

Open secrets: Corruption in Free Trade and Special Economic Zones as an enabler for illegal wildlife trade

Key takeaways

- » The corrupt practices that take place in free trade zones (FTZs) and special economic zones (SEZs) are not unique; **corruption in FTZs/SEZs does not necessarily differ from other forms of corruption happening elsewhere in the country, region, or trade chain.**
- » Rather, FTZs/SEZs can serve as **facilitators for illicit trade**, by **offering an additional layer of opaqueness, complexity, and inadequate controls** in which illegal economies can flourish.
- » Corruption also flourishes in opaque contexts with inadequate controls. As a result, those **same factors can also facilitate corruption, which can then itself further facilitate illicit trade.**
- » **Anti-corruption strategies are not fully transferrable between FTZs/SEZs.** Each country or specific region's socio-economic and political conditions create specific drivers of corruption, and the appropriate anti-corruption responses for each will differ.
- » In general, however, **social and cultural norms often play a decisive role in corruption**, and understanding the motivations for someone to get involved in IWT, or corruption, is necessary for sustainably changing that behavior.

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Breaking the ice on FTZs and SEZs

FTZs and SEZs are legal mechanisms created to facilitate international trade, incentivize development, promote poverty alleviation, and drive industrialization. To achieve these goals, FTZs/SEZs have special legal regimes that exempt the application of certain laws (e.g., requirements to incorporate companies) to attract foreign investment. Depending on the specific case, some FTZs/SEZs also provide expedited customs clearance, exempt transiting goods from customs inspections, offer foreign exchange benefits, require less oversight from authorities, and have less stringent labor and environmental requirements as a way of simplifying the conduct of business (Financial Action Task Force 2010, UNCTAD 2019). Box 1 summarizes the key elements of FTZs and SEZs.

FTZs/SEZs offer some macroeconomic benefits. But some of their core characteristics, such as simplified customs, limited inspections, and less oversight, can create risks for the illicit trade of goods and services, including the illegal wildlife trade (IWT) (International Chamber of Commerce 2017 and 2020; RUSI 2020; UNODC 2013 and 2016). In turn, these same factors are also enabling conditions for corruption, which can then be an additional facilitating factor for IWT (CSCE 2018; OECD 2018 and 2019).

Key concepts

- » For the purposes of this document, **IWT** should be understood as any “[...] unlawful activities associated with the commercial exploitation and trade of wildlife specimens (living organisms or harvested parts thereof)” (’t Sas-Rolfes et al. 2019). This definition includes wild fauna, flora, timber, and fungi.
- » **Facilitators** are conditions that make corruption (or IWT) possible, easier, or less likely to be detected and/or punished. Examples include poor controls; burdensome, complicated, and opaque processes and procedures; and lack of information or barriers to access it, among others.
- » **Drivers** are the motivations for an individual to participate in an act of corruption or a wildlife crime. Some drivers are at the individual level, such as personal beliefs or needs, while others are more collective or systemic, such as top-down pressure to turn a blind eye.
- » Some factors may be both facilitators and drivers. Cultural norms about authority or wildlife, for example, both drive individuals to act corruptly/illegally and create a context where such acts are expected and therefore “easier.” While facilitators and drivers can be intertwined and sometimes difficult to isolate from one another, what is important in designing anti-corruption responses is to **consider both as possible causes of corruption behavior**. Addressing only facilitators (e.g., through purely legal and enforcement efforts) will be unlikely to succeed if drivers are still strong.
- » **State capture** is a type of systemic corruption in which private interests significantly influence or even “take over” a state’s decision-making processes for their own advantage.

This paper presents three case studies that portray how FTZs/SEZs’ characteristics contribute both to IWT and corruption, while also demonstrating that wildlife trafficking is merely an expression of the multiple illicit economies that can take place in FTZs/SEZs in the absence of adequate controls. These cases also demonstrate that the corrupt practices within these areas do not necessarily differ from other forms of corruption happening elsewhere in the country, region, or trade chain. **Rather, what makes FTZs/SEZs particularly interesting for illicit trade is the additional layer of opaqueness and complexity that they pose for local authorities.**

The findings reflected herein are the result of desk-based research and 24 semi-structured interviews. The literature review comprised peer-reviewed journals, grey literature, and legal frameworks in the three case studies, as well as reviewing general aspects of the illegal economies and corrupt practices occurring at FTZs/SEZs. Interviews were conducted with IWT and natural resource management (NRM) experts,

researchers, and journalists inside and outside the three studied regions.

Basic understanding of the three case studies

1. Golden Triangle SEZ, Laos

Background

The Golden Triangle SEZ located in Laos’s Bokeo Province is a joint venture between the Lao government and Kings Romans International (HK) Co., Limited (although the SEZ also hosts other businesses). This SEZ has an extension of 3,000 hectares with no physical boundaries other than its borders with Thailand and Myanmar, and its main purpose is to promote tourism and international trade (Laos Investment Promotion Department 2021). However, Kings Romans International has been sanctioned by the US Department of the Treasury’s

Box 1. Key elements of FTZs and SEZs

While there is a lack of clarity in the differences between SEZs and FTZs, and both concepts have changed over time, the table below describes their main elements for the purposes of this brief.

	SEZs	FTZs
Scope	Multi-activity zones including not only warehousing and logistics for imports, exports, and transformation services, but also advanced services technology, health, security, tourism, and Greentech.	Mainly warehousing, storage, and logistics for imports, transshipments, exports, and transformation services for international trade.
Economic goal	Promotion of economic growth, encouraging the development of a particular area of a country.	Promotion of industrialization processes and international trade.
Delimitation	Geographically delimited – perimeter not necessarily defined and controlled.	Clearly designated area, usually with a secure perimeter with entry and exit controls (e.g., physical borders such as fences and walls).
Common benefits	Customs benefits, trade facilitation, service centralization, investor targeting, additional entry liberalization for foreign direct investments (e.g., investing in industries that are otherwise restricted, such as casinos), foreign exchange benefits, preferential land access, tax incentives and breaks, and specific rights and obligations in labor and environmental matters. SEZs also tend to offer legal certainty in countries not as attractive to foreign investors.	Mainly tax and customs benefits (e.g., tax exemptions to corporate or profit taxes, exemption from customs duties or expedited customs clearance). FTZs also tend to offer legal certainty in countries not as attractive to foreign investors.

Sources: (Bost 2019, Financial Action Task Force 2010, UNCTAD 2019)

Office of Foreign Assets Control (OFAC) for its involvement in drug trafficking, human trafficking, money laundering, and wildlife trafficking (Lao National Committee for Special Economic Zone 2011, Radio Free Asia 2021a, US Department of Treasury 2018). The CEO and co-owner of Kings Romans Casino is a Chinese national formerly involved in the timber trade. He also previously ran casino businesses in Macao and the Mong La SEZ in Myanmar, which have

also been questioned for being involved in illegal activities (Radio Free Asia 2020).

The Golden Triangle SEZ became known as a hub for IWT in 2015, following a report by the non-governmental organization (NGO) Environmental Investigation Agency (EIA). Investigations have revealed that ivory, rhino horn, tiger wine, tiger skins, and pangolin scales have been sold in stores in an area

of the complex often known as “Chinatown” (EIA 2015, WWF-Laos 2018). Live animals and animal parts (e.g., bear paws, live pangolins, monitor lizards, tiger wine or meat) have been reported at restaurants located in the SEZ (EIA 2015, TRAFFIC 2017, Van Uhm and Wong 2021). The Golden Triangle SEZ is also home to enclosures with Asiatic black bears and tigers whose derivatives (e.g., bear bile, bear paws, tiger meat, tiger skins, tiger wine) have been presumably offered for sale (EIA 2015). However, the Casino argues that the tiger facilities have been converted into a zoo, following the Convention on International Trade in Endangered Species’ (CITES) decisions on stopping tiger captive breeding for trade purposes and the local enforcement of such decisions by the Lao Prime Minister’s Order No. 05 of 2018.

Undermined inspections and dereliction of duty

This review found facilitators and characteristics of corruption and IWT in the Golden Triangle SEZ that are also common to many SEZs/FTZs, such as limited customs controls and limited surveillance by the government. In addition, according to interviews, corruption as a facilitator of IWT in this SEZ would mostly manifest as officials omitting their duties, although bribes and political favors in return for turning a blind eye to crime are also suspected.

For instance, Lao Law No. 14/2016 on Investment Promotion provides that foreign investments such as the Golden Triangle SEZ can be subject to emergency inspections without prior notice. However, interviews indicate that in practice, public officers, including managing authorities, are always notified in advance of inspections of the Golden Triangle SEZ. Both the SEZ Management Board (chaired by the government) and the Economic Board (chaired by the Kings Romans Casino) (Laos Investment Promotion Department 2021, S-NCSEZ 2012) are given ample warning, allowing illegal wildlife products or the illegal use of wildlife to be temporarily hidden. Such inspections are therefore less likely to tackle any illegal activity (van Uhm et al. 2021).

Similarly, interviewees perceive that law enforcers turn a blind eye to possible violations of the law. For

example, Lao law (Wildlife and Aquatic Law No.07/2007 and Decree 188/2019) provides that zoos are for public benefit, meaning they serve either tourism, education, circus performance, cultural exchange, or scientific research purposes. However, interviews reported that the main tiger farm in the Golden Triangle SEZ, reportedly converted into a zoo, has no access to the tourists visiting the area, hence not fulfilling its legal purpose. Law enforcement is believed to be aware of these circumstances without conducting any investigations into the potential legal violations. Another example involves the audits ordered by CITES in 2017, to clearly identify the number and identity of the individuals present at the tiger farms so controls on their trade could be enforced. However, reports indicate that tigers were bred, killed, and traded prior and even during the official tiger farm audits (EIA 2020, McCoy 2019).

Jurisdictional uncertainty and low rates of prosecution

Some of the corruption facilitators found are specific to the Golden Triangle SEZ, while others refer to country-wide circumstances. One specific to the Golden Triangle SEZ is the uncertainty among authorities regarding jurisdiction over the SEZ. This uncertainty could be attributed, to some extent, to the changes in the Lao legal regime on SEZs. When the Golden Triangle SEZ was incorporated, Laos did not have a legal framework to properly regulate SEZs, so the Kings Romans Casino entered into a joint venture with the Lao government through a Prime Minister’s decree (No. 090/PM of 2010). It was only later that the government issued several laws and decrees providing a legal framework for SEZs.

Accordingly, SEZs were previously under the direct supervision of the Ministry of Planning and Investment, but have since shifted to be under the National Committee for Special Economic Zones’ oversight. The National Committee acknowledged the struggles in supervising SEZs by stating that the new management mechanism “has not been well understood and the implementation has not been completed” and that a “harmonious decision

Box 2. Examples of abuse of sanitary and subsistence logging permissions

The abuse of sanitary or intermediate logging permissions refers to logging high value timber for commercial purposes using a permit intended only for logging sick or dead trees (Smirnov et al. 2013).

Subsistence logging permits are issued for meeting local communities' timber needs, but dubious logging brigades can acquire these permits and instead log high value timber for export into China.

of all level and local authorities has not been well established in implementing the development and supervision of special economic zone" (S-NCSEZ 2012). These circumstances provide an extra layer of opaqueness to what happens within the Kings Romans Casino.

At the national level, less specific to the SEZ, corruption is facilitated by having too many authorities in charge of environmental matters without a proper understanding of their roles and poor prosecution and sanctioning of IWT. As an example, the Department of Forest Inspections (DoFI) at the Ministry of Agriculture and Forestry is the Lao authority in charge of conducting investigations and pursuing prosecution on IWT. The United Nations Office on Drugs and Crime (UNODC) (2014) documented how the DoFI has overwhelmingly favored re-education measures for wildlife offenders rather than presenting the cases for prosecution. While the UNODC's report dates from 2014, interviews confirmed that the lack of prosecution has persisted, as has the lack of clarity regarding the roles and responsibilities of authorities in charge of environmental matters.

2. Suifenhe FTZ, China

Background

Suifenhe is a city located in northeast China bordering the Primorsky Krai region in Russia. Suifenhe was

originally designated in 1992 as a Border Economic Cooperation Zone (BECZ), with the goal of promoting trade with Russia and developing the city. With the 1998 restrictions on logging in Chinese forests, the timber trade with Russia increased in importance (Sun et al. 2005), and many Chinese individuals and state-owned companies established timber business operations in Russia. These Chinese businesses ranged from traders purchasing timber in Russia to Chinese companies with primary processing mills and trading capacity (WWF 2007). In 2019, Suifenhe became a sub-zone of Heilongjiang's Pilot FTZ, with the aim of consolidating its position as China's largest distribution center for Russian timber (Xingzhu 2018).

Timber processed in Suifenhe is logged in Russia and transported raw into China mainly via rail, although trucks also play a role. For years, reports have questioned the legal origins of the timber imported and the numerous forms of corruption involved (EIA 2013, Fedorov et al. 2017, Smirnov et al. 2013, WWF 2007). Reports have extensively described how timber has been illegally harvested in the Far East of Russia, either through illegal logging by groups of local loggers, forging documents, obtaining permits to log in forbidden areas, or by violating the rules of specific forestry permits. Examples of the latter are the abuse of sanitary or subsistence logging (EIA 2013, Smirnov et al. 2013), as described in Box 2.

Economic and legal context in the Russian Far East

Corruption in Russia's logging sector has been linked to underreporting the amount of illegally harvested wood, low levels of prosecution, and a preference to impose penalties on small-scale violators rather than on the kingpins fueling illegal logging (Smirnov et al. 2013, Wyatt 2013). These circumstances have paired with a very particular context in the Russian Far East to promote the illegal timber trade. Poor living conditions in rural areas, the region's extensive corruption, and burdensome administrative and custom requirements have all fueled illegal logging and timber trade in Russia (Wyatt 2013). As a result, much of the timber that has historically entered China from Russia would likely have already been laundered by the issuance or

Box 3. Historical example of corruption along the supply chain of illegal timber harvested in Russia

“By the time it [timber] reaches the Chinese border it is worth US \$140 [per cubic meter]. US \$5 goes to the environmental inspector, to make sure that the timber can be removed from the forest without incident. US \$18 is shared between the loggers, the truckers and the security personnel, with a further US \$5 going on gasoline. US \$5 goes to the forest leaser to retain the right to log in future, and US \$10 goes on documentation at timber depots. US \$10 goes on bribes to customs officials, US \$5 to the militia and US \$3 to forestry officials. Another US \$5 goes to municipal administrators and a further US \$4 to regional administrators. The remaining US \$70— half the value—goes to just one person, the Chinese wholesaler in the border town of Suifenhe.” (White et al. 2006)

forging of official documents (see Box 3).

Beneficial ownership opacity

Interviews with forestry experts, and investigative reporting, indicate that some Chinese businesses operating in Russia are controlled by individuals or businesses in Suifenhe who are also complicit in illegal logging (EIA 2013). For example, some timber auctions have granted permits ostensibly to Russian citizens, as required by Russian regulations for timber harvesting, but with the auction winners turning out to be fronts for a Chinese beneficial owner (Wyatt 2013).

Acceptance of corruption as “normal”

Investigations have shown that some Chinese buyers in Suifenhe are aware of the illicit origin of the timber, and that its supporting documents have been either forged or obtained through corrupt practices, but buy and/or import the wood regardless (Wyatt 2013, Wyatt et al. 2020). The EIA has also documented, on video, how the illegal timber trade was “[...] possible due to their [the timber business’s] high-level political

connections with both Russian and Chinese officials” (EIA 2013). Yet, when discussing the region’s illegal timber trade, interviewees described these behaviors as normal; one interviewee explained that “corruption is the unspoken way of doing business.” These circumstances could suggest that these practices are socially and culturally accepted.

Customs harmonization

Unlike the Golden Triangle, where many of the corruption and IWT facilitators were closely linked to the SEZ, Suifenhe’s case seems more related to broader efforts and policies. Originally, Suifenhe received special status to access international trade and receive special benefits for development. But high-speed customs are part of China’s more extensive policy to harmonize customs regulations at all borders, not just at FTZs. High-speed customs can facilitate IWT, and corruption, by encouraging customs officers to simply verify the existence of permits and not their authenticity. China’s harmonization efforts reduced import clearance times from over 22 hours in 2016 to 16.7 hours in 2017 (World Trade Organization 2018), suggesting that facilitating factors specific to the FTZ may be less significant than national-level customs harmonization.

3. Las Palmas - Gran Canaria FTZ, Spain

Background

Gran Canaria’s FTZ covers both its Las Palmas and La Luz ports. This FTZ, known as the FTZ of Gran Canaria, became a point of IWT concern in the 2000s because Las Palmas was often cited as a port of convenience (see Box 4) for illegal, unregulated, and unreported fishing (IUU). NGOs Greenpeace (2007) and Environmental Justice Foundation (EJF 2007) reported on the port, indicating that Las Palmas enabled IUU products’ entrance into the European Union.

While ports of convenience by their nature can facilitate IUU (Petrossian 2014, Petrossian et al. 2015), corruption at any port can also facilitate IUU. Present along the entire fisheries value chain, corruption at ports can be expressed as bribes to avoid inspections

Box 4. Ports of convenience, flags of convenience, and flag hopping

Ports of convenience are ports where catches can land with minimum or no inspections, which makes ensuring catches' legal origins impossible. (Freitas 2021)

Flags of convenience (FoC) “means that operators register and flag their vessels in a country that is not the country where they actually come from. These operators usually choose countries that will not regulate their activities and will be unlikely to enforce domestic or international fishing rules.” (Martini 2013)

Flag hopping means re-flagging (in most cases with FoC) and changing the name of the vessels several times to undermine management and surveillance authorities' efforts to track the vessels and their activities.

of the catch, bribes to falsify catch documents, collusion or bribes to avoid inspections or surveillance on in-port transshipments, or to avoid the verification of the vessels' information (Freitas 2021, Freitas 2021b, Martini 2013).

Permissive FTZ legal regime

While some have questioned the level of influence industry representatives have had over enforcement decisions (Martini 2013), this review found no clear indications of specific corrupt phenomena having occurred within the Gran Canaria FTZ. However, Gran Canaria's permissive FTZ legal regime has, at least historically, failed to prevent the abuse of flags of convenience, flag hopping, and transshipments, which has enabled IUU products to land at the port. The FTZ has suffered from poor inspections of shipments, poor enforcement to prevent unregistered or blacklisted vessels from landing, and the lack of sufficient customs personnel (e.g., in 2005 Las Palmas only had

seven port inspectors) (EJF 2007, E-3217/06ES 2006, MRAG 2005). These circumstances are often attributed to the FTZ regime, which arguably has a relatively permissive legal regime (EJF 2007).

Conflicts of interest and subsidy abuse

Beyond the FTZ, however, corruption is connected to IUU (e.g., Freitas 2021). In one recent example, a major Spanish fishing company was involved in a presumed corruption scandal that implicated national and European high-level officials (García Rey 2019, Paul 2019, The Shift 2021). In this case, the company worked through a network of subsidiaries to illegally catch tuna to farm in Malta, information presumably known by the former Director General of Fishing and Aquaculture who apparently had a personal relationship with the company's CEO. The fish were later introduced into Spain by altering documents in order to launder their illicit origins (García Rey and Ballesteros 2019).¹ Similar conflicts of interest had been previously reported, with, for example, the advisors on fisheries for the European Commission in many cases being industry representatives (The Center for Public Integrity 2011).

Possible corruption can also be detected in the subsidies granted by the government to promote the fishery industry. In one example, a Galician businessman was allegedly involved in IUU while receiving subsidies of up to EUR€1,700,000 from the Spanish government despite their awareness of his illegal activities (Oceana 2005). Similarly, Pescanova, one of Europe's three largest seafood companies, would have obtained subsidies from the Spanish government while involved in IUU cases (The Center for Public Integrity 2011).

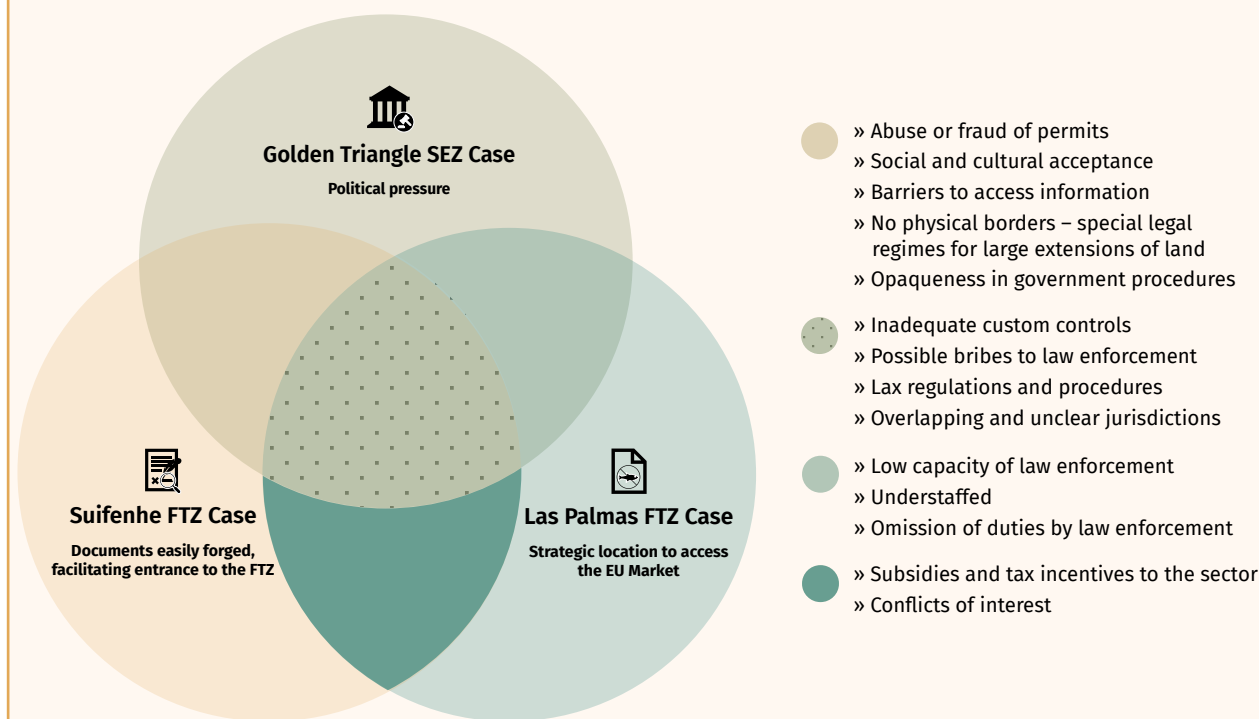
Mitigating the facilitators

The enabling situation at Las Palmas has improved, but those improvements came from broader policy reform, not specific changes to the FTZ. In fact, the FTZ may have been slower to improve. For example, initial EU policy guidance and regulations aimed to improve

¹ The case also refers to possible bribes, but a judicial decision from a Spanish Court on this matter was pending at the time of writing.

² Council Regulation (EC) No 1005/2008, Commission Regulation No.1010/2009

Figure 1. Common corruption and IWT drivers and facilitators



Sources: (Bost 2019, Financial Action Task Force, UNCTAD 2019)

the transparency and traceability of the fisheries value chain (Freitas 2021),² but Las Palmas was still used as a port of convenience (EJF 2012).

Since then, however, additional rules and efforts at enforcement from the Spanish state have mitigated the factors facilitating IUU (European Court of Auditors 2017, European Parliament 2017, Freitas 2021, Janovsky 2018). In 2017, Spain had the largest number of catch certifications and verification in the EU, plus increased inspections of shipments and increased rejections for non-compliance with EU regulations. The thorough implementation of the EU regulations led to fewer fish landings, particularly in the port of Las Palmas (ClientEarth 2017), which is considered a sign of success of the EU rules.

What the case studies reveal

While FTZs/SEZs on their own can foster conditions that facilitate corruption and IWT (e.g., providing an

extra layer of opaqueness or confusion among the competent authorities) (see Figure 1), the way in which corruption manifests in FTZs/SEZs is not necessarily different to its expressions outside of those zones (e.g., collusion, bribes, patronage, etc.). FTZs/SEZs are not, on their own, the explanatory factor for the IWT and corruption.

Hence, this section addresses some additional aspects that contribute to the occurrence of both corrupt practices and IWT in FTZs/SEZs. These aspects are the underlying social, economic, political, legal, and cultural facilitators and drivers that need to be identified in order to address the resulting corruption and IWT (see Figure 2) (Kassa et al. 2019, Ledeneva et al. 2017, Shah and Schacter 2004, Van Uhm and Moreto 2018). Designing effective responses to corruption or IWT requires going beyond identifying specific acts of corruption or IWT to understanding the circumstances that explain why those acts happen.

The role of social and cultural norms

Social and cultural norms are key to understanding IWT (e.g., Kassa et al. 2019) and corruption (e.g., Jackson and Köbis 2018).

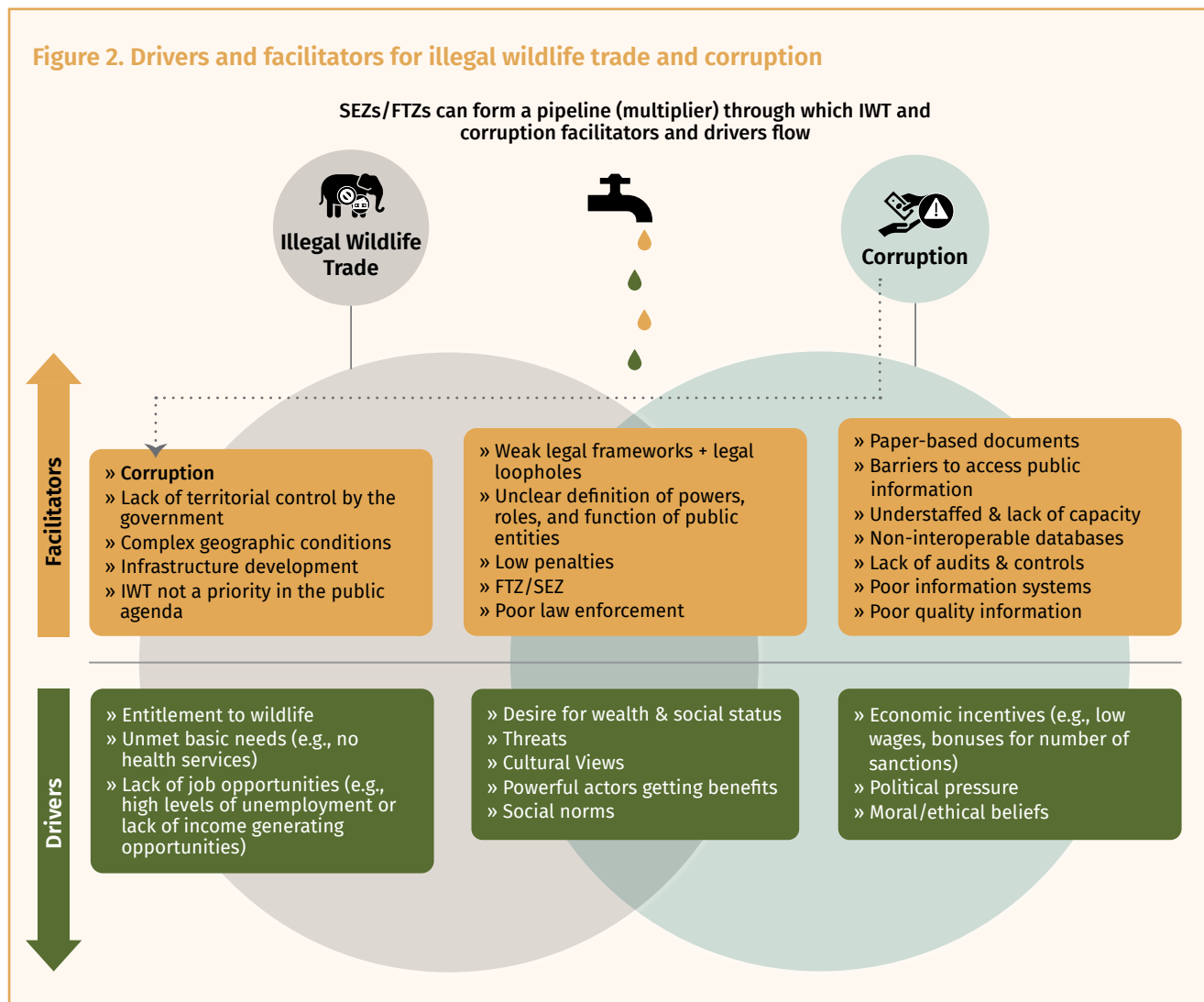
For example, the omission of duties by certain law enforcement officers could be cemented on social and cultural norms. Officers might be deterred from conducting raids and seizures of IWT to avoid confrontations with members of their community or family or friends. Lower-level officials may also wish to avoid challenging their boss's authority, if the boss is not prone to conducting these activities. This is especially true in bureaucracies plagued by corruption at higher levels (e.g., Belecky et al. 2021).

Similarly, interviewees often mentioned a desire

among Lao officials to not “lose face” on the international stage. The creation of SEZs was even recognized as a key mechanism to “overcome the least development country [category] in 2020” (S-NCSEZ 2012). Attributing such an important role to the SEZs could explain the reluctance at the higher levels of power to enforce tight controls on the Golden Triangle SEZ.

Another example is the acceptance of using corrupt practices for conducting timber-related businesses. For example, the use of front people serves to avoid legal provisions forbidding foreigners from engaging in the timber sector, plus they offer connections to high level officers or even have relatives working in public authorities (EIA 2013) facilitating illegal timber logging and trading. One interviewee mentioned

Figure 2. Drivers and facilitators for illegal wildlife trade and corruption



that the corrupt practices are discussed openly, even with newly met individuals: “within the first hour of conversation they are describing to us how they get the illegal wood, how much illegal wood they get, and everyone said, you know, how about 80% or everything is illegal.” The widespread use and discussion of these ways of doing business can indicate that it is socially accepted to engage in corrupt practices to obtain timber and to trade illegal timber.

These examples echo broader conclusions reflected in research on IWT and corruption. Shared perceptions, attitudes, and expectations can provide unwritten rules of behavior and pressure to act in a certain way. In certain contexts, corruption can thus be perceived as complying with social dynamics or rules (Jackson and Köbis 2018), and breaking those rules can entail social sanctions that are often perceived as more severe than legal or “official” ones (Scharbatke-Church and Chigas 2019). For example, moral or social rules may determine that it is acceptable to be loyal with one’s in-group or kin, even if doing so hinders the integrity or impartiality mandated by formal laws and regulations.

Hence, the awareness of social and cultural norms is key for designing anti-corruption initiatives. This understanding shows what motivates people to engage in or accept corrupt behaviors and can also point to alternative strategies to drive behavior change. For example, part of the Lao authorities’ desire to not lose face is, according to interviewees, the importance of Laos being compliant with the Association of Southeast Asian Nations (ASEAN). Therefore, any measures to mitigate corruption and IWT, including in FTZs/SEZs, may be more likely to be adopted and accepted by the Lao government if they are agreed upon by and emanate from ASEAN, rather than being perceived as an imposition by western countries.

Legal reforms and the challenge of displacement of economic activities

Positive changes to one country’s regulations can cause displacement of the regulated activities to less regulated jurisdictions. For example, China’s awareness of its need to become a more sustainable supplier has driven a positive shift in its domestic policies. In 1998, the country identified the need to protect its natural forests and introduced a logging ban. Also, in the early 2000s, the concept of “ecological civilization” gained traction and has been strongly promoted by the government since 2012. As a result, in 2018 this concept was included in China’s constitution.³

China has also changed its regulations on the use of wildlife. In 2017, for example, the conservation community praised the ivory ban introduced by China. After more than ten years of discussions, the ban ended processing and selling of ivory in the domestic market (Haas 2017, Permata and Wahyuni 2020). In 2018, China’s State Council modified the restrictions for using rhinos and tigers (Notification No. 36 2018). While the revision originally allowed the use of farmed tiger and rhino parts for traditional Chinese medicine, in November 2018 the State Council suspended the revision and reinforced the ban on trade, transportation, and medicinal use of tiger bones and rhino horns. In October 2020, a revision draft of the Wildlife Protection Law was published that would strengthen enforcement mechanisms, increase penalties, and ban the trade of terrestrial wild animals for consumption as food but keep the door open for wildlife trade for traditional Chinese medicine, ornaments, or decoration (EIA 2020a).

While these policy changes have driven important positive changes within China, some individuals have resorted to less developed countries, where enforcement mechanisms are less stringent, to source

³ Ecological civilization advocates for the idea of harmony between man and nature. The idea is based on cultural references, ancient Chinese knowledge, and promoting the country’s development in harmony with nature, while also raising environmental awareness and providing governance mechanisms (Wei et al. 2020). Many programs have stemmed from the ecological civilization concept, such as the Extended Producer Responsibility Plan, or the multiple plans to fight pollution (e.g., Water Pollution Prevention Plan, the Plan to Enhance Solid Waste Import Management Systems, Air Pollution Prevention and Control Action Plan, etc.).

products for the Chinese demand. All three of the case studies above touch on this displacement, from illegal logging in Russia, particularly in the Far East region (Narins 2015, Smirnov et al. 2013, WWF 2007); distant water fishing in West Africa (Blomeyer et al. 2012, FFA 2013, Gutiérrez et al. 2020, Pauly et al. 2014); or the ivory purchased from Laos, Myanmar, and Vietnam (EIA 2020b, Leithead 2017, Lewis 2017, Mathiesen 2017, WWF 2019, Van Uhm and Wong 2021). For example, in the ivory case, even though the Chinese demand for ivory has decreased, the purchase of ivory by Chinese individuals when traveling has increased since 2017, and overseas travelers remain some of the most frequent buyers of ivory in China (Meijer et al. 2020).

The displacement can be seen as a race to the bottom, where the illicit activities have been shifted to countries with poor institutional frameworks and governance mechanisms that can provide a more favorable environment for corruption. In turn, FTZs/SEZs in source, transit, or destination countries facilitate the trading of these goods or their introduction into the demand markets by providing unclear definitions of powers, limiting access to information, or promoting expedited customs procedures. Therefore, this section reflects the need of coordinating efforts to target IWT and corruption, and facilitating factors in FTZs/SEZs, at a global scale. An initial approach, for example, could explore unifying regulations at a regional level and creating regional strongholds against IWT.

Infrastructure development, corruption, and IWT

FTZs/SEZs usually entail large investments, including infrastructure developments. In Laos, for instance, the creation of SEZs has been pivotal in promoting the country's infrastructure development (S-NCSEZ 2012). Particularly, the Golden Triangle SEZ required an investment of more than US\$ 100 million, which included a road construction connecting the Kings Romans Casino with the town of Huay Xai (Fahey 2011, Radio Free Asia 2013) and the creation of a passenger's dock and immigration post at the Mekong River to receive tourists from Myanmar and Thailand.

In China, the development of Suifenhe, driven to some extent by its BECZ regime and its closeness to the port of Vladivostok, explained the urge to connect the Chinese railway system with Russia's (Gerden 2015, Weiming et al. 2007). That railway became extremely important, transporting at one time about 85 percent of Russian logs into China (Weiming et al. 2007, WWF 2007). For Las Palmas, the special legal regime of the Canary Islands, set forth in Law 19 of 1994, provides benefits to promote the development of the transportation industry, intending to make ports and airports more attractive for investment and guaranteeing them certain funding (Estrategia Integral Para La Comunidad Autónoma de Canarias 2009).

However, infrastructure development can also be a facilitator for corruption, by the opportunities such large investment decisions provide (Nelson et al. 2021), and a facilitator for IWT, by bringing access to remote areas at lower costs (Gluszek et al. 2021, Maddox 2018, Nuwer 2020). Grand corruption schemes in infrastructure can drive the creation of projects or design decisions within them (Nelson et al. 2021), and media coverage on the procurement processes of the Ban Mom Port and the new airport in the Bokeo region suggest this might have occurred. Specifically, the announced port is located 12 miles upriver from the Kings Romans Casino, and the casino owner is presumed to be the main investor. Construction will take nine years, and it will handle cargo mainly between China and the Golden Triangle SEZ (Berlinger 2020, C4ADS 2021, Radio Free Asia 2020, Strangio 2020).

According to media reports, the Kings Romans Casino was also involved in the approval of an airport project that had previously been blocked by public opposition, since it would entail the displacement of local landowners. The process was finally settled by compensating the landowners. While some locals argued that there was no need for an additional airport in the Bokeo province, the Kings Romans Casino argued it was needed for the expansion of their operations and to serve their customers (Radio Free Asia 2021b, Silverstein 2021). Several media outlets and interviewees have voiced fears that both the Ban Mom port and the airport will further facilitate the

illegal activities conducted at the Golden Triangle SEZ (Berlinger 2020, Kundu 2020, Radio Free Asia 2020, Strangio 2020).

Something similar has occurred with the new Kunming - Vientiane railway system, connecting the Chinese province of Yunnan with Laos' capital—and Boten province, just a few hours' drive away from the Golden Triangle SEZ. The railway started operating in December 2021 (Bosoni 2021), despite warnings about the potential risks that this railway could pose to wildlife due to infrastructure developments serving as catalysts for overhunting and habitat destruction. These warnings are especially relevant since a large portion of the IWT in Boten, and areas nearby such as the Golden Triangle SEZ, goes into Yunnan, China (Krishnasamy et al. 2018).

Where do we go from here?

While some of the aspects of FTZs/SEZs are facilitating and driving both IWT and corruption, and corruption is also itself facilitating and driving IWT, the situation is not impossible. The following overarching recommendations offer some next steps for improving the governance of FTZs/SEZs and mitigating the facilitators and drivers of IWT and corruption.

Overarching recommendations for governments, development institutions, and practitioners working on IWT

- » At least one agency involved in the governance of FTZs/SEZs should have the explicit responsibility to oversee, monitor, and mitigate IWT. If responsibilities are shared across agencies, the divisions of labor and mechanisms for accountability should be clear.
- » Multilateral organizations should leverage their power to drive change regarding corruption and IWT. For example, they could encourage the inclusion of anti-corruption and anti-IWT policies to be part of any new FTZ/SEZ. For the specific case of Asia, proponents for shifting social norms could prioritize anti-corruption discussions at regional multilateral organizations such as ASEAN.

A regional approach will also be necessary for avoiding displacement.

- » Certification schemes for free trade zones could reduce the ease with which corruption and IWT can occur. The Safe Zone certification led by the World Free Zone Organization, could be promoted both at multilateral and national levels. Similarly, governments, businesses, and financial institutions should encourage financial systems within FTZs/SEZs to diminish the use of (fungible and less traceable) cash payments.
- » Multilateral initiatives should support the creation of a worldwide database on FTZs/SEZs, for example at the World Free Zones Organization and the AZFA (Asociación de Zonas Francas de las Américas). These databases should provide access to the FTZs/SEZs' legal frameworks and information on the companies that operate within them, such as industry and type of activities. Ideally, infrastructure projects related to the FTZs/SEZs would be included in this database.
- » National-level databases and initiatives to integrate information from different authorities dealing with IWT (e.g., police, customs, judges, prosecutors, environmental authorities) with information provided by the private sector (e.g., captive breeding facilities, labs, shipping companies) should be continued and expanded. This would help overcome the lack of information that facilitates IWT and corruption.

Overarching recommendations for those designing anti-corruption or anti-IWT projects

- » Project designers should carry out political economy and situation analyses to understand the players benefiting from the status quo and the social, economic, and political circumstances driving and facilitating corruption and IWT. Understanding the motivations for someone to get involved in IWT, or corruption, is necessary for sustainably changing that behavior.
- » Definitions of corruption for a project should

be based on the particular legal system of the countries where projects are being executed, while also being sensitive to different contextual understandings of corruption (e.g., around “gift giving” or other norms).

Example recommendations on the case studies

- » In the Golden Triangle, international NGOs should prepare reports on IWT (including those on the SEZ) both in English and Lao. This would provide access to information for the general public since, currently, most of the reports are solely written in English. In addition, those working on IWT should explore ways to leverage ASEAN requirements to increase enforcement against IWT in FTZs/SEZs.
- » In Suifenhe, international cooperation agencies could support administrative mechanisms (e.g., tax systems) that could help detect the companies involved in IWT in the Russian Far East. Authorities could develop computerized, risk-based profiling systems in Suifenhe to identify suspicious cargo, for example based on the information of convicted illegal loggers in Russia.
- » In Las Palmas, authorities could enhance efforts to control transshipments, such as improving the resolution of the cameras and mitigating the mechanisms used to by-pass Remote Electronic Monitoring systems. Authorities could also expand their efforts to include inspections of shipments that are just laying over in Las Palmas, and they could generate an automated alarm system of rejected containers and landings interoperable with all EU ports, so those shipments cannot enter Europe through other ports.

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About Targeting Natural Resource Corruption

The Targeting Natural Resource Corruption (TNRC) project is working to improve biodiversity outcomes by helping practitioners to address the threats posed by corruption to wildlife, fisheries and forests. TNRC harnesses existing knowledge, generates new evidence, and supports innovative policy and practice for more effective anti-corruption programming. Learn more at tnrcproject.org.

Disclaimer

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