

WG2 Workshop: "The Nexus Between Illicit Trade and Geopolitical Shifts:
Unpacking Political, Social, Economic, and Legal Implications"

The Political Dimensions of Illicit Trade: Navigating Geopolitical Tensions and Institutional Solutions





GREEK
SCIENTISTS
SOCIETY

Theo Zacharis

Greek Scientists Society



GLITSS
Globalization, Illicit Trade,
Sustainability and Security

GLITTS COST Action WG2 Workshop – Tbilisi, Georgia

14 March 2025

Agenda

1. Introduction – Overview of illicit trade and its geopolitical significance
2. Geopolitical Factors Shaping Illicit Trade – Sanctions, hybrid warfare, and political conflicts
3. Political & Economic Dependencies – How alternative economies sustain themselves through illicit trade
4. Institutional Challenges & Enforcement Gaps – Political pressures, jurisdictional conflicts, and law enforcement barriers
5. Institutional Solutions & Best Practices – European models and strategies to strengthen governance
6. Lessons for Fragile & Post-Conflict States – Building resilience through governance and policy interventions
7. Conclusion & Policy Recommendations – Aligning security, governance, and economic policies

1. Introduction – Overview of illicit trade and its geopolitical significance

Defining Illicit Trade

Illicit trade refers to the **exchange, production, and distribution** of goods and services that are deemed illegal by national or international laws. This includes activities such as **smuggling, counterfeiting, illegal arms trade, human trafficking, and illicit financial flows**. It thrives in regulatory loopholes, weak governance structures, and conflict zones, often operating at the intersection of **economics, law, and politics**.

Why It Matters Politically

- Threatens national security, economic stability, and governance
- Exploited by state and non-state actors for political and economic gains

The Geopolitical Dimension

- Leads to political instability, sanctions, and conflicts fueling illicit trade
- Involvement of state actors in facilitating or combating illicit markets

2. Geopolitical Factors Shaping Illicit Trade – Sanctions, hybrid warfare, and political conflicts

Sanctions and Trade Restrictions

- **Impact of Sanctions on Illicit Markets:** Sanctions imposed on countries such as Russia have led to the reconfiguration of trade routes, encouraging illicit trade networks to flourish. Black markets emerge in response to restrictions, creating unregulated financial flows that benefit criminal enterprises and states seeking economic survival.
- **Adaptive Trade Routes & Smuggling Networks:** Countries under sanctions develop alternative trade partnerships. For example, Russia has increasingly relied on parallel import networks through intermediaries in Central Asia, the Middle East, and China to bypass restrictions on critical goods.

2. Geopolitical Factors Shaping Illicit Trade – Sanctions, hybrid warfare, and political conflicts

Hybrid Warfare & Political Conflicts

- **Illicit Trade as a Tool in Hybrid Warfare:** Non-state actors, paramilitary groups, and sanctioned regimes exploit illicit markets to finance activities. The intersection of organized crime and political conflicts fosters economic dependencies on smuggling and illicit finance.
- **Case Study: Conflict Zones & Criminal Networks:** In Syria, conflict-driven instability has facilitated widespread fuel and arms smuggling, allowing war economies to thrive. Similar patterns exist in Libya, where warring factions engage in human trafficking and illicit oil trade to sustain their operations.

2. Geopolitical Factors Shaping Illicit Trade – Sanctions, hybrid warfare, and political conflicts

State Involvement in Illicit Trade

- **Government-Enabled Smuggling Operations:** Some states directly engage in or turn a blind eye to illicit trade to mitigate economic pressures. North Korea has been implicated in smuggling arms, counterfeit goods, and narcotics to generate hard currency.
- **Corruption & Policy Manipulation:** High-ranking officials in certain countries enable illicit trade by manipulating regulations, using tax havens, or facilitating money laundering schemes. The case of Venezuela illustrates how state-backed illicit gold mining contributes to economic survival amid sanctions.

3. Political & Economic Dependencies – How alternative economies sustain themselves through illicit trade

Alternative Economic Channels

- **Illicit Trade as a Survival Mechanism:** Nations under sanctions or political isolation rely on illicit networks to sustain their economies. For example, North Korea engages in clandestine trade of luxury goods, arms, and counterfeit currencies to bypass economic restrictions.
- **Informal Banking Systems & Cryptocurrencies:** Underground financial systems such as hawala networks facilitate untraceable transactions, enabling illicit trade to flourish. Cryptocurrencies like Bitcoin have also been increasingly utilized for laundering illicit funds and circumventing financial regulations.

3. Political & Economic Dependencies – How alternative economies sustain themselves through illicit trade

Illicit Trade in War Economies

- **Funding Conflict Through Smuggling:** In conflict zones such as Syria and Afghanistan, armed groups finance their operations through smuggling networks. Illicit oil, drugs, and arms trade generate significant revenues, fostering economic dependencies on criminal activities.
- **Case Studies:** Libya's post-Gaddafi instability has given rise to human trafficking networks, while Afghanistan's reliance on opium trade has been a critical source of income for insurgent groups.

3. Political & Economic Dependencies – How alternative economies sustain themselves through illicit trade

The Role of Offshore Financial Centers

- **Tax Havens & Money Laundering:** Offshore jurisdictions with lax regulations facilitate illicit financial flows. Entities involved in illicit trade often use shell companies to disguise ownership and move money discreetly across borders.
- **Case Study - Georgia's Offshore Law:** The country's policies have been scrutinized for potentially attracting illicit financial activities, raising concerns about their implications for global regulatory oversight.

4. Institutional Challenges & Enforcement Gaps – Political pressures, jurisdictional conflicts, and law enforcement barriers

Political Pressures Undermining Enforcement

- **Geopolitical Considerations:** International enforcement efforts are often hampered by political interests, where certain states shield illicit actors to maintain strategic alliances or economic advantages.
- **Selective Enforcement & Diplomatic Tensions:** Countries may resist enforcing international sanctions if they have economic or political ties with targeted states. For instance, some Middle Eastern and African nations continue trade with sanctioned regimes despite global restrictions.

4. Institutional Challenges & Enforcement Gaps – Political pressures, jurisdictional conflicts, and law enforcement barriers

Jurisdictional Conflicts & Legal Fragmentation

- **Lack of Harmonized Regulations:** Differing legal frameworks across countries create loopholes that illicit traders exploit. What is illegal in one country may be tolerated or unregulated in another.
- **Weak Multilateral Enforcement Mechanisms:** Despite international agreements, enforcement remains fragmented. Institutions such as INTERPOL and the Financial Action Task Force (FATF) face difficulties in ensuring compliance across sovereign states.
- **Example - Disruptions in Anti-Money Laundering Efforts:** While the EU has strict AML directives, non-EU financial hubs with weaker regulations serve as conduits for illicit financial flows.

4. Institutional Challenges & Enforcement Gaps – Political pressures, jurisdictional conflicts, and law enforcement barriers

Corruption & Law Enforcement Vulnerabilities

- **State Complicity & Regulatory Capture:** In some cases, high-ranking officials directly benefit from illicit trade, making enforcement efforts ineffective.
- **Case Study - Latin America's Drug Trade & Institutional Corruption:** Drug cartels infiltrate law enforcement agencies, limiting the effectiveness of anti-trafficking measures.

4. Institutional Challenges & Enforcement Gaps – Political pressures, jurisdictional conflicts, and law enforcement barriers

Technology & Enforcement Challenges

- **Dark Web & Cyber-enabled Illicit Trade:** The rise of digital black markets has complicated enforcement, with illicit goods and services being traded anonymously.
- **Use of Cryptocurrencies in Illicit Transactions:** Regulators struggle to track financial flows as criminals increasingly leverage decentralized finance (DeFi) platforms to obscure transactions.

European Institutional Models for Combatting Illicit Trade

- **EU Customs Union:** A harmonized regulatory framework that reduces smuggling opportunities by enforcing uniform customs procedures across member states. By eliminating internal borders, the EU Customs Union strengthens external border controls, making it harder for illicit goods to enter the region.
- **Europol's Role in Transnational Crime Prevention:** Europol's intelligence-sharing networks, such as EMPACT (European Multidisciplinary Platform Against Criminal Threats), enable real-time coordination between law enforcement agencies. This has been particularly effective in dismantling organized crime networks involved in illicit trade.

Anti-Money Laundering (AML) Regulations & Financial Oversight

- **EU AML Directives:** The EU has implemented stringent AML regulations that require financial institutions to monitor and report suspicious transactions.
- **Cross-Border Financial Investigations:** Institutions such as the Financial Action Task Force (FATF) play a crucial role in identifying money laundering hotspots and issuing recommendations to curb illicit financial flows.

Post-Conflict Institutional Capacity Building

- **EULEX Kosovo Case Study:** The European Union Rule of Law Mission in Kosovo (EULEX) has provided legal and institutional support to strengthen governance in a post-conflict environment. Such interventions help fragile states develop legal frameworks to counter illicit trade.
- **Regional Cooperation in War-Torn Areas:** Collaborative enforcement efforts between international bodies and national governments have proven effective in disrupting illicit trade in post-conflict economies.

Integrating Sustainability & Trade Policy

- **EU Green Deal & Illicit Resource Trade:** The European Union's sustainability policies address environmental crime, including illegal logging, wildlife trafficking, and illicit mining operations.
- **Strengthening Supply Chain Transparency:** The push for due diligence laws ensures that companies trace the origins of raw materials, preventing illicitly sourced resources from entering global supply chains.

6. Lessons for Fragile & Post-Conflict States – Building resilience through governance and policy interventions

Building Governance & Institutional Capacity

- **Strengthening Rule of Law:** Post-conflict states often lack strong legal frameworks, making them vulnerable to illicit trade. Strengthening judicial institutions and law enforcement agencies is essential to curbing criminal networks.
- **International Legal Assistance:** Collaboration with international bodies such as the UN Office on Drugs and Crime (UNODC) and the Financial Action Task Force (FATF) can help fragile states establish effective anti-illicit trade policies.

Economic Reconstruction & Reducing Dependence on Illicit Trade

- **Diversifying Economic Opportunities:** In regions where illicit trade is a key source of income, economic alternatives must be developed. Microfinance programs, foreign investment incentives, and skill-building initiatives can provide legitimate employment options.
- **Case Study -Afghanistan's Post-Conflict Opium Economy:** After decades of war, Afghanistan's economy remains reliant on opium production. Alternative development programs, such as supporting legal agriculture, have been proposed as a long-term solution.

6. Lessons for Fragile & Post-Conflict States – Building resilience through governance and policy interventions

Regional Cooperation & Border Management

- **Joint Enforcement Initiatives:** Neighbouring states must coordinate on intelligence-sharing and border security to disrupt illicit trade routes. Initiatives like the West African Network Against Trafficking (WANAT) have demonstrated the effectiveness of regional enforcement partnerships.
- **Technology & Surveillance:** The use of AI-powered monitoring systems, blockchain-based supply chain tracking, and satellite surveillance can improve border control efficiency.

6. Lessons for Fragile & Post-Conflict States – Building resilience through governance and policy interventions

Leveraging International Aid & Policy Support

- **UN & EU-Led Interventions:** Programs like EULEX in Kosovo have provided post-conflict societies with governance support, security assistance, and legal capacity-building efforts.
- **Transparency & Anti-Corruption Measures:** International financial aid must be tied to accountability standards and anti-corruption reforms to prevent the misuse of funds and ensure lasting impact.

7. Conclusion & Policy Recommendations – Aligning security, governance, and economic policies

Addressing Illicit Trade as a Multidimensional Challenge

- Illicit trade is deeply interconnected with political instability, economic vulnerabilities, and weak governance structures. A comprehensive approach that integrates security, legal, and economic measures is essential for effectively combating illicit networks.

7. Conclusion & Policy Recommendations – Aligning security, governance, and economic policies

Enhancing Global Cooperation & Intelligence-Sharing

- Strengthening partnerships between international institutions, regional enforcement agencies, and national governments is critical for tackling transnational illicit trade.
- Expanding Europol's EMPACT model to include wider intelligence-sharing mechanisms can improve coordination in disrupting illicit financial flows and smuggling routes.

7. Conclusion & Policy Recommendations – Aligning security, governance, and economic policies

Improving Institutional Resilience in Fragile States

- Post-conflict states need capacity-building initiatives to develop sustainable governance models and legal enforcement mechanisms.
- **Case Study:** EULEX in Kosovo demonstrates the importance of external institutional support in stabilizing governance and addressing illicit trade vulnerabilities.

Improving Institutional Resilience in Fragile States

Other Examples

- **Bosnia and Herzegovina:** The EU supported the post-war reconstruction and institutional strengthening efforts through the **Office of the High Representative (OHR)** and **EUFOR Althea**, helping to stabilize the country.
- **Ukraine:** The EU's **macro-financial assistance and rule-of-law initiatives** aim to bring the country closer to Western economic and governance standards while countering illicit activities.
- **Georgia & Moldova:** Both countries have received EU technical assistance and regulatory alignment programs as part of their European integration efforts.

7. Conclusion & Policy Recommendations – Aligning security, governance, and economic policies

Strengthening Economic & Financial Oversight

- **Enhancing AML Regulations:** Strengthening Financial Action Task Force (FATF) guidelines and improving compliance with EU Anti-Money Laundering Directives will help track and eliminate illicit financial transactions.
- **Regulating Cryptocurrencies & Digital Finance:** The increasing use of crypto-based laundering techniques requires more robust monitoring of decentralized financial systems to prevent illicit actors from exploiting regulatory gaps.

7. Conclusion & Policy Recommendations – Aligning security, governance, and economic policies

Integrating Trade & Environmental Policies

- EU Green Deal's Framework can be expanded to combat illicit resource trade, including illegal mining, deforestation, and wildlife trafficking.
- Enforcing supply chain transparency through due diligence laws will prevent illicit goods from entering global markets.

Final Thoughts – Take-Home Messages

✓ Technology as an Enabler of Better Control

- AI-powered monitoring, blockchain for supply chain transparency, and digital financial tracking can significantly **improve enforcement and reduce illicit trade**.
- Investment in **cybersecurity and digital forensic capabilities** is crucial to staying ahead of evolving illicit trade networks.

✓ Stronger Institutions are Essential

- Effective governance and law enforcement mechanisms **must be prioritized in post-conflict states** and fragile economies.
- Institutional frameworks **should be modeled on successful EU initiatives** such as **EULEX Kosovo** and **FATF regulatory frameworks**.

Final Thoughts – Take-Home Messages



Aid to Rogue States Must Be Limited to Humanitarian Assistance

- Economic and development aid **must be conditional on compliance with international trade and governance standards.**
- **Sanctions enforcement should be strengthened** to cut off illicit financial flows benefiting rogue regimes.



Providing Incentives for Countries to Adopt Western Values

- Economic integration programs, EU association agreements, and foreign investments **should reward compliance with democratic governance and anti-corruption measures.**
- Trade agreements **should include conditionality clauses** that promote **rule of law, transparency, and economic reforms.**
- **Kosovo is a key example** of how EU institutions have successfully promoted stability and Western-aligned reforms. **Other post-conflict regions, such as Ukraine and Georgia, have followed similar paths with EU assistance.**

Q & A



Thank You



Theo Zacharis

Executive Director of Kinesis Innovation Center
Innovation & Strategy Advisor at bioGLOT Ventures
Founder of the Greek Scientists Society



theo@greek-scientists-society.org

+44 7547936742

