized LPG into Myanmar and Cambodia.⁹

APSC Blueprint target A1-2: To build a just, democratic environment

The impact of the illicit trade in petroleum extends well beyond the producer country and has remarkable fallout effects on non-oil economies and security of countries. Trade in illicit petroleum undermines targets for promoting rule of law and good governance. Further, a key driver for the illicit trade in petroleum products is corruption among all levels of law enforcement, government officials as well as employees of oil companies.

- In Thailand, the involvement of government and law enforcement officials facilitates oil smuggling.¹² For example, Thai law enforcement, politicians, and government officials, especially in the southern provinces bordering Malaysia, have been implicated in the smuggling of fuel and other illicit goods.¹³ It has been reported that fuel smugglers spend over 100 million baht (USD 3 million), each year bribing Thai authorities. Around 80 percent of fuel smugglers in Thailand's southern province of Songkhla negotiate arrangements for customs officials to permit trade in illicit fuel in return for a share of the profits.¹⁴
- In March of 2015, the Malaysian Anti-Corruption Commission (MACC) arrested 26 police officers for involvement in smuggling and bribery at the Thailand border for providing protection to fuel smugglers and facilitating the sale of illicit product. Notably, some worked for the Home Ministry's Anti-Smuggling Unit.¹⁵

This activity significantly threatens national and regional stability, supports corrupt practices and creates significant deterrents and instability for business investment.

A report by the United Nations University World Institute for Development Economics Research (UNU-WIDER) summarizes the threats to political stability in ASEAN:

“Community support, complicity from politicians, and individuals in government organizations (such as those responsible for security) provide enduring power to oil crime syndicates. Oil theft schemes incite and thrive on corruption, misappropriation, and fraud. Bribery and loyalty payments allow illegal practices to continue despite an outside appearance of crime fighting. Security forces responsible for protecting and securing the nation's resources may be actively involved in oil theft. Oil crime organizations may bribe security forces, or provide them with a profit share, in return for undermining the competition. Oil theft has the power to erode the rule of law and create political instability. Politicians and officials may use stolen oil for their own motivations. There have been reports of oil theft syndicates rigging elections or keeping regimes in power.”¹⁶

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

Oil and fuel smuggling and theft present a global security concern, generating a lucrative source of financial income for organized crime, non-state actors and terrorist groups.¹⁷ Some criminal groups in Southeast Asia participate extensively in this lucrative illicit trade and other illicit activities.¹⁸ For example, a fuel smuggling ring in Thailand was apprehended for also engaging in drug and human trafficking.¹⁹

Organized crime groups in Malaysia-Thailand borders²⁰

Malaysia's Klang Valley syndicates are among the most prolific criminal groups and have, in recent years, come to dominate smuggling activities on the Malaysia-Thailand border. The group members have traded illicit goods, including fuel, a thousand kilometers between the Thai border and the Klang Valley, an area centered on Kuala Lumpur. Often relying on false declarations to clear customs, the syndicates have brazenly smuggled fuel in forty-foot containers and trailers. They have also used tanker trucks without company logos to smuggle fuel.



Impacts on ASEAN Economic Community (AEC)

The petroleum sector is a multi-billion-dollar industry, featuring six of the world's ten largest companies.²¹ Globally, the sector employs nearly 6 million and generates another 60 million indirect jobs.²² Oil theft not only deprives governments of revenues, but also has direct and indirect impacts on economic development.²³ Oil theft erodes regional business confidence, investment, and domestic development. Thereby, trade in illicit petroleum severely impacts several of the underlying targets of the ASEAN's vision to propel sustained economic growth in the region.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

The petroleum sector drives economic growth and employment and is thus a critical component in achieving the economic goals of the ASEAN Community Vision 2025. For example, Malaysia and Indonesia are major oil producers in ASEAN, accounting for around 70% of the region's total production.²⁴ Malaysia is the world's third largest exporter of liquefied natural

gas (LNG), with the petroleum industry contributing about 20% of the country's GDP.²⁶ In Indonesia, this sector contributes about USD 30 billion to GDP.²⁶

Beyond the overall contribution to GDP, the sector has harnessed long-term economic development, most notably through its contribution to government revenues, but also through promoting entrepreneurship in the upstream, midstream, and downstream activities.²⁷

Oil and fuel theft have severe effects on tax revenue, especially in resource-rich, developing countries where the legitimate industry's royalties and tax payments can and should be used to stimulate economic growth and finance development. Along with the associated money laundering and illicit financial flows, this illegal activity severely undermines the effectiveness of tax systems.²⁸ Where fuel costs represent a relatively greater portion of GDP, developing countries may experience more severe fiscal impact from fuel theft, diversion and smuggling. For example, reported in 2015, the Philippines loses as much as USD 750 million annually in tax revenue due to adulterated fuel products entering its supply chain from smuggling.²⁹

Significant oil theft has also been shown to negatively impact domestic resource mobilization and debt sustainability. Research has shown that, developing

countries affected by oil theft exhibit a lower average tax-to-GDP ratio (13.6%) compared to the International Monetary Fund's (IMF) benchmark for developing countries (15.3%).³⁰



Impacts on ASEAN Socio-Cultural Community (ASCC)

The Socio-Cultural Community envisions the achievement of environmental sustainability in the face of social changes and economic development. Illicit trade in petroleum severely impacts the objectives and undermines government efforts towards sustainable management of biodiversity and natural resources.

ASCC Blueprint Target C1-4: To protect the environment and progress on sustainability

While the legal petroleum industry invests significantly in environmental stewardship, criminals show little regard for the environment when stealing oil and fuel. Illegal tapping, bunkering and ship transfers carry a higher probability for oil spills and blown pipelines and can cause significant damage to soil fertility, clean water supplies, marine life and other natural resources.³¹

In the case of oil theft, leaks and spills may go undetected for some time, particularly if thieves intend to repeat tapping in the same location, further aggravating the environmental damage and its impact on local communities.³²

Illegal fuel laundering plants often indiscriminately dump waste products,³³ causing additional environmental damage and secondary impacts on human health, livelihoods, food and fuel stocks. Fuel fraud, smuggling, and adulteration also may be counterproductive to environmental policies (e.g., excise taxes) aimed at reducing fuel use in autos, improving substitution of more efficient vehicles and encouraging transition to cleaner alternative fuels.³⁴ Additionally, other negative externalities such as air pollution can be reduced. Fuel tax revenues may also be used to offset the cost other environmental programs, such as subsidizing renewable energy and public transportation. Fuel theft and adulteration also have secondary effects, such as producing higher levels of harmful exhaust emissions – including known carcinogens like polycyclic aromatic hydrocarbons (PAH) – and reducing fuel efficiency resulting in increased pollution.³⁵

NOTES

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ILLICIT TRADE IN PHARMACEUTICALS



POLITICAL
SECURITY

Lucrative profits for organised crime groups, undermines governments' capacity to promote the rule of law, eradicate corruption and combat other criminal activities.



ECONOMIC

Impairs the marketplace for genuine medicines, strains public health budgets, poses health and safety risks, and disincentivizes innovation for new medicines.



SOCIO-CULTURAL

Undermines the ability to treat and prevent disease, particularly for the weakest and most vulnerable in society.

In ASEAN, the market for counterfeit medicines purchased annually is estimated at USD 2.6 billion.¹ According to data from WHO, about 10% of pharmaceuticals in lower and upper middle income countries, like many of those in ASEAN, are falsified.² It is reported that counterfeiting and falsified medicines trade are among the region's four biggest transnational organized crimes along with the narcotics trade, human trafficking, migrant smuggling and environmental crimes.³ Reports suggest that illicit pharmaceuticals manufactured in India and China are increasingly traded to or through to Malaysia, Vietnam, Myanmar, and Cambodia.⁴ These medicines can range

from fake anti-cancer treatments to drugs for infertility and weight loss. The threat is greater in remote areas, where poor health systems may drive patients to rely on unregulated medicines providers.⁵

In its 2019 study "Transnational Organized Crime in Southeast Asia: Evolution, Growth and Impact", the UN Office on Drugs and Crime (UNODC) found that the Philippines, Indonesia, Thailand and Vietnam were the countries in the region most frequently linked to incidents of counterfeiting or diversion of medicines during 2013–2017. The statistics also indicate that Singapore was the primary transit point.⁶

FREQUENCY OF PHARMACEUTICAL CRIMES DETECTED IN ASEAN



Source: *Transnational Organized Crime in Southeast Asia: Evolution, Growth and Impact*, UNODC (2019)

In recent years, the internet has made medicines more affordable and easier to get, with online pharmacies in the Asia-Pacific region growing at a rate of about 18% per year.⁷ At the same time, there has been an increase in fraud, such as unauthorized or unregulated online pharmacies, rogue domain name registrars, and social media sites that illegally advertise or sell falsified medicines. This has made it more difficult for consumers to know what they are buying, putting them at risk.⁸

Illicit pharmaceuticals pose a critical threat to public health, divert resources from already limited healthcare budgets, and present economic and social challenges to pharmaceutical companies operating in the sector. Consequently, it impacts multiple targets under the Community Vision and its three pillars: i) ASEAN Political-Security Community, ii) ASEAN Economic Community, iii) ASEAN Socio-Cultural Community.

The following sections illustrate how illicit trade in pharmaceuticals impede achievement of various objectives set in the three Communities



Impacts on ASEAN Political-Security Community (APSC)

The Political-Security Community aims to create a stable and secure region with enhanced attention to combatting transnational crimes. The UN Office on Drugs and Crime (UNODC) notes that illicit trade in pharmaceuticals “affects every region of the world and it could represent

the most harmful form of transnational organized crime in terms of its direct impact on public health and safety.”⁹

APSC Blueprint target A1: To build a just, democratic environment

Corruption is one of the main factors that supports the trade in illicit pharmaceuticals. Trafficking networks may recruit current or former pharmaceutical company executives and state officials with elaborate information networks and professional knowledge (legal, logistical, administrative) to exploit weaknesses to facilitate criminal activity.¹⁰ This stands in direct juxtaposition to building a just environment.

APSC Blueprint target B3: To combat transnational crime and terrorism

Driven by financial gain, criminal elements have become involved in all facets of the chain of supply of illicit medicines, from manufacturing to distribution. As reported by INTERPOL, organized criminal networks across the globe are involved in pharmaceutical crime throughout the supply chain and have also been found to use the profits from falsified medicine operations to subsidize other clandestine activities.¹¹ The UNODC reports that organized crime syndicates are targeting Southeast Asia to expand operations to trade in illicit drugs including falsified medicines – with the latter generating as much as USD 2.6 billion per year.¹² Criminals involved in pharmaceutical crime have been tied to a number of other crimes, including money laundering, human trafficking for sexual exploitation and weapons smuggling.¹³

Case study: Criminal groups trading illicit pharmaceuticals online¹⁴

Organized criminal groups in Asia appear to be actively involved in the illicit online medicine trade. For example, in Indonesia, major pharmaceutical counterfeiting networks coordinate a majority of the manufacture and trade in falsified medicines in the country, with a large share conducted online. Government officials reported that almost half of the IPR cases detected during 2018 involved violations in the pharmaceutical sector. During the same time, authorities shut down websites selling counterfeit medicines and promoting non-medical drug use.¹⁵



Impacts on ASEAN Economic Community (AEC)

The illicit trade in pharmaceuticals diverts resources from already limited healthcare budgets, creates mistrust in government and presents economic and social challenges to pharmaceutical companies operating in the sector. INTERPOL reports that falsified medical products could account for as much as 30% of the market in some countries in Asia, Africa and Latin America.¹⁶

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

Substandard and falsified medical products undercut efforts to reduce the burden of disease, thereby undermining investments in public health systems and causing a significant negative impact on economic growth and sustainable development. For the individual, consequences include prolonged illness, time away from work, increased health care costs, potentially longer-term health complications and even premature death. The wasted resources are significant, especially in poor countries or households where medicines can rank second only to food as the largest household expense. For governments, damages include lost worker productivity, increases in overall health care expenditures, and lost confidence in the health care system.

AEC Blueprint target B1: To improve business competitiveness and curb anti-competitive activities

Substandard and counterfeit drugs negatively impact the pharmaceutical industry and patients.¹⁷ The counterfeit medicine trade in ASEAN is one of the region's most dangerous illicit trade activities due to health risks posed to consumers and conflation with narcotics syndicates. To counter this, the pharmaceutical industry endeavors to ensure patient safety and enforcement actions to clear online and offline markets to prevent illicit medicines from reaching patients.

AEC Blueprint target B2: To protect consumer health

The proliferation of falsified and substandard pharmaceuticals presents formidable obstacles to good health when consumers and patients ingest spurious medicines that have little to no medicinal value and frequently result in therapeutic failure. The severity of the associated health risk can vary greatly, ranging from inconvenience to fatality. Substandard, unregistered and falsified medicines present significant health risks because they may:¹⁸

- Contain the wrong level of active ingredient – too little, none at all or even too much.
- Contain an active but harmful ingredient intended for a different purpose.
- Fail to meet quality standards or regulatory specifications.

- Have not undergone evaluation or approval by regulatory authorities.

A study by UNODC in 2019 noted that traces of Methylenedioxyamphetamine (MDMA) were found in fraudulent medicines in Cambodia.¹⁹ MDMA is linked to adverse health risks including fatalities.

Falsified, low-quality medicines also have a worrisome impact on antimicrobial resistance (AMR), which is an issue of growing global concern. Many substandard medicines contain a lower amount of the correct active ingredient, which can fail to properly kill bacteria, viruses or parasites. Further, over half of the anti-malarial medicines tested in ASEAN were found to be fraudulent, reversing the years of progress in combating this deadly disease.²⁰



Impacts on ASEAN Socio-Cultural Community (ASCC)

The fact that good health underpins every development issue is clearly embodied in the Socio-Cultural Community. This Community focusses on improving welfare, health and protection of women in particular. The trade in illicit pharmaceuticals negatively impacts these goals.

ASCC Blueprint target B2-B3: To achieve well-being and eradicate poverty

There is a clear link between good health and poverty. It is often the poorest and most vulnerable in society who are tempted by the prospect of cheaper, albeit substandard and falsified medical products. Yet, the increased health care costs of being forced to buy effective treatment a second or third time – when a substandard or falsified product fails to work, or when faced with extra costs of coping with the potentially adverse reactions

and drug-resistant infections triggered by substandard and falsified medicines and vaccines – can create a vicious cycle of poverty and poor health.

Societies that prioritize women’s health are likely to have better population health overall and will remain more productive for generations to come.²¹ Accordingly, the ASEAN Socio-Cultural Community promotes the welfare of women. Of all the different initiatives available to support women’s health, few are as impactful as the access to safe and affordable contraception. Access to birth control promotes economic security and productivity by freeing women to work or pursue education. Put another way by philanthropist Melinda Gates, contraceptives are “one of the greatest anti-poverty innovations the world has ever known.”²²

Unfortunately, fake or counterfeit contraceptives in the legitimate supply chain, even in small numbers, can destroy family planning programs and impact the welfare specifically of women in societies. For women who do not want to have or are not ready to have children, fake contraceptives can significantly impact their lives including financial strain, disruption of education or career plans, and emotional stress. Furthermore, fake contraceptives may contain harmful substances that can cause adverse health effects. Additionally, counterfeit condoms may not provide adequate protection against sexually transmitted infections.

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ILLICIT TRADE IN PRECIOUS METALS AND GEMSTONES



POLITICAL
SECURITY

Funds organized crime, terrorism and conflict that undermines justice and good governance.



ECONOMIC

Siphons GDP and tax revenues needed to stimulate economic growth and finance development.



SOCIO-CULTURAL

Improper mining practices contaminate water, accelerate deforestation and degrades animal habitats, and is linked to human rights abuses and forced labour.

Some of the most frequently trafficked gemstones include diamonds, emeralds, sapphires and rubies. Precious metals vulnerable to illicit trade include gold, silver, platinum and platinoid metals. The fragmented and complex global supply chain of precious metals and gemstones make these goods particularly well suited as vehicles for illicit financial flows and money laundering.¹ Their high value, high durability, stable pricing and ability to be easily moved or smuggled make them especially attractive to launderers and criminal financiers.^{2,3}

Furthermore, illegally mined or traded diamonds and gold are being used as alternative currency by criminals who use them to trade in other illicit goods such as guns and drugs,⁴ and to fund rebel groups, militias and armed gangs and terrorism.^{5,6}

Several ASEAN countries report incidences of trade in illicit precious gems and metals:

- In 2018, Malaysian authorities increased efforts to tackle illegal gold mining in the state of Pahang following operations that led to the prosecution of illegal miners in an effort to curb large scale illicit mining operations.⁷
- The Ministry of the Environment and Forestry in Indonesia has estimated almost 9,000 illegal mines operating across the country, of which about one quarter are gold mines.⁸ Indonesia suffers significant annual financial losses from illegal gold mining, estimated to worth billions of US dollars.⁹
- Philippines is home to a highly profitable and lucrative annual trade in illicit gold mining.¹⁰ Illegal artisanal mining is known to employ workers in underground caves, and although the government has imposed strict measures to tackle this problem, child labor persists.¹¹

- Myanmar is one of the world's biggest sources of jadeite.¹² However, mass corruption, cooperation between armed groups and environmental wastage continue to plague legal commercialization of the industry.¹³

The illicit trade in precious metals and gemstones upsets the progress made by national governments, industry and other stakeholders to ensure the sustainable management and development of the mining sector and protect the integrity of the mineral supply chain. Illicit precious gems and metals upsets progress on all three Communities: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections present examples that explain how illicit trade in the sector impedes achievement of key targets for the three Communities.



Impacts on ASEAN Political-Security Community (APSC)

Precious metals and gemstones have commonly been used throughout the world as a conduit for terrorism and money laundering activities.¹⁴ Further, illicit trade in precious gems and metals thrives in environments with unstable regimes, and funds conflicts.¹⁵ Corruption is one of the key facilitators for this type of illicit trade. These nefarious activities derail the achievement of the targets under the Political-Security Community Blueprint.

APSC Blueprint target A1-2: To build a just, democratic environment

Illicit trade in precious gems and metals can underpin wider risks to national and regional security, further undermining targets for promoting rule of law and good governance and reducing corruption.¹⁶ This

is evident especially in Myanmar, with the military and armed groups tightening their grip on the country's jade trade.¹⁷ Conflict around jade-mining areas has fostered a lawless environment that has enabled dangerous mining practices, corruption, smuggling, tax evasion and narcotics trafficking.¹⁸ In Indonesia corruption plays an integral part in illegal mining, usually in the form of payments to low-level officials. There are also allegations about corruption interfering in the government's efforts end illegal mining.¹⁹

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

Illicit trade in precious metals and gemstones shares a nexus with organized crime and terrorism around the world. Gold and diamonds, for example, are attractive to criminals to use as a vehicle for money laundering and to fund other criminal activities including but not limited to terrorism.²⁰

- Thailand is one of the primary destination markets for gemstones, many of which are trafficked into the country by organized crime groups. The country is also a large market for trafficked gold with clear links to money laundering schemes.²¹
- Myanmar's jade industry represents the main source of funding for the military junta and an array of militias operating throughout the country.²² Reports indicate miners are often killed for refusal to pay "jade taxes" to the military and armed groups.²³
- Recognizing the inherent risk of precious gems and metals being used for money laundering and terrorism financing, Singapore introduced the Precious Stones and Precious Metals (Prevention

of Money Laundering and Terrorism Financing) Act of 2019,²⁴ which aims to combat crime and improve security, both domestically and globally.²⁵



Impacts on ASEAN Economic Community (AEC)

Illicit trafficking in precious minerals has been characterized as a "fleecing of national assets and resources,"²⁶ which adversely affects sustainable economic growth and development for resource-rich source countries and the mining industries that work there legally. Furthermore, fiscal revenues derived from taxes and license fees are lost, along with employment opportunities and the development of supporting infrastructure serving the mines and local communities. This, in turn, undermines the achievement of the targets under the Economic Community Blueprint.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

Many low-and-middle-income countries depend heavily on mining to develop their resource endowments as a motor for driving wider national economic growth. Studies carried out by the International Council on Mining and Minerals have found that the income from mining can contribute as much as 25 percent of total government revenue.²⁷

With its global scale and diverse operations, the mining industry has opportunities to mobilize significant human, physical, technological and financial resources to drive development across the world by creating decent jobs, enabling economic diversification, contributing taxes, and

bringing vital investments and infrastructure to resource-rich but nonetheless remote and underserved areas.

However, widespread theft of precious metals and gemstones robs governments of this ability to strengthen domestic resource mobilization. For example, Myanmar's production of jade is estimated at USD 12 to 31 billion per year (indicated by Chinese import figures), which is equal to about half of the country's GDP. However, because 50 to 80 percent of this wealth is smuggled out directly to the China border, bypassing the official sales and taxes completely, Myanmar's trade in jade has been called the 'biggest natural resource heist' in modern history.²⁸ According to a 2015 report by Global Witness, Myanmar lost USD 6.2 billion in mine site taxes in 2014.²⁹



Impacts on ASEAN Socio-Cultural Community (ASCC)

The Socio-Cultural Community promotes efforts to improve the quality of life of its people. In doing so, it calls for poverty eradication, action against forced labor and building sustainable communities with high regard for the environment. Illegal mining is dangerous work that keeps the next generation out of school, and traps women, children and migrant workers in slave-like conditions. If not managed properly, the mining and processing operations of precious minerals can have a substantial negative impact on the surrounding environment and communities. All of this significantly impacts the Socio-Cultural Community objectives.

ASCC Blueprint target B2-B3: To achieve well-being and eradicate poverty

Ending poverty, goes hand-in-hand with economic growth and addressing a range of social needs including education, health, social protection, job opportunities and environmental stewardship. Illicit trade in precious metals and gemstones undermines all economic goals aimed at poverty alleviation and the capacity of legitimate businesses to support job creation and drive economic development. Legitimate mining companies can play an important role in reducing poverty through direct employment and paying taxes to governments, which enables public investment in essential social and economic infrastructure. Where companies operate in remote, low-income areas, the legitimate mining industry can help alleviate poverty through job creation and skills development.³⁰

In contrast, illegal mining disregards health and safety requirements for miners, thereby putting their lives at risks. In many cases, illegal mining businesses do not have adequate and suitable safety gear (e.g., masks, gloves and hearing protection) for their workers. Moreover, the use of mercury in illegal gold mining represents a particular threat to good health and wellbeing.

ASCC Blueprint target B3: To eliminate all forms of exploitation and abuse

According to the UN Special Rapporteur on Contemporary Forms of Slavery, the illegal mining sector is rife with indentured employment (i.e., modern slavery), utilizes child labor and forced labor of undocumented immigrants, perpetuates unfair work conditions, and disregards health and safety requirements for miners.³¹

The gold mining industry is particularly hazardous for child workers due to the prolonged exposure of toxic metals.

ASCC Blueprint target C1-4: To protect the environment and progress on sustainability

Mining and related processing operations of precious minerals can have a substantial negative impact on the surrounding environment. To encourage environmental stewardship, the legitimate mining industry is heavily regulated to ensure

that natural resources are used effectively, and that chemicals and waste are reduced or otherwise managed responsibly. Illegal operators do not adhere to environmental regulation and generally disregard the impacts of their activities on the environment and the sustainable, efficient use of natural resources. The illegal excavation of minerals often destroys large parcels of land, causes deforestation, soil erosion, pollution of soil, air and water.³² Apart from creating health and safety hazards for people living in these areas, wildlife also is negatively impacted.³³

The Philippines: Child labor and illegal treasure mines³⁴

The government of the Philippines has been making some progress to eliminate child labor in the country. Despite such efforts, an estimated 2.1 million children work in activities such as gold mining. When a mine is not legal or registered, workers are not afforded the same protection as in legitimate enterprises in terms of labor laws and health regulations. Young children descend into unstable 10-meter deep pits and mine gold underwater for hours. Drownings, accidents and carbon monoxide poisoning from faulty compressors are frequent. Further, children inadvertently inhale mercury vapors and touch it with their bare hands.

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ILLICIT TRADE IN TOBACCO PRODUCTS



Lucrative profits for organised crime groups, funds terrorism, undermines governments' capacity to eradicate corruption and combat other criminal activities.



Strips governments of billions in tax revenues needed to promote inclusive economic growth, impacts GDP and job creation.



Impacts goals to eradicate poverty, undermines government policies aimed at tobacco control, and is linked to human rights abuses and forced labour.

It has been estimated that 1 in every 10 cigarettes and tobacco products consumed globally is illicit.¹ One of the most comprehensive surveys of the tobacco market in Asia² found that estimate to be a little higher at about 15 percent of all cigarettes consumed across 16 Asian countries, including all ASEAN countries except Brunei Darussalam. The concentration of illicit cigarette consumption is most prominent in Indonesia, Malaysia, the Philippines and Vietnam, which collectively accounted for about 95 percent of the region's total illicit consumption in 2017.³

- Cigarettes are exported from Indonesia to several countries in the region, predominantly the Philippines through ports such as Nunukan and Tarakan. The brands declared for export to the Philippines are often not registered with the Philippines's Bureau of Internal revenue, a mandatory requirement for cigarettes to be sold legally in the country. Further, the Philippines also receives large volume of imports from Vietnam, Cambodia and India that transit through Singapore.⁴
- Indonesia is also known to be the primary producing country of kretek cigarettes world-wide and there are significant outflows of illicit whites. In 2022, the Indonesian government reported that the circulation of illicit cigarettes has been reduced to 5.5% due to Government's continuous efforts of enforcement and deterrence.⁵
- Malaysia has one of the highest illicit cigarette incidences globally with mostly smuggled cigarettes manufactured outside Malaysia, likely from other ASEAN countries, specifically Vietnam and Indonesia.⁶ According to the latest Nielsen Illicit Cigarette Survey, close to 6 out of 10 packs of cigarettes consumed in Malaysia are illegal.⁷
- Cigarettes manufactured within ASEAN countries are smuggled to other ASEAN countries, other Asia-Pacific countries and to other global markets. For example, there are massive outflows of illicit whites and counterfeits smuggled from Vietnam and Cambodia to Europe.⁸ Exports or transshipments from Indonesia and Singapore are also significant.

Several ASEAN countries have also emerged as key hubs in the global supply chain for illicit tobacco, in part due to their proximity to China, which is a provenance country for illicit whites.⁹

While most of the policy attention is currently centered on illicit trade in cigarettes,¹⁰ other tobacco products, such as smokeless and roll-your-own tobacco, are also vulnerable to illicit trade.¹¹ For example, the ban of e-vaporizers in Singapore and Thailand, has increased the smuggling of illicit vaping products from neighboring countries such as Malaysia (one the world's largest e-vaporizer manufacturers).¹² This is also the trend in the Philippines, where there has been a surge in illicit vaping products.¹³ In response, the Department of Trade and Industry recently directed Shopee and Lazada to remove more than one million listing of illicit vaping products.¹⁴

Large price and tax differences between countries or jurisdictions in the region can create financial incentives for tax evasion in the form of cross-border smuggling. For example, high taxation on tobacco products in Malaysia and Indonesia drive local demand for lower-priced, untaxed, unregulated illicit.¹⁵ In Indonesia, the complex tax structure facilitates illicit trade through misuse of tax stamp (usage of wrong category with cheaper tax tariff) which increased significantly from 0.6% in 2019 to 4.3% in 2022.¹⁶

Other enabling factors include weak governance and enforcement, high levels of corruption, poor government commitment to combatting illicit tobacco, ineffective customs and tax administration, abuse of free trade zones, illicit cigarettes discovered in-transit may elude interception by customs, out-of-date regulatory frameworks to address illicit trade, as well as the presence of informal distribution channels for tobacco products.¹⁷ Because tobacco products are easily transported and disguised, and the laws and penalties involved are relatively low, thereby making it a high-profit, low-risk opportunity.¹⁸

Collectively, illicit tobacco products have a sizeable negative impact on the ASEAN Economic Community, primarily in the form of lost excise tax revenues not paid on illicit products. Excise tax collections can comprise a substantial percentage of government revenues, which can be allocated to public investment. Furthermore, since illicit tobacco products are often more affordable and accessible, they can have adverse effects on public health and well-being when young people and poorer economic groups turn to illicit alternatives. Illicit trade in tobacco undermines all three pillars of the ASEAN Community: i) Political-Security Community ii) Economic Community iii) Socio-Cultural Community.

The following sections illustrate how illicit trade in the sector impedes achievement of the targets outlined in all the three Communities.



Impacts on ASEAN Political-Security Community (APSC) security.

The Political-Security Community aims to promote closer cooperation among Member States to create mechanisms to build a safe

and secure environment with enhanced capacities to respond to emerging challenges, including transnational crimes and corruption. Illicit trade in tobacco adversely impacts these objectives and jeopardizes government efforts to achieve a just and stable environment.

APSC Blueprint target A1-A2: To build a just, democratic environment

Illicit trade in tobacco can underpin wider risks to national and regional security, further undermining targets for promoting rule of law and good governance and reducing corruption.¹⁹ Large-scale illicit tobacco trade thrives in environments characterized by weak governance, high levels of corruption and lax law enforcement.²⁰

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

High profit illicit trade in tobacco products remains a lucrative revenue stream for many criminal actors and illicit networks, generating billions in revenue. ASEAN leaders recognize that the smuggling and sale of illicit tobacco “is a global issue, with proceeds often being used by transnational organized criminal syndicates to fund other forms of criminal activities that impact our societies.”²¹

The fact that tobacco products are easily transported and disguised, coupled with the generally low deterrent penalties makes illicit tobacco a low-risk source of revenue for organized criminal networks and terrorist organizations. Often, illicit tobacco is trafficked through the same routes as drugs, weapons, and other illicit goods.²² In many cases, these criminals also engage in identity theft, money laundering, and bulk cash smuggling to either continue their illicit enterprises, or to use their illegal profits.



Impacts on ASEAN Economic Community (AEC)

Illicit tobacco has a sizeable negative impact on the ASEAN Economic Community, primarily in the form of lost excise tax revenues. Excise tax collections can comprise a substantial percentage of government revenues, which can be diversified into public investment. Illicit trade in tobacco accordingly adversely impacts ASEAN’s ability to achieve the economic targets laid out in the Economic Community Blueprint.

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

In 2017, lost government tax revenues in ASEAN due to the illicit trade in tobacco products were estimated at a staggering USD 2.9 billion.²³ In the Asia Illicit Tobacco

Indicator 2017 prepared by Oxford Economics, an analysis of per-country figures (table below) shows that each ASEAN country is experiencing heavy tax losses to due illicit consumption.²⁴

Countries	Estimated tax loss (in USD million) from illicit consumption in 2017 ²⁵
Brunei	60
Cambodia	3
Indonesia	997
Laos	4
Malaysia	1097
Myanmar	0.5
Philippines	186
Singapore	148
Thailand	140
Vietnam	235

Separately:

- A 2021 study found that Indonesia loses almost one-third of its tobacco excise revenue to illicit consumption of tobacco.²⁶
- Illegal cigarettes smuggled into Malaysia costs the Government RM5.1 billion in lost cigarette tax revenues every year, according to a study by Oxford Economics in 2019.²⁷



Impacts on ASEAN Socio-Cultural Community (ASCC)

The trade in illicit tobacco directly impedes the achievement of several of the goals outlined in the Socio-Cultural Community. The presence of unregulated illicit tobacco enables circumvention of government policies aimed at controlling the sale of tobacco products and adversely impacts the health and well-being of the ASEAN population. The trade in illicit tobacco is also connected to child and forced labor, which the Socio-Cultural Community seeks to eradicate.

ASCC Blueprint Target B2-B3: To achieve well-being and eradicate poverty

The availability of low-priced illicit tobacco products undermines tobacco control policy efforts by providing cheaper cigarettes to the market, thereby increasing their affordability, and undermining the goal of increased tobacco taxation as a mean to reduce tobacco consumption.²⁸ Government health policy objectives are further undermined when lost sales tax revenues drain funding for anti-smoking campaigns and healthcare.²⁹ The larger the problem –

such as large-scale cigarette smuggling – the greater the drain on public revenue, the higher the costs of controlling associated organized criminal networks and the greater the risk to public health.³⁰

Furthermore, illicit tobacco products fall outside government health regulations, such as requirements for marketing and labeling, and have been shown to include spurious ingredients.³¹ Government tobacco control policies are also undercut when cigarette packs illegally arrive in markets without mandatory labeling requirements or where required health warnings are absent or printed in a foreign language.³²

APSC Blueprint target B3: To eliminate all forms of exploitation and abuse

Criminals that trade in illicit tobacco go to great lengths to keep costs down. This means that the potential for forced labor is high in this illicit industry. Illicit actors benefit knowingly or with no regard to

the exploitation of forced and child labor. Furthermore, they have no incentive to take responsibility for the production, sourcing and farming of tobacco. In contrast, the legitimate tobacco industry has invested significantly in eliminating child labor in all farms where they purchase tobacco, and they are developing systems to monitor and maintain standards.

APSC Blueprint target B2: To enhance institutional capacity to promote greater access to basic social services

With a significant negative impact on revenue collection due to unpaid taxes, widespread smuggling and local production of illicit tobacco products can have a particularly debilitating effect on efforts to improve domestic resource mobilization. This impacts institutional capacity to promote greater access to basic social services for all, such as health services and education.

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ILLICIT TRADE IN WILDLIFE



POLITICAL
SECURITY

Lucrative profits for organised crime groups, funds terrorism, undermines governments' capacity to eradicate corruption and combat other criminal activities.



ECONOMIC

Negatively impacts the economies of local communities which depend on wildlife for their livelihoods.



SOCIO-CULTURAL

Responsible for pushing some of the world's most popular and unique species to the brink of extinction.

ASEAN countries account for 3% of the world's land mass and 8% of the global population, but the region is estimated to account for 25% of the global illegal wildlife trade.¹ Illegally traded wildlife is consumed, shipped, processed, refined and sold in throughout ASEAN, and open marketplaces for illegal wildlife flourish due to legal loopholes, smuggling and corruption.² ASEAN countries are also a gateway to China, the world's largest consumer market for illegal wildlife products, and other consumer countries in Asia including Japan.³ Left unchecked, illicit wildlife crime is likely to continue to expand as rapid infrastructure development in the region is making previously remote areas accessible to criminal networks.⁴

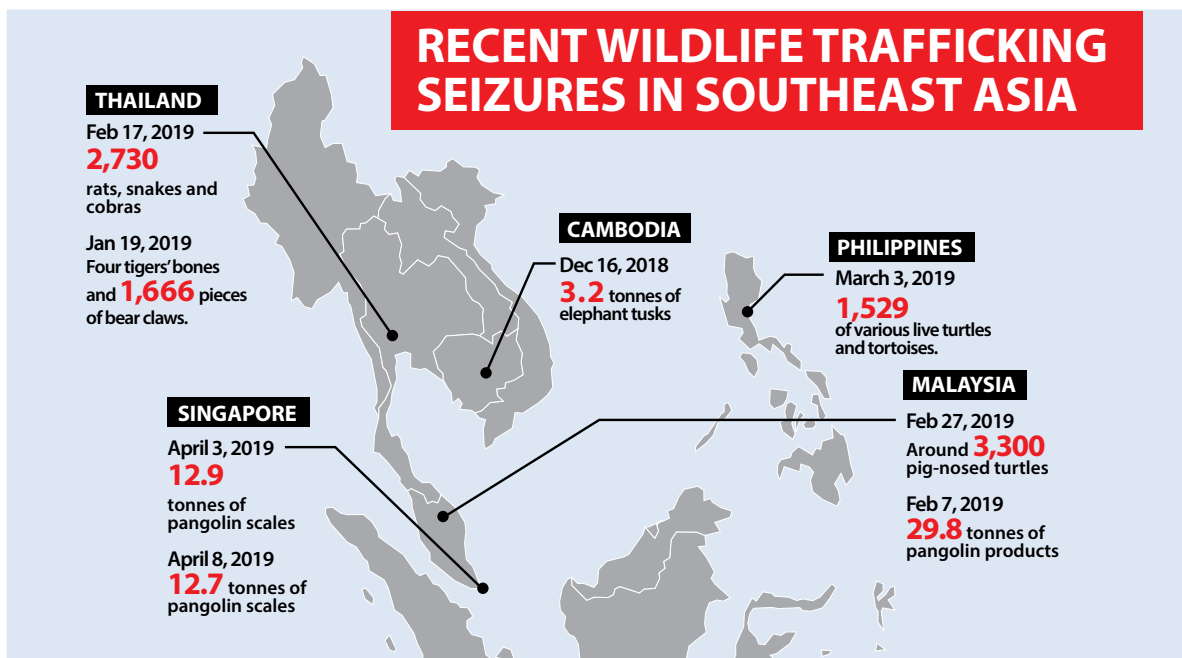
The ASEAN Political-Security Community Blueprint recognizes trafficking in wildlife is a transnational crime (B.3.9) and calls for countries to enhance cooperation against trafficking of wildlife in accordance with relevant international conventions.

In response, ASEAN governments have initiated several joint efforts to mitigate

illicit wildlife in the region. For example, the *Working Group on Illicit Trafficking in Wildlife and Timber* is enhancing cooperation on enforcement to plan investigations, intelligence sharing and improving actions to stop wildlife and timber trafficking.⁵

Illicit trade in wildlife has substantial negative impacts on the associated livelihoods and economies of local communities that depend upon wildlife associated industries and tourism.^{6,7} The impact of this trade on the environment and on the animals and plants involved is devastating. The illegal wildlife trade also poses a serious security threat, as it is often used to finance other illicit activities.⁸

Because of its criminal nature, illicit wildlife trade undermines good governance and the rule of law, fuels corruption and finances the very criminal networks that threaten peace and security. Illicit wildlife trade upsets the progress made by national governments, industry and other stakeholders to ensure the sustainable management of the environment and maintain biodiversity.



Data source: Money laundering and the illegal wildlife trade, *The ASEAN Post* (2019).

The following sections explain how illicit trade in the sector impedes achievement of key targets delineated in the three Communities.

Nb, for the purpose of this report, the illicit trade in wildlife does not consider trade in fisheries, as this is covered under the Illegal, Unreported and Unregulated (IUU) Fishing section above.



Impacts on ASEAN Political-Security Community (APSC)

The Political-Security Community objectives specifically call for ASEAN nations to enhance cooperation to address emerging threats including trafficking of wildlife. It views the problem as a transnational crime and a transboundary challenge for governments to tackle.

APSC Blueprint target A1: To build a just, democratic environment

Corruption risks are facilitators of wildlife trade in several ASEAN countries, with national border crossings, maritime ports and airports particular hot spots for corruption.⁹ Corruption and the presence of criminal groups involved in wildlife trafficking erode state authority, undermine security and the rule of law, and help finance organized crime and insurgent groups.¹⁰ Elimination of corruption is key to building a just and democratic environment. As Southeast Asian countries serve as source, transit and destination markets for illegal wildlife trade, each has a role to play in preventing and address these crimes through disruption and deterrence.¹¹ Without addressing illicit trade in wildlife, the Political-Security Community targets cannot be fully realized.

APSC Blueprint target B3: To combat transnational crime, trafficking in persons and terrorism

Globally, the illicit trade in wildlife is valued at around a USD 23 billion.¹² These profits are a key funding source for rebels and terrorist groups, international criminal syndicates and smuggling networks.¹³

Illicit trade in wildlife is rarely an isolated act but is usually part of broad criminal schemes that stretch across entire regions and even continents. It is often associated with other crimes, such as organized crime, trafficking of drugs and weapons, money laundering and tax fraud.¹⁴



Impacts on ASEAN Economic Community (AEC)

The Economic Community recognizes that the protection of the environment and natural resources supports economic growth and vice versa. Countries with rich biodiversity with proper wildlife management can promote sustainable economic flows. Wealth from wildlife can come from several sources including nature-based tourism, investments by conservation organizations, farming, legal wildlife trade and legal bio-prospecting for pharmaceuticals.¹⁵

AEC Blueprint target A: Deeply integrated and highly cohesive ASEAN economy with sustained high economic growth

The tourism industry is growing fast in developing countries,¹⁶ and the Asia-Pacific region saw a GDP contribution from wildlife tourism of around USD 171 billion, which generated over 10 million jobs in 2018.¹⁷

However, many of these benefits are threatened by illicit wildlife trade.¹⁸ Wildlife crime has grown into a sophisticated form of transnational criminality. Today, networked actors have entered the market by engaging in industrial-scale sourcing, transportation and sale of wildlife products across entire regions.¹⁹ These developments have been facilitated by, among others, loosely implemented trade prohibitions that create black-market opportunities for criminals, and systems such as access controls and quotas for legal trade that apply in some countries but have no legal bearing in others.²⁰



Impacts on ASEAN Socio-Cultural Community (ASCC)

Of the three communities, the Socio-Cultural Community is the one that stands to be most impacted by the illicit trade in wildlife.

ASCC Blueprint Target B2-B3: To achieve well-being

The illicit trade in wildlife creates vast opportunities for emerging infectious disease events to occur.²¹ These diseases are a major threat to public health and ecosystems. According to the United Nations Environment Program, three-quarters of all

emerging infectious diseases are zoonotic, transferred from animals to humans, facilitated by environmental destruction and wildlife crime.²² Consequently, the trade in illicit wildlife severely impacts the Socio-Cultural Community goals towards well-being for the ASEAN population.

ASCC Blueprint Target C1-4: To protect the environment and progress on sustainability

By negatively impacting populations of wildlife, this illicit trade undermines the functioning of ecosystems, with significant harm to related natural processes – including those affecting climate.

The UNODC notes that the illicit wildlife trade has the following negative impacts on the environment and biodiversity:²³

- Reduces diversity of species such as hardwood trees, which directly and indirectly absorb and store carbon.
- Impacts “ecosystem engineers” that are important to long-term storage and persistence of carbon stocks.
- Impacts species that have unique roles in ecosystems, such as pangolins (which are highly trafficked in Southeast Asia). This means that when populations of species are impacted, the related ecosystem is also undermined.

NOTES

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TRAFFICKING IN PERSONS



POLITICAL
SECURITY

Funds organized crime, erodes social cohesion and destabilize communities and the rule of law.



ECONOMIC

Generates billions of illicit profits that do not contribute to public revenue, distorts market competition and creates reputational risks for businesses.



SOCIO-CULTURAL

Exacerbates economic inequality by exploiting vulnerable populations, perpetuating a cycle of violence, poverty and social exclusion.

Human trafficking represents a failure of the global community to protect the most vulnerable members of our society, including those living in poverty and conflict. It is a serious threat to gender equality and the right of all individuals, especially women and children, to live in a safe environment that upholds their human rights.

Forced labor not only harms the individuals who are exploited but also has broader negative effects on society and the economy. Law-abiding businesses and employers are put at a disadvantage by forced labor as it creates an environment of unfair competition and risks tarnishing the reputation of entire industries and sectors. And governments and societies are also harmed because the profits generated by forced labor bypass national tax collection systems, erodes social cohesion, and costs involved in dealing with forced labor cases are significant.¹

Consequently, trafficking in persons impacts the achievement of the entire ASEAN Community Vision.

The ASEAN Political Security Community Blueprint specifically calls for ASEAN governments to enhance cooperation against

trafficking in persons and people smuggling (APSC B.3.4). ASEAN governments have devised a “Plan of Action Against Trafficking in Persons, Especially Women and Children”, calling for international cooperation and a comprehensive regional approach to prevent, suppress, and punish trafficking in persons, especially women and children, in all forms of sexual, labor, and organ trafficking.² ASEAN governments recognize the associated challenges in this transnational crime and have called for heightened commitment in preventing it.

Trafficking in persons is very much a global problem, prevalent throughout all regions and countries. The International Labor Organization (ILO) and the Walk Free Foundation (WFF) estimate that 24.9 million people are victims of forced labor globally.³ According to the ILO, trafficked forced laborers generate illicit profits totaling USD 150 billion annually, with Asia accounting for the highest share (34%).⁴ The United Nations Office on Drugs and Crime (UNODC) estimates that over 150,000 people are trafficked annually in South Asia – women and girls make up 44% and 21%, respectively, of trafficking victims.⁵

Human trafficking in Cambodia: US government Advisory to Businesses

In 2021, the US government issued an Advisory to US businesses to be mindful of the threat of human trafficking and child exploitation in Cambodia.⁶ The Advisory notes that while the Cambodian government has taken some steps to combat human trafficking, such as continuing to prosecute and convict traffickers, official actions are not sufficient to meet the Trafficking Victims Protection Act’s minimum standards to eliminate human trafficking. Corruption, a lack of a judicial monitoring system, low capability, and misuse of limited law enforcement resources hamper enforcement and leads to a failure to protect vulnerable populations. Further, the Advisory notes that trafficking in illicit goods such as tobacco, counterfeit goods, wildlife and timber are rampant in Cambodia that also aid human trafficking.

NOTES

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IV. POLICY RECOMMENDATIONS

The following recommendations will complement current efforts by ASEAN governments to enhance regional cooperation and put in place stronger measures to mitigate illicit trade in the region and beyond. By adopting a coordinated and comprehensive approach to tackling illicit trade, ASEAN member states can safeguard their economies and consumers, protect the environment, and promote the rule of law within the region.

1. Improving governance and coordination

- **Strengthen cooperation with neighboring countries to address informal cross-border trade, smuggling and alignment of tax and subsidy policies.** Variations in tax rules and rates between countries can create price differentials for goods, providing incentives for smugglers to transport them across borders into higher priced markets. This illicit activity can undermine government revenues, distort markets, and create an uneven playing field for businesses operating within the region. Multi-lateral arrangements such as the Indonesia-Malaysia-Philippines Trilateral Cooperative Arrangement can provide valuable mechanisms for strengthening cooperation between ASEAN countries to fight illicit trade.
- **Appoint an Interagency Anti-Illicit Trade Coordinator.** A successful strategy against illicit trade will require concerted, sustained, joint efforts among all the responsible governments in the region. To oversee such cooperation, ASEAN should consider appointing a specialized “Anti-Illicit Trade Coordinator” within the Secretariat. At the same time, each ASEAN nation should appoint a correspondent, high-level authority with clear leadership responsibilities and accountabilities. Objectives would include raising the profile on illicit trade, allocating necessary financial and personnel, and more aggressively enforcing regulations that can help reduce illicit trade, especially in the areas of intellectual property rights violations, untaxed and unregulated parallel (grey) market imports, compliance with local packaging and labelling requirements, assignment of accurate Harmonized System Codes and accurate shipping information on manifests.
- **Strengthen interagency and inter-departmental cooperation at the national level.** Increased coordination across agencies responsible for trade, health, economy, security, finance licensing/inspecting commercial activities and law enforcement (notably customs and police) is critical for addressing the multifaceted problem of illicit trade.
- **Rationalize regulations and policies to curb illicit trade.** For highly regulated products including alcohol and tobacco, ensure that any regulations aimed at governing consumption or sale do not adversely promote illicit trade. Tax policies must be rationalized to ensure that they do not incentivize illicit trade, smuggling or theft. Tax policies need to account for various demand-related factors including overall consumption, price, income levels and affordability.

- **Tackle pervasive corrupt practices** that continue to facilitate illicit trade, notably at the level of customs, law enforcement authorities, regulatory agencies and the judiciary. The ASEAN Parties Against Corruption (ASEAN-PAC) was established to implement the UN Convention Against Corruption (UNCAC). While there has been progress since the establishment of the ASEAN-PAC in strengthening collaborative efforts and increasing institutional capacities, there is a lot more to be done in aligning domestic laws and regulation with the UNCAC. Addressing corruption at all levels of government must be tackled head on if strategies to combat illicit trade are to have any chance for success.
- **Promote the creation of local private-public partnerships** to bring key industry and government stakeholders together to define strategies, share know-how, intelligence and data, improve risk assessment, strengthen border control and improve awareness. Partnership with the private sector can play an important role in improving enforcement actions and risk assessment techniques, such as by providing real-time access to commercial data and private sector intelligence.
- **Improve public awareness and education on the threat of illicit trade.** Efforts to address illicit trade are hampered by a lack of public awareness of its dangers, which has led to a degree of social acceptability. To this end, ASEAN could lead the development of local and association-wide educational campaigns and community-level awareness activities to help shift public perception and understanding of the negative impacts of illicit trade. Such messages could include highlighting the health risks to consumers, security risks and the funding of organized crime, and the drain that lost tax revenues have on public budgets, which in turn limit a government's ability to mobilize sufficient domestic

tax revenue to provide for critical public services, infrastructure and healthcare.

2. Improving enforcement

- **Strengthen intellectual property rights (IPR) enforcement.** For the most part, key IPR legislations are in place, including those required by the WTO agreement on Trade-Related Aspects of Intellectual Property (TRIPS). Nonetheless, the enforcement of these provisions needs to be strengthened and streamlined. In addition, measures are needed for: stricter penalties on counterfeiting; authorization for customs officials to perform inspections and make provisional seizures of suspected counterfeits at import and export, including goods in transit/transshipment; measures to combat digital piracy; regulations to govern the destruction of counterfeit/illicit goods; and closer scrutiny of producers and importers of counterfeit goods. Furthermore, it is important for customs recordal systems to be robust and effective to support national customs agencies in detecting and seizing IPR infringing goods. In recent years, ASEAN governments have been making progress in promoting and protecting IPRs. For example, MoUs among law enforcement, brand owners and platforms in Thailand and the Philippines to cooperate in tackling counterfeiting online have been yielding good results. While these are good initiatives, more ASEAN-wide efforts are encouraged.
- **Strengthen the customs environment.** Customs and other border control agencies have a key role in combating illicit trade at the border, with officers on the front-line conducting inspections, detecting and seizing illicit goods. Robust and clean customs agencies that are effectively trained and equipped to

follow risk-management approaches and processes contribute strongly to combating illicit trade. Conversely, corruption at the border is a significant non-tariff barrier to trade that hampers economic growth and trade performance. If customs' role is compromised, the system fails and enables opportunities for illegal trade, criminal activity, illegal financial flows and trafficking in products and persons. Promoting a better customs environment through enhanced public-private dialogue in cross-border processes can create significant benefits for society, as well as the public and private sectors.

- **Tighten enforcement measures on goods in transit and transshipment.** It is critical that authorities intercept illicit goods in transit/transshipment. For example, it is comparatively easier for customs to inspect and intercept large quantities of counterfeit and illegal products transiting/transshipping through a particular port as compared to when they have already been dispersed to wider consumer markets.
- **Take proactive measures to prevent illicit goods from being manufactured or transiting through free trade zones (FTZ).** ASEAN has over 1,000 special economic zones, and Singapore is home to the world's largest transshipment hub. Strong and proactive enforcement measures are required to protect FTZ from illicit traders, including: risk profiling of suspect shipments; closer inspection of shipments by known offenders, ex-officio checks on goods stored and services conducted in zones; customs supervision of the zone perimeter and entry and exit points; validate identity of zones operators and their clients; implement "Know Your Customer Policy" and "Due Diligence" measures.

- **Promote capacity building and joint training opportunities and exercises** to ensure that regulators and enforcement bodies: i) understand each other's constraints and expectations; ii) share information; iii) coordinate joint actions on the basis of interoperable processes and communication tools.

3. Improving criminal deterrence

- **Strengthen criminal penalties.** The ASEAN Secretariat could help establish common high standards for criminal penalties (e.g., including imprisonment) to prohibit illicit traders from exploiting markets with the weakest penalty regimes. Sanctions imposed against criminals must be proportionate to the nature of the crime and the inherent risk of the illicit product to human health and environmental safety (e.g., in cases of illicit pharmaceuticals, pesticides, or alcohol). In addition to court-imposed penalties and fines, consideration should be given to rescinding business licenses from retailers, manufacturers and distributors involved in illicit trade. For example, if a licensed pesticide dealer is caught trading in illicit pesticides, licenses should be rescinded for offenders.
- **Tighten controls on money laundering.** Many crimes associated with illicit trade in ASEAN are predicate offences to money laundering. Denying access to entities and mechanisms used to launder proceeds of crime – and thereby depriving criminals and their networks of related profits – is one of the most effective ways to deter illicit trade. This requires a holistic, comprehensive anti-money laundering regime including the ability to trace, freeze, seize and confiscate assets related to illicit financial flows.
- **Engage in international law enforcement and customs cooperation,** both bilaterally and within available multilateral mechanisms such as through INTERPOL, the World Customs Organization (WCO)

and the WCO-UNODC Container Control Program. Forging close operational links within the international law enforcement community and setting up functioning criminal intelligence and information sharing platforms is critical for enforcing laws against illicit trade.

4. Improving the digital environment

- **Tighten "Know Your Customers requirements" for online intermediaries.** Online platforms are increasingly vulnerable to exploitation and misuse by illicit traders or otherwise fraudulent operators. Moreover, the spectrum of illicit trade comprises illicit digital trade, including cybercrimes (like hacking, spam, copyright piracy and child pornography) and money-laundering in the financial system. There is a need for greater transparency requirements for digital supply chains, with a special focus on online marketplaces and social media platforms, to improve know-your-customer and know-your-seller programs. Furthermore, online intermediaries must not be allowed to hide behind the veil of privacy laws, which can inadvertently be used to protect the identities of counterfeiters. Online intermediaries including e-commerce and social media platforms must accept greater responsibility in keeping illicit goods off their services and this must include better proactive takedown actions across their platforms.
- **Hold online intermediaries liable for not adequately removing illicit content.** Online platforms and participating intermediaries must be held criminally and civilly liable for knowingly allowing illicit traders to use them as a conduit to trade in illicit goods. Furthermore, safe harbor laws should not be available for businesses that promote access to illicit goods.
- **Encourage the development and adoption of advanced prevention technologies.** This can include automated tools for rapid notice, takedown and stay down, filtering and redress for online platforms. Online payment providers also have a role in contributing information to improving preventative solutions. The use of such expeditious actions should match the speed and volume of transactions on a platform.
- **Treat domestic warehouses and fulfilment centers as the ultimate consignee** for goods that have not been sold to a specific consumer at the time of its importation.
- **Address illicit trade in the express and postal mail sector.** The knock-on impact of the sharp growth in the digital commerce sector and rise of social media platforms is the delivery of illicit products through postal and courier systems. For traffickers, small shipments are a way to avoid detection and minimize the risk of sanctions. Consequently, more needs to be done to improve targeting, prediction, and decisional processes to target illicit small parcels. Furthermore, collecting more and better data on patterns and trends at each point-of-entry, by product category, sector, and brand – including analysis of the corresponding country of origin, trans-shipment routes, evasive tactics employed, repeat offenders, and other illicit characteristics - can improve risks profiling, targeting systems and offline investigations.
- **Hold payment portals and financial systems responsible** for preventing illicit traders from using their services for money transfers. The account of confirmed criminals must be terminated and attempts to open new accounts should be banned.

V. CONCLUSION

The findings from this report illustrate the adverse effects that illicit trade has on economic growth, investment, job creation, crime prevention and environmental stewardship. Mapped against ASEAN's three Communities, the threat of illicit trade to derail the objectives of Vision 2025 is unmistakable.



Illicit trade and the ASEAN Political-Security Community

- The ASEAN political and security community is at risk because illicit trade is notorious for nurturing violence and feeding organized crime as well as undermining trust in institutions and the rule of law.



Illicit trade and the ASEAN Economic Community

- The ASEAN Economic Community is at risk because illicit trade undermines economic growth and legitimate job creation in key economic sectors across the region and causes consumer harms.



Illicit trade and the ASEAN Socio-Cultural Community

- The ASEAN Socio-Cultural Community is at risk to the repercussions of illicit trade on the environment and its links to human trafficking and forced labor.

Since international trade and investment are critical elements of the Community Vision 2025, it will be paramount for ASEAN leaders to ensure that illicit trade does not derail the Vision's objectives to drive sustainable economic development, boost income generating capacity, job creation, reduce poverty and achieve better standards of living throughout the region.

Tackling this challenge will require sustained political will from government officials at all levels to prioritize the problem, actively pursue solutions and invest in enforcement measures.

It is our hope that this report can serve as a roadmap to help policy makers identify areas that merit greater attention and to formulate effective strategies to address the serious threats posed by illicit trade. As such, a set of policy recommendations are presented, which the ASEAN Secretariat and its member economies are encouraged to consider. These recommendations will also be impactful in preparing stronger and resilient economies as the ASEAN Secretariat prepares the next term of the Community Vision leading through to 2035.

Prioritizing and increasing efforts to combat illicit trade, and the underlying conditions that facilitate it, should therefore not only be viewed as a fiscal, public health and consumer safety issue for ASEAN Member States, but also a moral imperative.



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