



UNODC

United Nations Office on Drugs and Crime



SDPI
Sustainable Development Policy Institute

Examining the dimensions, scale and dynamics of the illegal economy: A study of Pakistan in the region

Report launch, 27 January 2012

Discussion themes

- **Pakistan is uniquely placed in the organized crime and illegal economy nexus due to its geographic location.**
- **The value of components of the illegal economy, such as drugs and their precursors, multiply exponentially as they reach global markets.**
- **The volumes of money illicitly generated and laundered are large but corresponding investments to counter the illegal economy are insignificant in comparison.**
- **The illegal economy undermines development goals and the achievement of MDGs.**
- **There are significant gaps in our knowledge of the illegal economy and it is an area that is not researched enough.**

Discussion topics

- **Introduction**
- **Drugs and precursors trafficking**
- **Migrant smuggling and human trafficking**
- **Other forms of illegal economy**
- **Way forward and recommendations**

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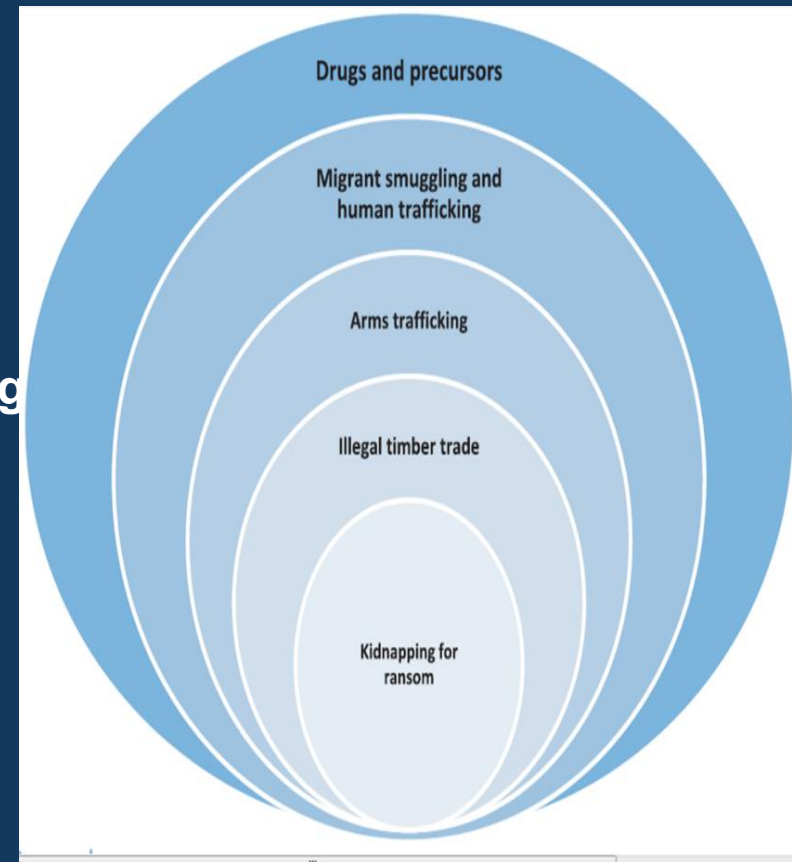
The illegal economy is a subset of the informal economy and its size and scale in Pakistan has to-date not been investigated

- **Pakistan's GDP was estimated at \$169.6 billion in 2009-10**
- **Pakistan's informal economy is estimated at \$34 billion**
- **Illegal economy is \$1.2-1.5 billion**

Scope of the research

Estimate the scale and key dynamics of the following components of the illegal economy in Pakistan:

- **Drugs and precursors trafficking;**
- **Migrant smuggling and human trafficking**
- **Trafficking of arms;**
- **Illegal timber trade; and**
- **Kidnapping for ransom.**



Methodology

- **Methodology: National Income Identity (expenditure approach).**
- **Quantitative estimates are necessarily imprecise and on the conservative side. They are offered to give a sense of the relative volume of their magnitude.**
- **This study relies upon Government statistics, secondary research and qualitative research through key informant interviews and focus group discussions (incl in the provinces).**

The impact of the illegal economy is far broader than is commonly perceived and affects economies, governments and societies

Impact on the economy

- Real estate bubbles
- Rent-seeking activities
- Crowding out of the licit economy
- Remittances

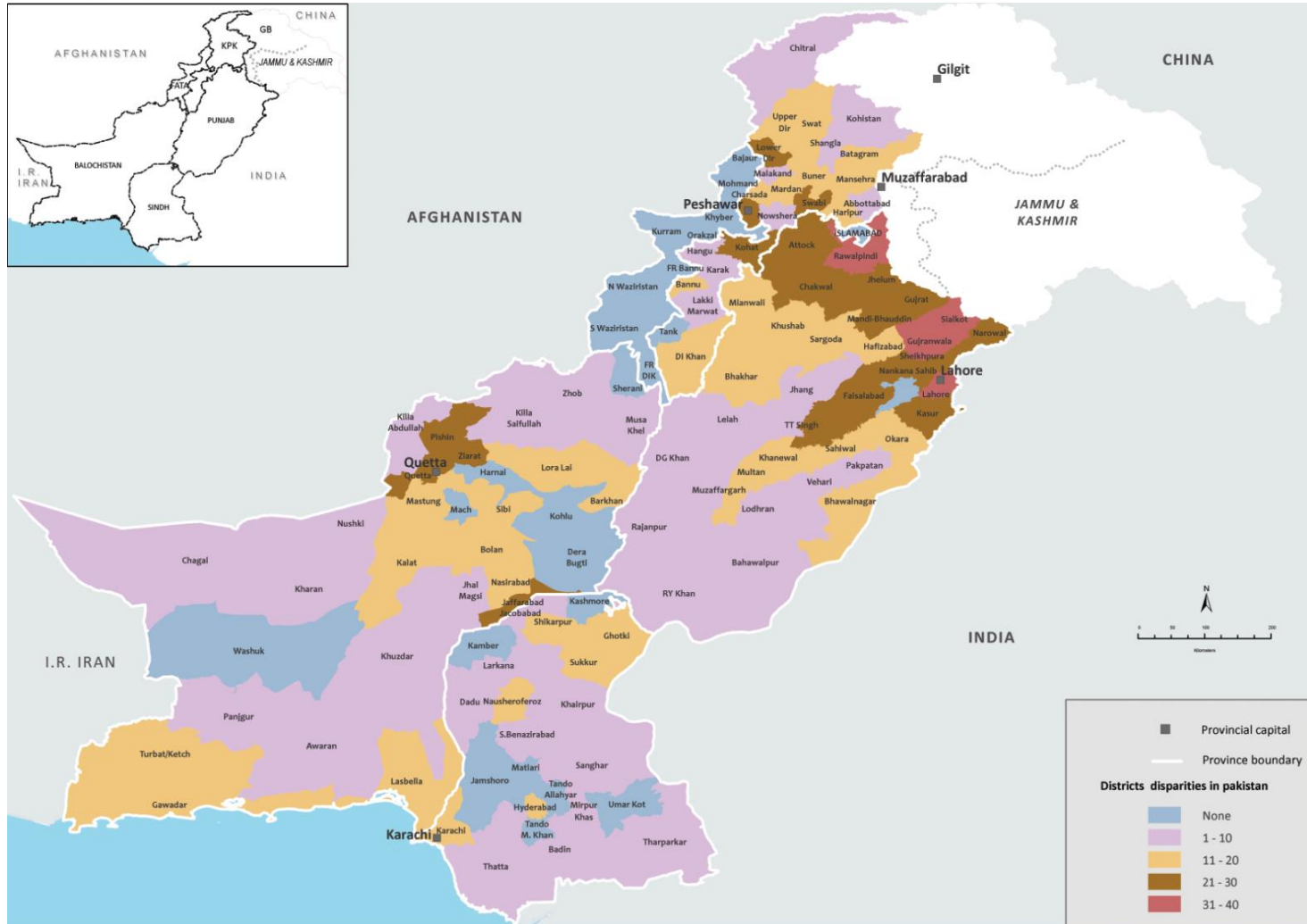
Impact on the Government

- Weakened institutions/undermining the rule of law
- Small tax base/loss of revenue
- Increased expenditure on law enforcement and criminal justice
- Threats to political stability

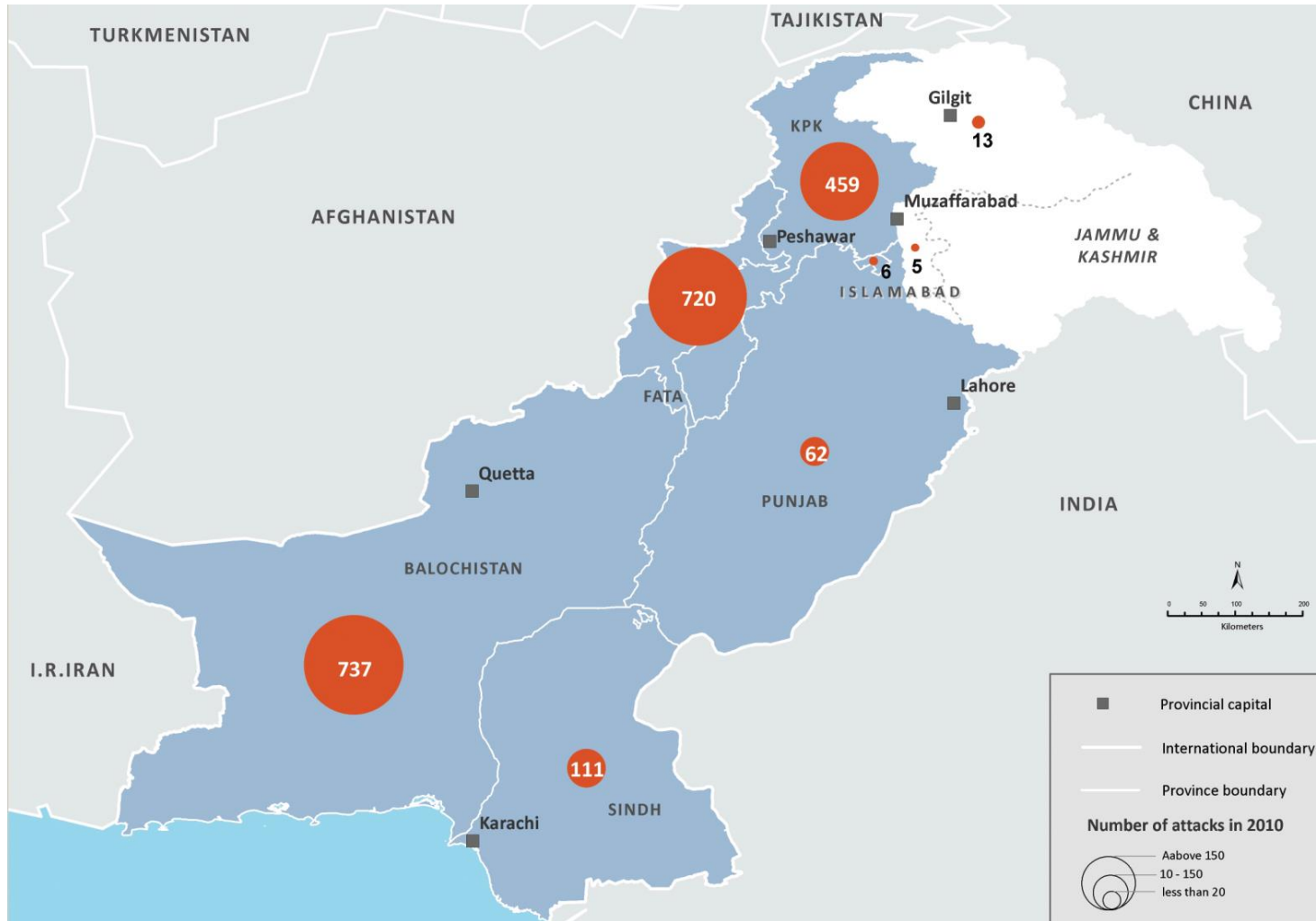
Impact on society/populations

- Impact on health
- Brain drain/skill depletion from emigration
- Erosion of trust in public institutions
- Environmental damage

Poverty and inequality (including regional disparities) provide an enabling environment for crime



The security situation is challenging, particularly along the border with Afghanistan



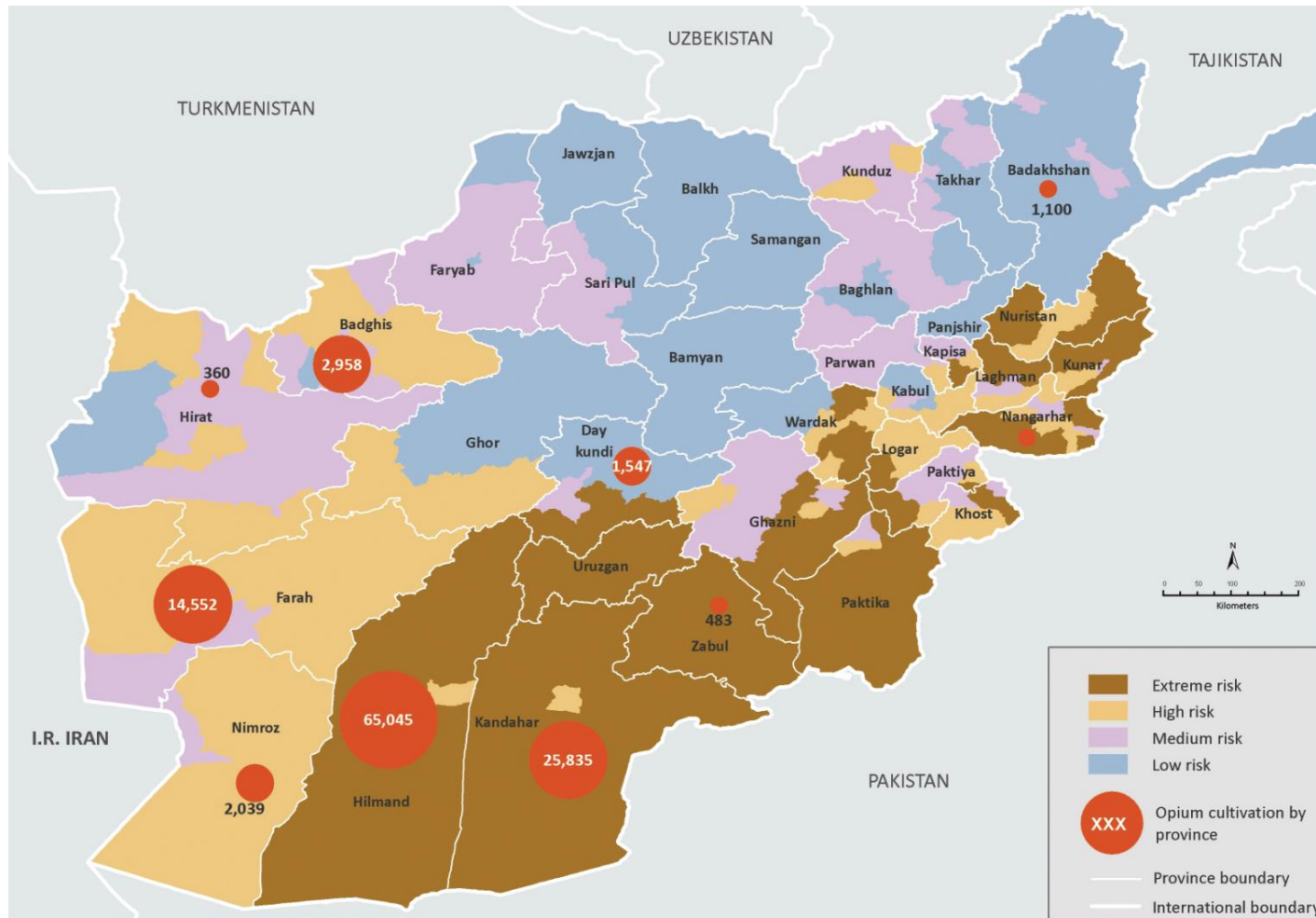
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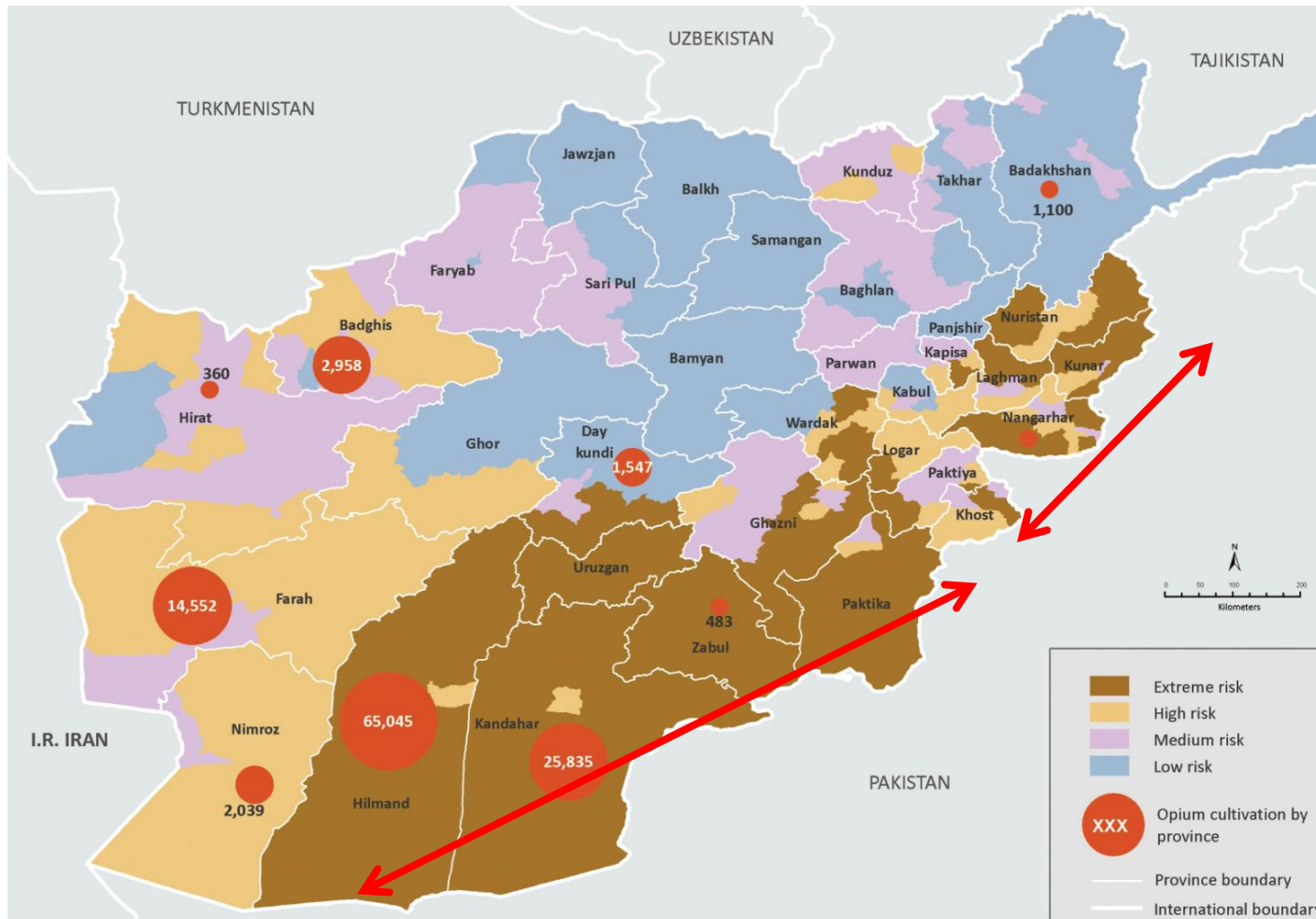
Discussion themes: drugs and precursors

- **Pakistan's location next to Afghanistan, the world's largest producer of opiates, makes it vulnerable to drug and precursors trafficking.**
- **44% of the heroin produced in Afghanistan transits Pakistan.**
- **Pakistan is also a key trafficking route for precursors, necessary for the production of heroin, into Afghanistan.**
- **Globally drug trafficking is valued at \$68 billion – a growing challenge to growth and stability.**
- **Economic value in Pakistan = \$ 900 - \$ 1.2 billion. The destination value of the heroin transiting Pakistan is \$27 billion.**

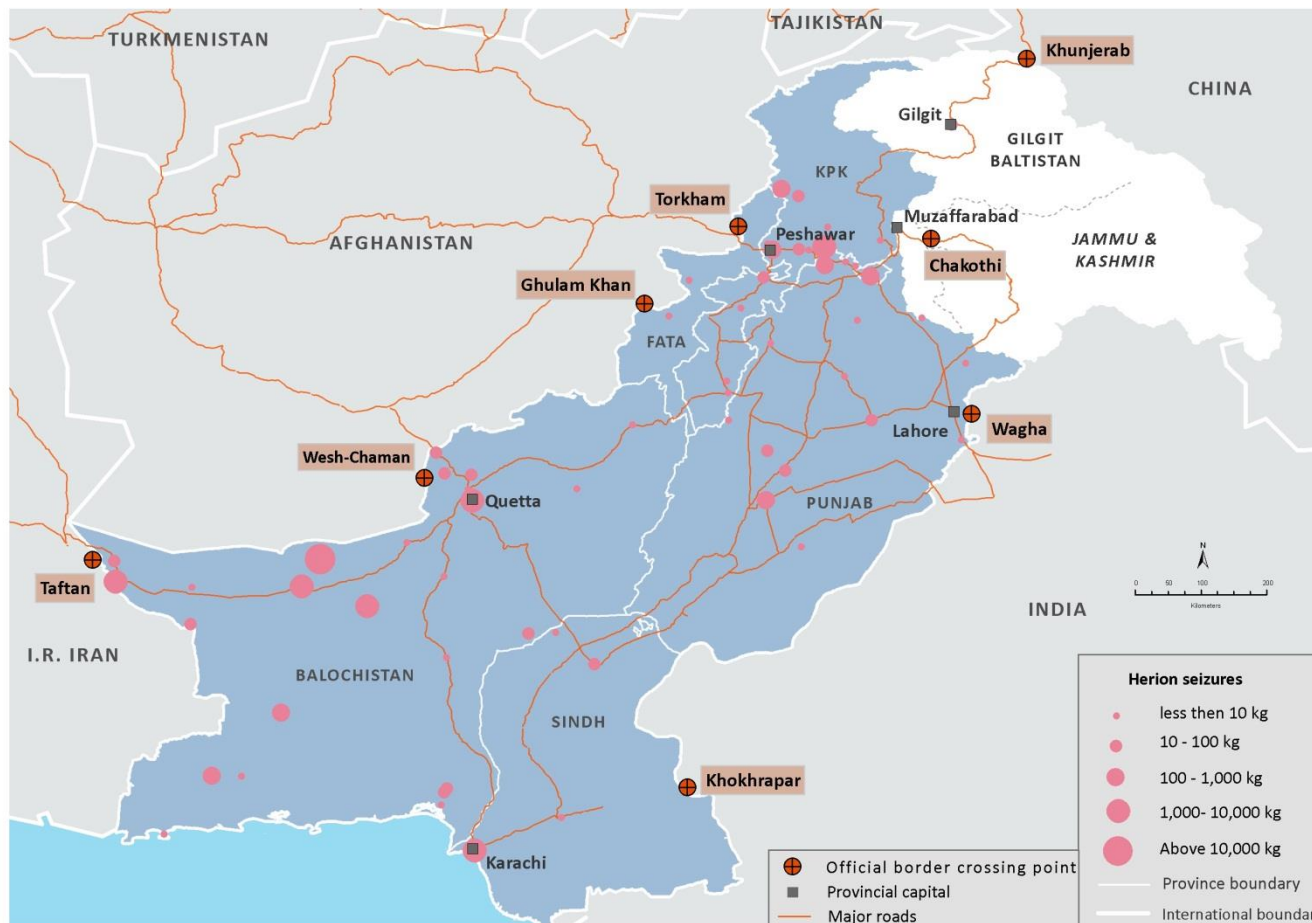
Increasing prices in world market are resulting in increased production in Afghanistan— primarily in the territories bordering Pakistan



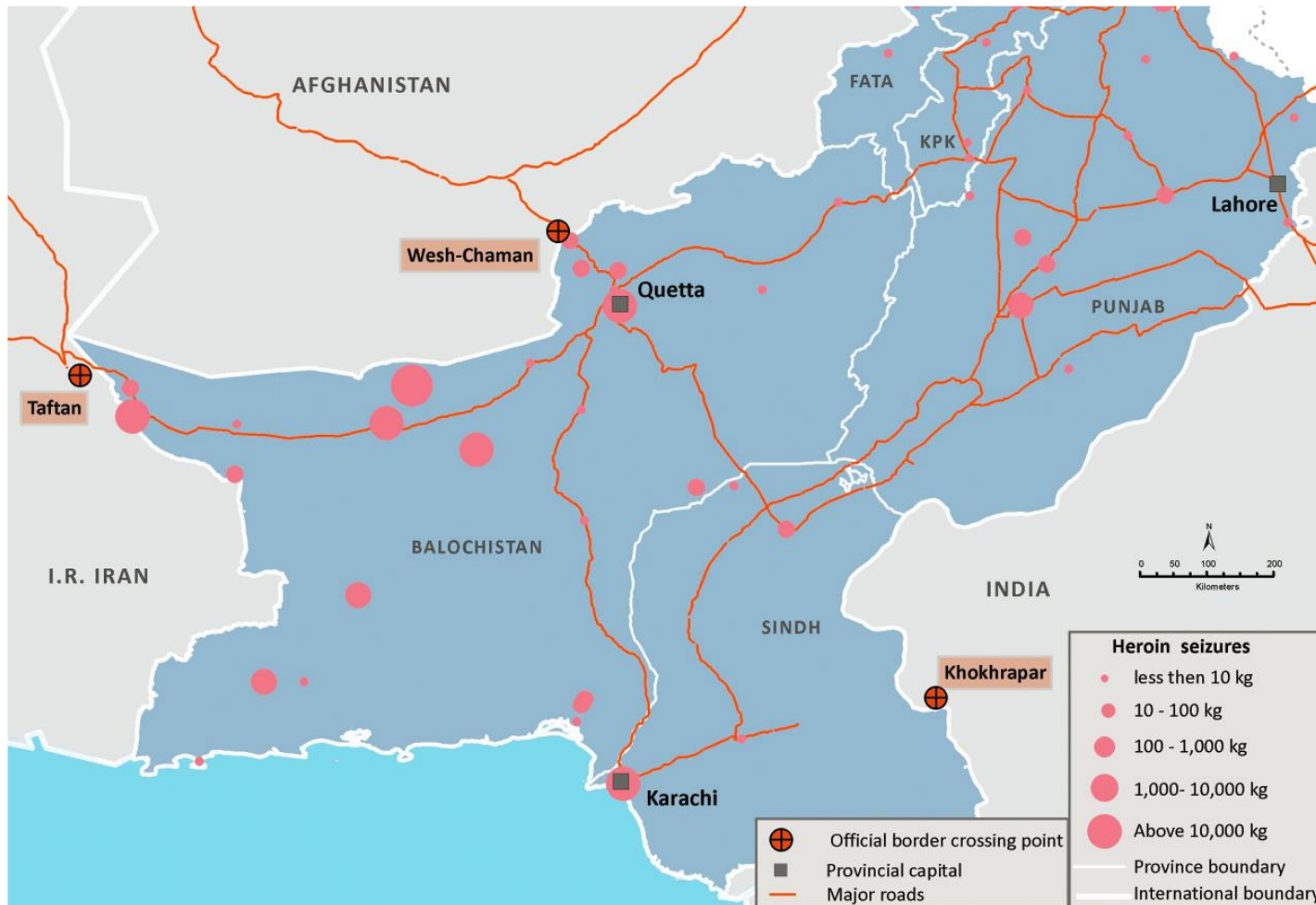
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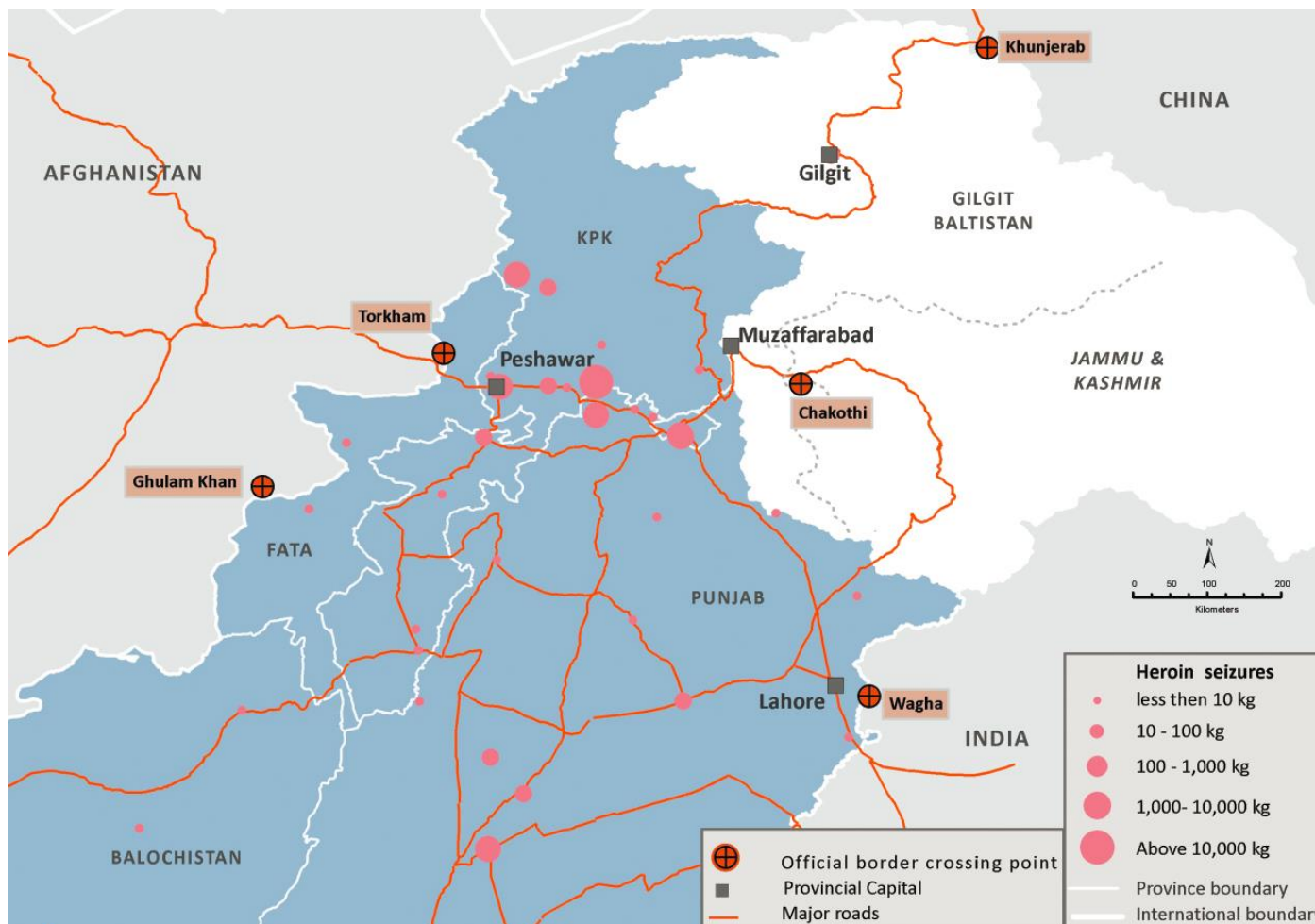
Heroin seizures in Pakistan between 2002 and 2012 have been predominantly made in large cities and along major roads and routes



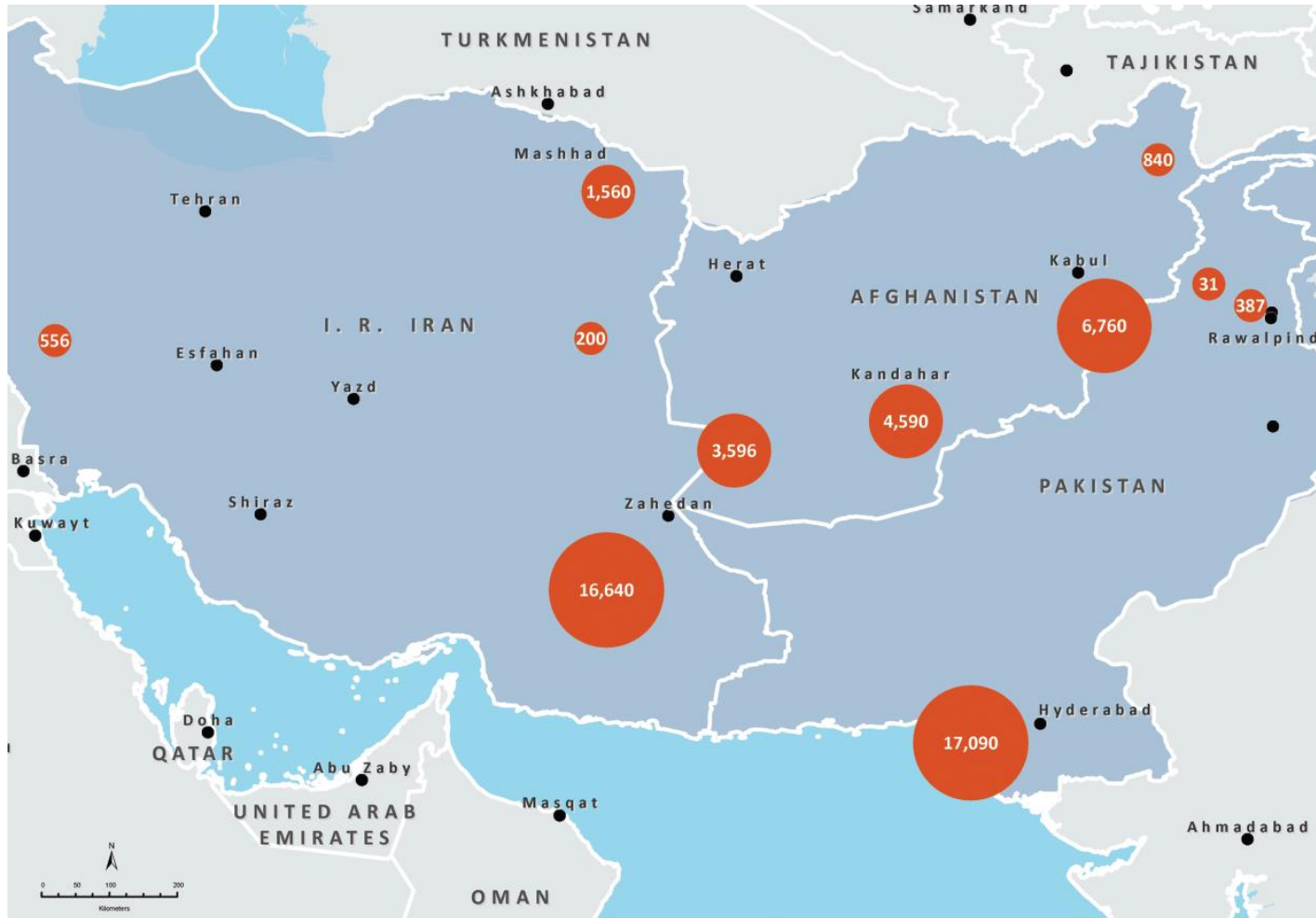
The bulk of these seizures have been made in the border provinces of Balochistan and Khyber Pakhtunkhwa



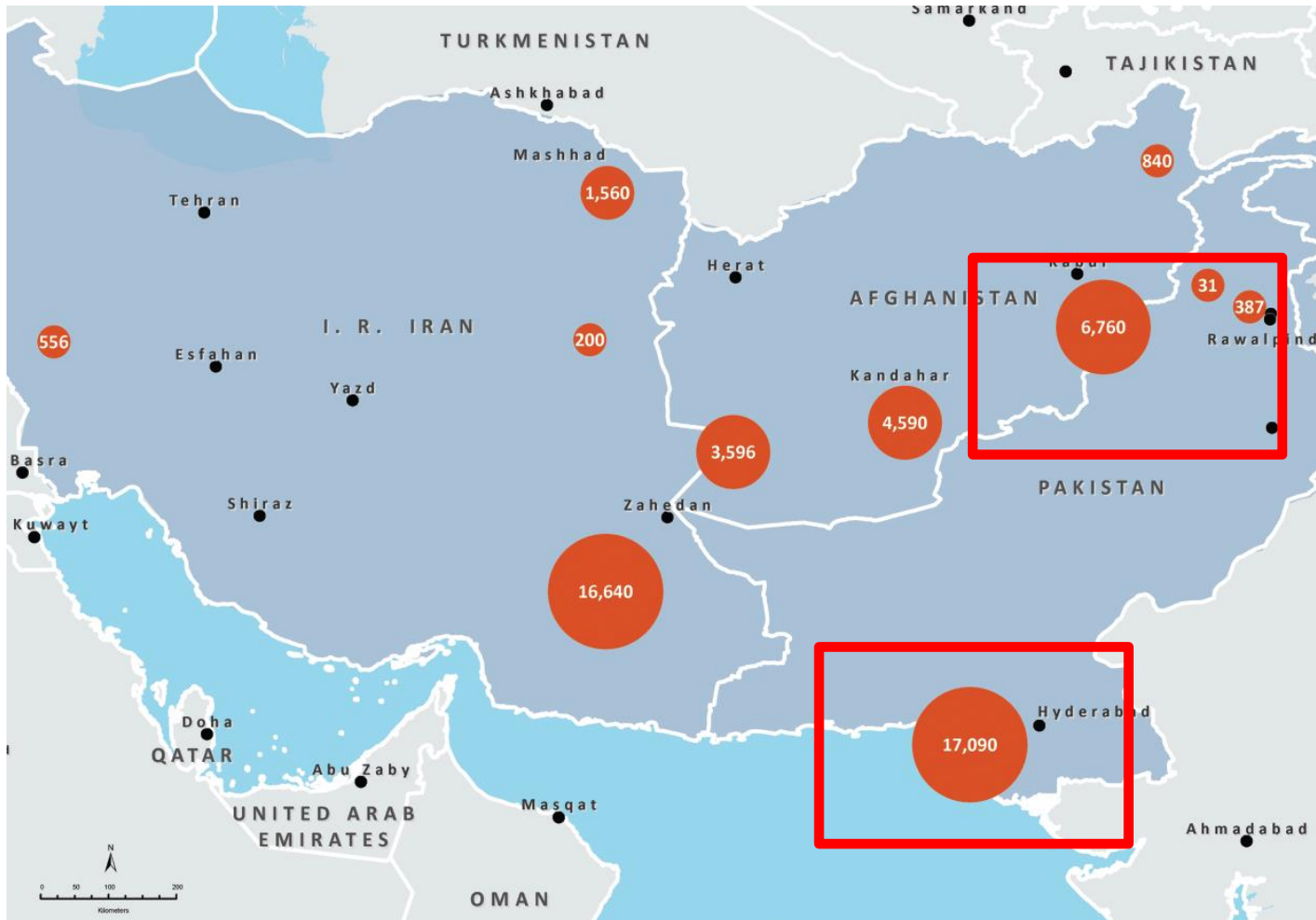
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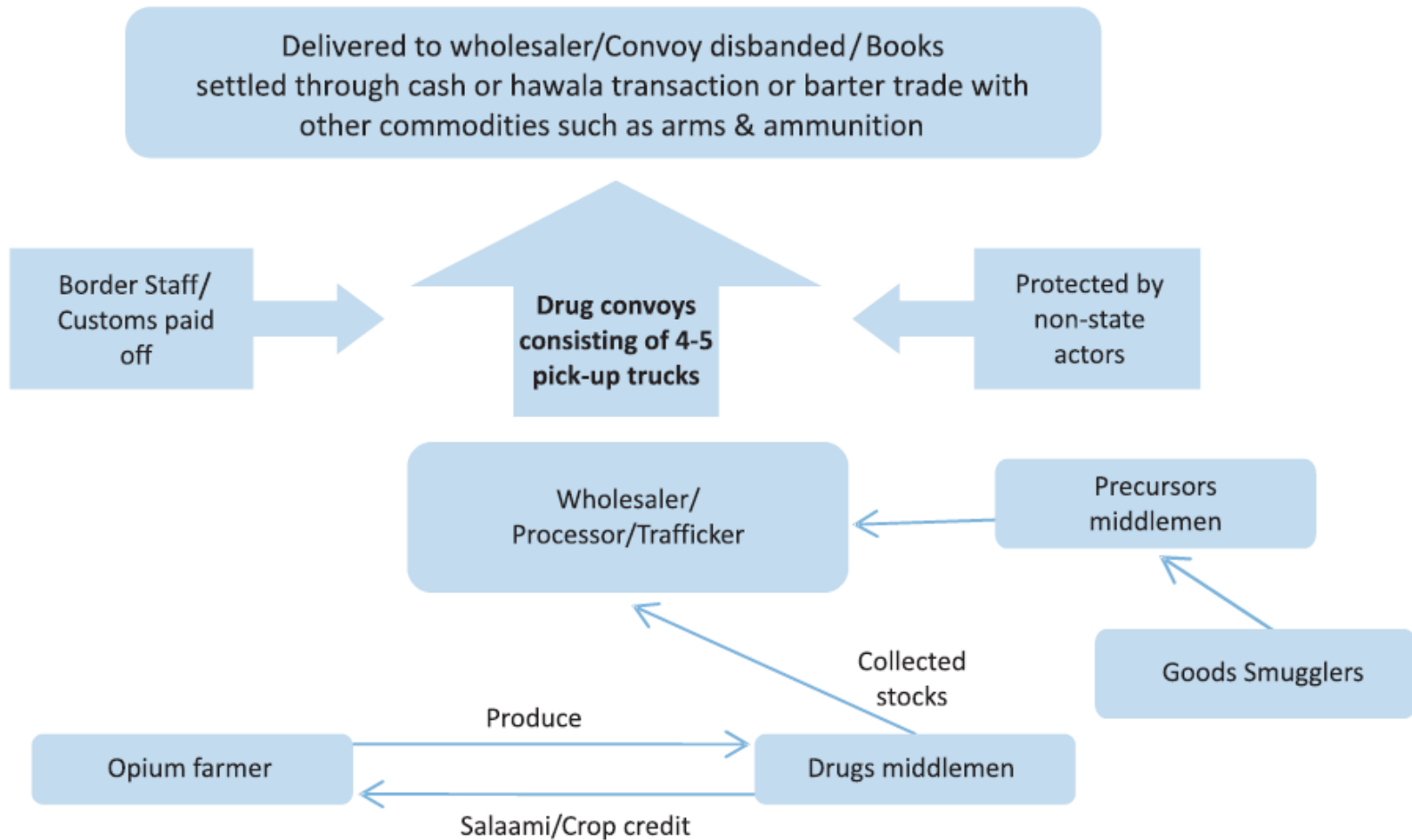
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Drug traffickers seems to have tightly knit networks revolving around trusted middlemen with accounts being settled via books



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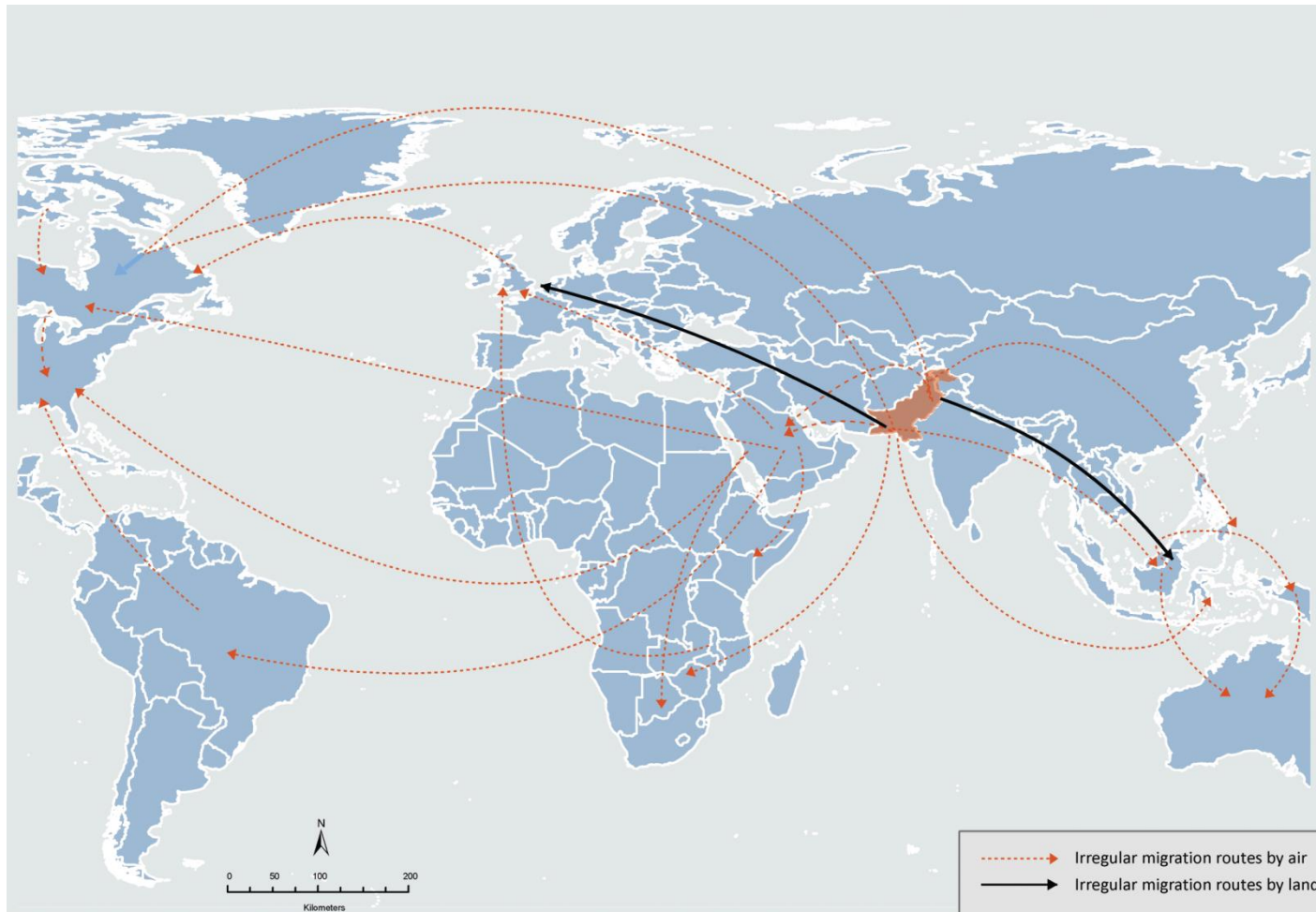
Discussion themes: migrant smuggling and human trafficking

- Pakistan is a destination and transit country for both migrant smuggling and human trafficking.
- In Pakistan's context, migrant smuggling is more prevalent than other forms of human trafficking.
- Migrant smuggling to Europe has the largest economic blueprint in terms of fees paid to smugglers and the numbers of migrants involved.
- A large number of Afghan migrants transit Pakistan for onward travel to Iran and Turkey.
- **Economic value in Pakistan = \$ 107 million. This does not include proceeds that result from forms of forced labor/slavery.**

Most of the major routes taken by migrants are by land and sea as these tend to be the cheapest and most flexible

- **Routes through Iran and Oman to the UAE and Saudi Arabia**
- **Routes through Iran and Turkey to Greece**
- **Routes through Central Asia to Eastern Europe**
- **Routes through the Middle East and North Africa to Italy and Spain**
- **Routes through Malaysia and Indonesia to Australia**

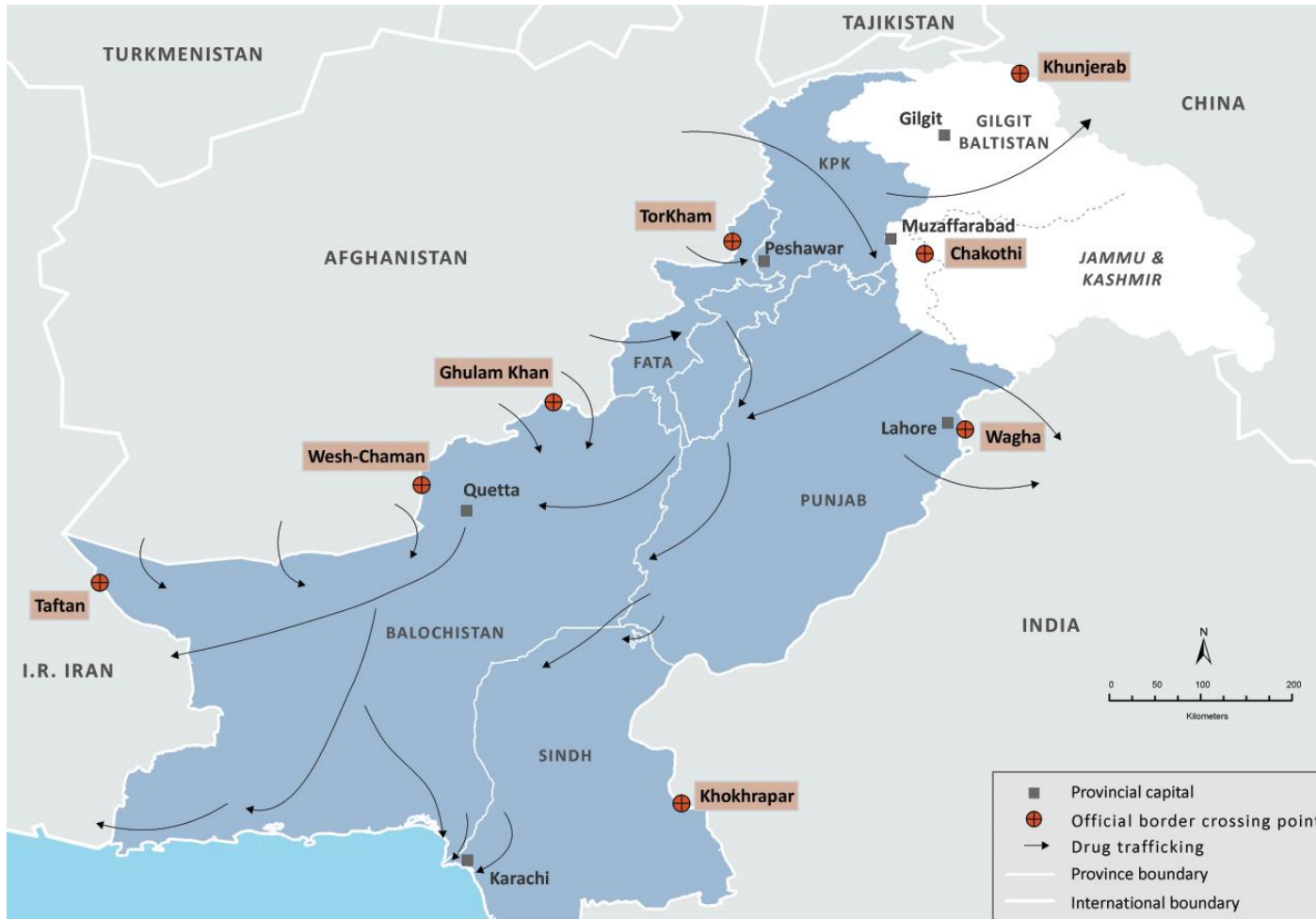
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The economic value of arms trafficked through/in Pakistan is estimated in excess of US\$ 52 million



The illegal timber trade has been facilitated by the low priority given to forests and conservation

- Incentives are high especially as timber prices are higher than the world average.
- Large quantities of timber are reportedly trafficked from eastern Afghanistan.
- Illegal re-exports also prove to be a challenge.
- **The economic value of illegal timber trade is estimated at US\$ 23 million.**

Recent years have witnessed the increasing involvement of organized crime groups in kidnapping for ransom

	2006	2007	2008	2009	2010
Number of Cases					
Islamabad	4	9	20	19	15
Gilgit Baltistan	0	0	1	0	0
AJK	2	1	6	1	5
Punjab	135	177	213	174	149
Sindh	86	147	217	198	136
KPK	48	73	129	150	141
Balochistan	12	14	40	38	31

The economic value of kidnapping for ransom is estimated at US\$ 10 million.

The proceeds of crime are injected into the world's formal economies and fund activities of international organized crime groups

- **The Hawala serves an estimated 85% of the total population by offering a money transfer system.**
- **Experts are divided on the extent to which criminals use the Hawala network.**
- **There is strong incentive to launder money to ultimately translate into ownership of company stocks, bonds, real estate, and other investment grade assets.**
- **Gaps in the AML Act need to be addressed in order to respond more effectively.**

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Recommendations

- **Mainstream**
- **Capacity-building**
- **International cooperation**
- **Demand-side intervention**
- **Research**