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Pierre Kopp

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# Human Smuggling and International Financial Flows

Pierre Kopp

Little attention has been paid to the financial flows generated by human trafficking. Nonetheless, adding the many different flows of money linked to human trafficking together into one big number generates a meaningless figure. The socioeconomic consequences of each monetary flow are closely linked to the characteristics of the specific component of trafficking the flow reflects. Following the money flows can provide useful information on the heterogeneity of human trafficking.

The flow of money entering in the source countries and linked to human trafficking is negligible if it is compared, for example, with total remittances. Most of the profits made by petty traffickers stay in the host countries. The only important flow of money internationally results from criminal organizations. It is almost impossible to distinguish the profits of human trafficking from those associated with the core businesses of criminal organizations (prostitution, illegal drugs, counterfeiting, corruption, and so on).

The research described in this chapter, even if preliminary, suggests that money flows entering developing countries and linked to human trafficking are merged into bigger flows of criminal money. There is no evidence that the flows have a particular, specific impact on the countries

exporting the humans. Whatever the source of the criminal money, the impact is mostly the same.

## Introduction

Human trafficking has gained wide attention in recent years. Important debates have focused on the magnitude of the problem, the involvement of criminal organizations, and the share of sexual exploitation in the global phenomenon. However, little attention has been paid to the financial flows generated by this trafficking. This is all the more regrettable because it seems that these flows should be easier to bring to light than the trafficking patterns themselves, which, for obvious reasons, remain shrouded in secrecy. Analysis of the monetary flows is thus likely to provide a precious tool for the representation of a traffic that is difficult to chart directly. Indeed, pursuing the flows of money provides useful information on the design of human trafficking patterns worldwide. Furthermore, it offers an excellent ground for overturning the overly simplistic image of these activities that portrays them as entirely controlled by transnational criminal organizations. Instead, this analysis allows us to construct an image of a world that is deeply fragmented and heterogeneous.

A refined understanding of financial flows can also help build the structure necessary to analyze the impact of the traffic on the developing countries that are home to most of the individuals who are implicated in the traffic. Indeed, if formerly trafficked individuals develop sources of revenue, they often channel part of this revenue back to their countries of origin. On a purely macroeconomic level, the impact of these flows of money is not sensitive to the origin of the victims. Incoming money flows improve the balance of payments; outgoing flows cause a deterioration in the external position of the country. However, tracking the socioeconomic impact of the inflows of money cannot be accomplished with any accuracy if the origin of the victims of trafficking and of the money is not taken into account. The socioeconomic consequences of monetary flows are known to be determined by the characteristics of the activities that generate them. Social relations or a country's reputation can be affected by illegal activities even if these account for significant economic transactions and have almost no macroeconomic effect. This

might be even truer at the provincial or city levels. For these reasons, the financial repercussions of the trade in human beings must be analyzed with an eye to the specificities of the various activities for which compensation is being received. Only a nuanced account of financial flows can provide the information necessary to distinguish the various types of impacts human trafficking has on source countries.

This chapter aims to structure the elements of a methodological framework for a nuanced analysis of the financial flows of human trafficking. It argues that the methods used to establish global estimates are seriously flawed in that they conflate sources in such a way as to produce nonsensical results. If estimates of the illegal drug trade are added to the turnover associated with heroin and with cannabis, the result fails to take into account the fact that the trafficking networks and the source countries are different. Such problems are compounded if it is a matter of estimating human trafficking: whereas, in the case of drugs, at least the products are clearly identified and the wholesale and retail prices more or less well known (Kilmer and Reuter 2009); in the case of human trafficking, the modes of distribution do not allow for pertinent price observations and make it difficult to identify the various components in the turnover.

The contribution of this chapter will be more analytical than empirical. Our key contention is that more light on how criminal networks are organized and how they run their various activities will allow us to improve our understanding of both the origins and the destinations of the flows of money. This, in turn, will furnish two types of benefits. First, knowing where the money comes from and where it goes to illuminates the various strategies of those people who are active in human trafficking. A clearer understanding of how traffickers conduct their business might provide new suggestions to the authorities who seek to control the trade. Second, identifying the patterns of financial flows can provide a better understanding of the socioeconomic impact of these flows on the source countries.

The next section will give some insight into the main theoretical controversies that have surfaced around the definition of human trafficking. The subsequent section describes how the hopes of individuals to find a promised land pushes, more or less voluntarily, millions of people into the hands of criminals. Monetary flows are generated both by the

compensation demanded of people for help with illegal border crossings and through the revenue of those criminals who exploit the slaves, prostitutes, and so on that these people become after they have crossed the borders. This is examined in the penultimate section. The last section details the design of the criminal organizations involved in this trafficking and considers their respective needs for money laundering. This section concludes with a taxonomy of the illegal flows generated by human trafficking.

### Conceptual Issues

Human trafficking is a part of the shadow economy (Fleming, Roman, and Farrell 2000). The term traffic in economics explicitly refers to the idea of transporting merchandise. However, if the merchandise is human, there are specific difficulties in establishing definitions. A major difficulty emerged when United Nations agencies were charged with establishing official definitions of smuggling and trafficking. Nonetheless, we contend that the conceptual problem with which the legal definitions grapple is not necessarily the most relevant angle for studying trafficking from an economic standpoint.

Consider the definitions provided by the United Nations Protocol against the Smuggling of Migrants by Land, Sea, and Air and the United Nations Protocol to Suppress and Punish Trafficking in Persons, Especially Women and Children. The Protocols are supplements to the Palermo convention, the United Nations Convention against Transnational Organized Crime, adopted by the United Nations General Assembly on November 15, 2000 (see UNODC 2004).

The smuggling protocol defines smuggling as “the procurement, in order to obtain, directly or indirectly, a financial or other material benefit, of the illegal entry of a person into a State Party of which the person is not a national or a permanent resident” (article 3), and the trafficking protocol defines trafficking as “the recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation” (article 3). The

main forms of exploitation are prostitution, forced labor, slavery, and the removal of organs.

Buckland (2008) recalls that those who gathered in Vienna to negotiate the trafficking protocol were united in mandate, but sorely divided when it came to choosing the road ahead. The major cleavage became apparent around the issue of definitions. Is trafficking only about prostitution? Is all prostitution trafficking? Are men trafficked, too? The negotiators' answer (according to Buckland) reflects a certain ambivalence in the fundamental conception of trafficking. While the protocol includes a broad range of activities in the definition, both the title and the statement of purpose cast trafficked people as victims and make clear that the victims of trafficking whom it seeks to protect are, first and foremost, women and children in forced prostitution. The obvious consequence of overemphasizing the victim status is that it allows an artificial and tendentious distinction between smuggled people (painted largely as criminal by international institutions) and trafficked people. As studies have shown, however, smuggled people may be trapped in debt bondage or subject to exploitative working conditions, and it therefore seems problematic to maintain conceptual categories that cast these people simply as criminals rather than victims (Andreas and van der Linden 2005).

Given that intentionality is key to determining the nature of acts in legal terms, it is not surprising that those who drafted the official definitions felt compelled to take a stance on the issue. Our concern, however, is less with ascribing legal responsibility than with reaching an accurate description of this illegal global traffic. For our purposes, it seems that distinguishing between voluntary and involuntary immigration raises more problems than it solves. It seems clear that, if an organ is taken from a dead body and sent to another country to serve as a transplant without consent, this is an involuntary traffic. Likewise, a clandestine migrant whose passport is confiscated and who finds himself enslaved has not chosen this situation. Yet, grouping these two movements together under a label of involuntary (or voluntary) obscures the different sorts of traffic involved in these two cases.

Furthermore, the distinction between voluntary migration in search of opportunity and involuntary trafficking of human laborers may be conceptually satisfying, but applying this distinction in practice is close to impossible. While the conditions of their migration may, indeed, seem

shocking, it is far from clear that all migrants who are treated as goods to be exploited are acting involuntarily. What of migrants who turn themselves into transportable commodities because they expect to obtain a better price for their work in a target country? Classic economics theory would hold that such a decision may be deemed rational within a normal economic framework because no one is more well placed than the individual to know whether what he is doing is in his self-interest no matter whether or not his decision turns out, in the end, to have been a good calculation. Tens of thousands (perhaps even hundreds of thousands) of clandestine migrants who cross the Mexican–United States border each year purchase the services of smugglers and become part of the flow of smuggled human beings. The persistence of the flow and the fact that the same individuals may recross the border several times, depending upon the state of the employment market (and the riskiness of the crossing), can be taken to indicate that the decision is voluntary.

And, yet, those who might initially be thought merely to be purchasing the services of smuggling networks can, in effect, become subject to trafficking. Massive illegal immigration and the strengthening of controls (for example, with the fence along extensive sectors of the Mexico–United States border) have created situations in which border crossing has become an industry. To improve their chances of successfully crossing the border, candidates for illegal immigration appeal to underground networks for human smuggling. Crossing the border with a network enables one to benefit from the network's investments (trucks, corruption, tunnels, and so on), but such a choice also exposes one to great danger. To avoid endangering their investments, or simply to skimp on costs, smugglers are sometimes prepared to dispose of their human cargo in the sea or in the desert. Furthermore, the condition of absolute dependence into which the individual is placed if he has put his destiny into the hands of people running a network exposes him to all sorts of risks, sometimes dramatic. Clandestine migrants can be robbed of their papers and money; they can be raped and killed. In such circumstances, it becomes disingenuous to maintain that they are not being treated as merchandise.

If one considers, furthermore, that the basis on which the decision to migrate is made may already be determined in part by the smuggling networks, the category of voluntary migration becomes even more prob-

lematic. To sustain their activity, smugglers attempt to recruit new candidates for crossings and develop their activities in source countries. While they seem the best source of information, the smugglers, by presenting a false image of the conditions under which illegal emigration can take place, increase the number of their clients and maintain a supply effect. Through this dynamic, the offer of smuggling contributes to an activation of the demand (Jewell and Molina 2009).<sup>1</sup> Insofar as it is created at least in part by false information, even the initial demand for smuggling cannot simply be considered entirely voluntary.

Assessing the voluntary or involuntary character of migration is thus extremely difficult. More importantly, the attempt produces misleading categorizations of activity at least as regards the economic reality. Yet, the principle of this distinction, inherited from legal debates, underlies the conceptual categories used by the international agencies that monitor or assess these activities.

In this chapter, we use the term trafficking in a broad sense to cover both smuggling and trafficking as defined by the United Nations. Indeed, we adopt a broad definition of trafficking that includes all means of smuggling, prostitution, organ traffic, slavery, and so on.<sup>2</sup> Some of these activities are clearly coercive; some are not; and some are partially coercive. However, all must be considered if we are to establish a taxonomy of the different flows of money linked to human trafficking.

To underline the stakes in choosing this broad definition, we now briefly consider estimates that have been made of international human trafficking using other definitions so as to emphasize how poor definitions can lead to problematic numbers.

It is exceedingly difficult to estimate the scale of human trafficking. Evaluating illegal markets is always difficult. Their clandestine nature makes them difficult to observe, and the absence of a uniform international standard of illegality renders the comparison and collation of observations a perilous exercise. But the task of evaluating human trafficking is even more difficult than evaluating other illegal markets, such as the market for drugs. In the case of the drug market, the best estimates of quantities and revenues come from national population surveys (for example, Abt Associates 2001). In the case of human trafficking, there is no comparable mass consumer market that can provide demand-side estimates.



In 2001, there were an estimated 175 million people living outside their countries of birth, a number that had doubled since 1975 (United Nations 2002). Most immigrants were living in Europe (56 million), followed by Asia (50 million), and North America (41 million), but most of these came legally. The International Organization for Migration (IOM) is unable to provide figures that accurately reflect the amplitude of the phenomenon of human trafficking as a whole.<sup>3</sup> IOM's global database on human trade contains information on about 13,500 victims who have benefited from IOM assistance. This figure in no way reflects the global reality. Until IOM can collect data through a reliable and systematic method, the following estimates—which must be considered as crude guesses—are being used by IOM to evaluate the amplitude of the global phenomenon of the trade in humans.

According to a handbook for parliamentarians, human trafficking affects 2.5 million individuals every day (UNODC and IPU 2009). This represents a low-end estimate of the number of victims of the trade at any given moment.<sup>4</sup> The estimate is based on analysis of publicly available data published between 1995 and 2004 and presented for the first time in 2005. It has not been updated since.

IOM considers that 800,000 victims of the trade in humans cross international borders every year or are authorized to leave or enter the territory of a country and are thereafter exploited.<sup>5</sup> This is a high-end estimate. It was established by the U.S. government based on data collected in 2006.

Soon, these estimates were no longer being mentioned in the annual report of the U.S. Department of State (2010) on human trafficking in the world. In their place, the report mentioned estimates from the International Labour Organization (ILO) on forced labor, according to which 12.3 million people are victims of forced labor, servitude, forced child labor, or sexual servitude at any given moment in the world (ILO 2009). This is an estimate established by ILO in 2005 and represents stocks of forced labor on a worldwide scale. Among these 12.3 million people, 2.5 million are considered victims of human trafficking. According to ILO, the rest of the people are victims of forced labor who are not considered victims of the trade in humans (that is, their exploitation was unrelated to their entry into the destination country). ILO also indicates that the amount of lost wages from forced labor is US\$21 billion.

The United Nations Office on Drugs and Crime has estimated the monetary profits from the worldwide trade in persons at US\$7 billion annually (UNODC 2009). About US\$3 billion is associated with human trafficking involving around 150,000 victims (which means approximately US\$20,000 per victim), and over US\$6 billion is associated with the smuggling of migrants, which involves 3 million people (US\$2,000 per person). The United Nations Children's Fund estimates the profits at US\$10 billion (UNODC 2009; ILO 2009). ILO estimates that the total illicit profits produced by trafficked forced labor in one year at slightly less than US\$32 billion (ILO 2009). Others have estimated the profit from commercial sexual exploitation at above US\$30 billion a year.

None of these estimates is convincing. The estimates on the numbers of persons involved in human trafficking fluctuate between two extremes. At one extreme, the estimates reflect only the number of people known to have been harmed; in this case, the estimates fail to account for all the victims who are reluctant or incapable of reporting their situation. At the other extreme, the estimates include all illegal migrants, thereby failing to discount for those who have not been trafficked in any sense.

The estimates of the dollar flows generated by human trafficking are often produced for advocacy purposes to underline the magnitude of the problem. However, adding flows together that have nothing in common other than the units in which they are expressed does not produce meaningful values. One of the reasons many of the available data are too flawed to be useful is that they are often produced with an eye to isolating human trafficking from the illegal activities the trafficking facilitates. Human trafficking is, of course, a crime in itself, but its economic *raison d'être* is to supply a workforce for criminal or illegal activities. In this sense, human trafficking is a means and not an end; it is one step in a complex economic subsystem. If a political agenda drives the desire to separate out this element, it is almost impossible to develop good data.

The dearth of international data is not offset at the national level by good field studies. We know little about national figures on human trafficking. Staring (2006) is an exception; he provides some data on the Netherlands. He relies on a distinction between human smuggling and human trafficking. Human smuggling in the Netherlands increased between 1994 and 2002 from 4 cases per year to 201, while human trafficking increased from 63 to 201. Staring notes both that the data are

scarce and that, if they are available, the methods used for data collection are unclear.

Slavery and prostitution are other activities that derive from human trafficking. One might be tempted to distinguish between criminal activities that violate universal social norms (*malum in se*) and activities that may be (temporarily) prohibited by law, such as homosexuality or cannabis smoking (*malum in prohibitum*). However, this distinction does not make a great deal of sense from a legal policy standpoint insofar as both sorts of activity trigger law enforcement. It therefore seems reasonable to consider that all legally punishable activity involved in human trafficking is criminal.

These activities do not all cause identical harm to society. Criminal codes reflect these differences by modulating the severity of the punishments associated with various offenses. Obtaining false papers for an illegal migrant or harboring a clandestine person are often only fined, while slavery or prostitution is more severely punished. Other components of human trafficking are even closer to the core activity of classical organized crime. Indeed, human trafficking networks are sometimes intertwined with networks for the transportation of stolen goods or illegal merchandise (stolen cars, drugs). Persons involved in one type of network easily pass to another.

The respective shares of the different components of human trafficking are unknown. In the public imagination, human trafficking is often linked to the sex industry, but labor trafficking is probably more widespread, given the simple fact that the world market for labor is far greater than that for sex (Feingold 1998, 2005).<sup>6</sup> A detailed study by ILO (2005) finds that, of the estimated 9.5 million victims of forced labor in Asia, fewer than 10 percent are trafficked for commercial sexual exploitation. Worldwide, less than half of all trafficking victims are trafficked as part of the sex trade, according to the same report.

Can we describe the market for human trafficking? If we consider that organs or human beings are the merchandise exchanged, several interconnected markets for human merchandise would have to be taken into account: a prostitution market, an organ market, and a market for illegal manpower. As in any market, the suppliers put the merchandise on the

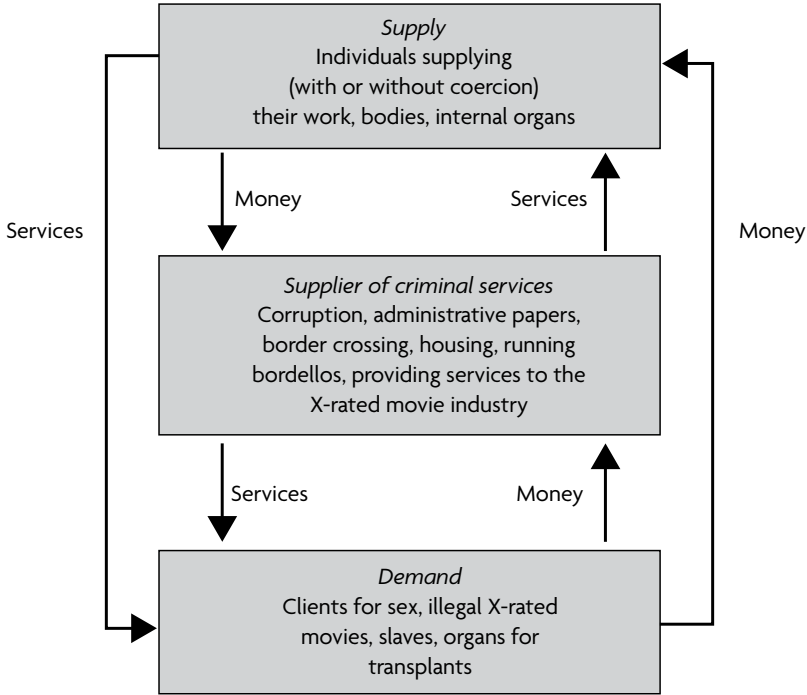
market, and the purchasers buy it. The overall market would have the specificity that, occasionally, an individual may, if he has recovered some autonomy, put himself on the market and become both supplier and merchandise.

The market for human beings is not an ordinary market. The usual public policy recipes will not work in the same way they work on a classical market. Criminalization, for instance, directly affects the supply of and the demand for the merchandise (prostitution, organs, slaves, and so on), but it only has a limited and delayed impact on the flow of individuals who cross borders, whether on their own initiative or under the domination of a criminal group. The important point is that the supply of immigrants is not directly affected by the repression of a market segment. Thus, it takes time before repression on the markets of rich countries affects the supply of migration. Numerous buffers slow the transmission of incentives.

### **The Hope of a Promised Land**

The value of accounting is to make goods that are not homogeneous into goods that are homogeneous. A dollar adds to a dollar, but what is there in common between a dollar paid by the clandestine immigrant to his smuggler and the dollar spent by a prostitute's customer? To understand clearly the nature of the various flows of money, we must examine and compare the corresponding components. Figure 6.1 summarizes the functioning of human trafficking.

Figure 6.1 shows that the supply of and demand for services (forced or not) in the markets for sex, illegal X-rated movies, organ transplants, slaves, and so on can be provided by a direct connection between the suppliers and the consumers in exchange (or not) for money. The suppliers of the criminal services can provide the connection. These criminal organizations or public employees corrupted by individual criminals can offer help to the illegal workers and services to consumers. In compensation, they receive money, which will be laundered if the sums are big, the flows are repeated, or the activity is connected to a criminal organization.

**Figure 6.1. Human Trafficking: Supply and Demand**

Source: Author compilation

### The motivations of illegal migrants

An act of free will may sometimes determine the decision to seek the help of smugglers to cross a border illegally, the use of *coyotes* (a smuggler of immigrants), for instance, at the Mexico–United States border (Spener 2009). In such cases, illegal immigrants momentarily place their destiny in the hands of the people who run a smuggling network and expect to recover their freedom on the other side of the border. There is a demand on the part of the individual immigrant and a supply of services through a criminal network. The decision of the immigrants may also be forced if the prospective immigrants are recruited or abused by the networks of smugglers and remain dependent on the networks once they have crossed the border. In this case, the individual becomes merchandise; the demand arises from those who want to import human beings, and the supply is provided by the network.

Thus, the supply and demand must be located differently according to whether the decision to cross the border is free or forced. Most often, the smugglers vaunt the benefits they offer. Often exaggerated and romanticized, the descriptions of the benefits are tailored to the expectations or desires of the prospective immigrants.

The economy of illegal immigration is based on the existence of two differentials (Cornelius et al. 2010). The first differential separates the wage levels in the source country and the host country. The second distinguishes the standards of living in the two countries.

First, the illegal immigrant provides manpower at a price that is lower than the price on the market in the host country or fills a gap in manpower of a particular type. This differential persists over time if anti-immigration regulations are sufficiently strict to remain a threat to the illegal immigrant. In the absence of legal barriers to entering the employment market, the wages of the illegal immigrant will tend to become aligned with the wages of the local employee. Recourse to illegal manpower is also a means of exerting pressure on local employees. Historically, illegal manpower is less unionized than national manpower, and contractors have often used the supply of illegal immigrants to force down the average union wage rate.

The second differential concerns the living conditions of illegal immigrants and of the local workforce. The fact that the illegal immigrants accept less than average wages normally means that they also live in more straitened circumstances. As long as the illegal immigrants accept or must accept such a differential, the initial characteristics remain intact (the lower wage rate). Over time and in some countries (the United States, but not Saudi Arabia, for example), the illegal immigrants will escape at least some of the initial conditions and will gain professional qualifications and bargaining power that will enable them to gain access to better employment status than they had on arrival.

The more transient the entry barriers, the more illegal immigrants can hope to melt into the mass of national manpower and make the individual trajectory of their jobs converge with that of the average employee in the country.

Occasionally, an individual may escape the initial conditions relatively quickly. Marriage remains an important possibility. Thus, a demographic gender imbalance can create a greater demand for one gender

group (generally women, as in some agricultural areas in Europe). The online dating services that offer to organize dates and marriages between rural French men and women of Asiatic origin often operate on the borders of legality.

Moreover, some occupations seem always to require more manpower, enabling illegal immigrants to benefit from a certain rent of scarcity. Maids from the Philippines benefit from being Catholic and speaking English, which are valuable characteristics in the eyes of some European employers. These individuals manage to obtain hourly wages that are about 20 percent above the minimum wage. They do not have the social security advantages of the local workforce, but they can sometimes benefit from free health care coverage (in France and some Nordic countries).

Orrenius (2001), in an informative paper, notes that the earliest models of migration emphasize wage differentials as the impetus to mobility. Massey et al. (1987) and Massey (1987) break down the cost of migration into direct monetary costs, information and search costs, opportunity costs, and psychic costs. They demonstrate that access to migrant networks reduces cost in all four categories. In the case of Mexico, access to a network gives access to more reliable coyotes, lowers the probability of apprehension, facilitates settlement, and shortens the job search.

It thus appears that those who become involved in human trafficking in the wide sense we are using in this chapter are sometimes forced to do so, but may often be considered clients who voluntarily use illegal services to immigrate. The expectation of quick improvement in earnings and the distorted bundle of information available through different channels—media, friends, family, former migrants, smuggler networks—provide strong incentives for migration. During their journey or once in the host country, immigrants will, perhaps, recover their power to make free decisions. The longer they stay under the influence of a network, a criminal organization, or an employer that forces them to work for almost nothing, the longer they will be part of human trafficking. In the best possible configuration, their connection with trafficking will not last longer than the hours necessary to cross the border.

### **Monetary compensation**

The monetary flows that accompany the flows of people we have described can be divided into three channels.

First are the immediate payments that occur at the border. These payments may be spread among several individuals. For example, a corrupt employee at the consulate of a rich country located in a poor country who delivers a tourist visa will receive a bribe. Most often, visa trafficking is the act of small groups of corrupt embassy employees. The amounts thus collected generally represent fringe benefits for low-level consular employees. Occasionally, the amounts are used to make small investments in the home country of the employees. More often, these amounts are spent locally or enable the satisfaction of vices or double lives. These flows therefore usually remain in the country that is the source of the manpower. Globally, they are insignificant.<sup>7</sup>

Second, clandestine immigrants can benefit from the paid help of a network to ease the border crossing. *Snakeheads* (the term used for smugglers in China) or coyotes (at the Mexican border) are most often members of a network. Sums collected by these networks represent criminal revenue. They are typically used in the country that is the source of the immigration. As a general rule, police control over the monetary flow is weak, and the money is used directly by the criminal organization without having to develop a sophisticated laundering strategy (Amuedo-Dorantes and Pozo 2005).

Third, illegal immigrants may be required to stay in contact with criminal networks after their arrival in host countries. It seems plausible that, particularly in the case of Chinese networks, illegal immigrants are forced to accept the continued collection of payments after their entry and during employment. Our conclusion is highly speculative, but it appears illegal Chinese immigrants may often be forced to pay during longer periods.

One explanation is that organizing the trip from China to the United States is more complicated than organizing the trip from Mexico. Hence, the price demanded for the service is higher, and the number of payments larger. It may also be that Latino workers are more prone to integrate into the general workforce, while Chinese immigrants are more likely to be working for businesses owned by people of Chinese ethnicity. In the first case, the workers are illegal, but are free to choose their employers, while, in the second case, the workers are restricted to a limited set of businesses. The latter workers often have to give a share of their wages to the criminal organization or repay business loans incurred



with the criminal organization. Furthermore, the language barriers in the host country are relatively greater for speakers of the many idioms of China than for Spanish-speaking immigrants.

If a new immigrant cannot find a job independently, the connection with a criminal network remains strong. In such situations, the share of the payment made by the immigrant that is transferred to the source country is probably important. Indeed, the criminal organization may have reason to move its income as far as possible from the place where the criminal activity is ongoing. Another, more modest source of regular income for criminal organizations is the assistance provided to illegal immigrants in obtaining new identity papers or in gaining access to medical services.

Flows of money generated by human trafficking partly vanish in the host country if they are one-time payments to acquire a specific, time-limited service. The more personal and specific the illegal service, the more expensive it is. It is also most probably rendered by a criminal organization and not by an individual or small group. Additional payments are scheduled over time. The money ends up in the possession of a more sophisticated criminal organization, and a good part of it is probably channeled out of the host country and sheltered in the country of origin of the criminal organization.

### **Human Trafficking Is Also a Business**

Human trafficking is not only driven by the desire of some inhabitants of poor countries to emigrate to rich countries. The flow must be considered, in part, the creation of a demand in the rich countries. Furthermore, the illegal networks that engineer border crossings and organize the related manpower-intensive criminal activities in rich countries have shown the ability to innovate. Motivated by the desire to increase their profits, they develop new products and services. Indeed, some criminal organizations specialize in the production of criminal goods and services.

Criminal organizations are heterogeneous. Some have originated in the source countries and undertake operations in host countries. An example is the Chinese Triads. The Salvadoran Maras or Mara Salvatrucha, in contrast, originated in the United States and then spread to the

home country of many of the members. The methods of these groups, particularly their management of financial flows, vary greatly. This heterogeneity makes it impossible to establish a strict correlation between a given criminal activity and the criminal financial flows.

### **The criminal portfolio**

From a legal perspective, any group of more than two people who are committing crimes together can be deemed a criminal organization. We will, however, use the term only to describe substantially larger groups working together to achieve criminal ends.

Several decades have passed since Schelling (1967) and Buchanan (1973) analyzed the capacity of organized crime to impose its monopoly on criminal activities. Since then, many scholars and law enforcement agencies have conceived of organized crime groups as hierarchical, centralized, and bureaucratic and have come to consider their structure analogous to the structure of a modern corporation; the Mafia remains a paradigm (Abadinsky 1990; Cressey 1969).

Pioneer work has argued against the idea that the monopoly prevails as the natural structure for large-scale criminal activity. Studying the structure of the drug market, Reuter (1983), Reuter, MacCoun, and Murphy (1990), and Kleiman (1989) have underlined the difficulties that criminal organizations face in effectively imposing the barriers to entry necessary to preserve a monopoly. Reuter has challenged the myth of the American Mafia, arguing that, in the 1980s, the Mafia was only able to enjoy high levels of profit because of its prestige, but that it no longer possessed sufficient power to maintain the organization at the level of its reputation. According to Reuter, the Mafia is weakly centralized and has high coordination costs, which are structural consequences of illegality. Insufficient information and a weak definition of property rights of each of its subgroups deprive the Mafia of some of the profits that one might otherwise expect.

The more recent view argues that the concept of organized crime should be abandoned in favor of a criminal enterprise model (Block and Chambliss 1981; van Duyn 2007). Zhang and Chin (2002) note that the latter model suggests that networks are flexible and adaptive and that they can easily expand and contract to deal with the uncertainties of the criminal enterprise. Criminal organizations respond to varying market

demands by narrowing or expanding their size; their organizational structures are not so much predesigned as shaped by external social and legal factors. Certain criminal groups, such as those involved in the construction or gambling businesses, may require an elaborate hierarchy and a clear division of labor. These are necessary organizational prerequisites to remaining in the illicit business. In contrast, criminal groups such as those involved in pawnshops and the fencing of stolen goods must respond rapidly to changing demand in the streets and therefore require little or no formal organizational structure. Prostitution, pornographic films, the traffic in organs, and the supply of illegal manpower are often monopolized by criminal organizations. These organizations respond to an existing demand, but they also create new demand. The innovative capabilities of criminal organizations enable them to convert individual preferences into commercial demand.

Some data confirm that, if human trafficking is a big business, it is mostly a disorganized criminal business that depends on individuals or small groups linked on an ad hoc basis. According to Feingold (2005), there is no standard profile of traffickers. They range from truck drivers and “village aunties” to labor brokers and police officers. Traffickers are as varied as the circumstances of their victims. Although some trafficking victims are literally kidnapped, most leave their homes voluntarily and slip into being trafficked on their journey. By the same token, some traffickers are as likely to purchase people as they are to transport them.

Participation in a criminal organization requires specific talents. Not everyone can be a smuggler or a flesh-peddler. Not everyone is prepared to risk prison or violence. The talent is therefore uncommon and attracts a price.

**Smugglers.** There is a scholarly consensus that most smugglers are not members of a criminal organization. Zhang and Chin (2002) and Zhang, Chin, and Miller (2007) write that Chinese human smuggling is dominated by ordinary citizens whose family networks and fortuitous social contacts have enabled them to pool resources to transport human cargoes around the world. Orrenius (2001) has studied the illegal immigration along the Mexico–United States border and emphasizes the evidence for easy entry into the trafficking industry. In theory, any migrant who has undertaken an illegal border crossing can use the experience to

work as a coyote. We disagree with Andreas (2000) for whom the expense involved for the traffickers and smugglers has led to a parallel process of centralization as smaller, poorer, and less sophisticated operators are forced out of the market.

Many specialized roles have emerged in response to the particular tasks required in smuggling operations such as acquiring fraudulent documents, recruiting prospective migrants, serving as border crossing guides, driving smuggling vehicles, and guarding safe houses. These roles correspond to the successive stages of a smuggling operation: the recruiter is active at the beginning, and the debt collector at the end. Most of these activities take place in the host country and do not involve large amounts of money. The income they provide tends to stay in the host country and is probably quickly reinjected into the host economy through consumer spending.

Smuggling activities are normally carried out following negotiations between the smugglers and their clients that leave few opportunities for others to intervene. Smuggling operations consist in secretive and idiosyncratic arrangements known only to those directly involved. Furthermore, the contacts between the organizers of a smuggling operation and their clients are mostly one-on-one. This special business arrangement serves two crucial functions in an illicit economy: (1) it maximizes the smuggler's profit by monopolizing the services critical to specific aspects of the smuggling process, and (2) it minimizes the potential exposure to law enforcement.

Smugglers working along the border are the least skilled people in the trafficking chain. The risk is limited, and the reward is small. There is not a lot of evidence to document the risk. Former border agents consider that one in four illegal migrants is arrested, but many of these migrants make multiple attempts (Slagle 2004). The rates of apprehension by border patrols in Texas show large variations from one period to another (Orrenius 2001).

According to Orrenius (2001), in real terms (1994 U.S. dollars), the median reported coyote price per individual for a single crossing fell from more than US\$900 in 1965 to about US\$300 in 1994. Higher post-1994 prices (still below US\$400) are consistent with the impact of greater enforcement on smuggler fees.<sup>8</sup> Large profits come only with the large numbers of people that can amortize fixed costs (such as regular bribes,

safe houses, and so on). Although the value of the time devoted to smuggling should be taken into account, most of the revenue is profit.

Low as the prices of single border crossings are, if they are multiplied by the number of illegal immigrants, they generate revenues on the order of US\$700 million annually, which is roughly equivalent to the revenue generated by 30 tons of imported cocaine (300 tons are imported annually).<sup>9</sup> In other words, importing illegal immigrants is a criminal business equivalent in size to 10 percent of the business of importing cocaine. The flow of money generated by this business is, nonetheless, negligible compared with the remittances sent by Mexicans living abroad, mostly in the United States, to their families in Mexico. These remittances are a substantial and growing part of the Mexican economy: in 2005, they reached US\$18 billion (World Bank 2006).

A coyote's income does not create wealth in the way drug trafficking does. At a couple of hundred dollars per smuggled person, coyotes make too little to save. This income is mostly a transfer between individual A and individual B. The money is quickly reinvested in the economy without having a specific effect. Whether it is spent by the migrant or by the coyote, the money has the same socioeconomic impact.

**Violence and other costs of trafficking.** By contrast, other activities of criminal organizations create major costs and expose participants to the risk of arrest and other harms. Revenue from criminal activity should not systematically be interpreted as profit.

We know little about the costs that criminal organizations face, which makes it difficult to differentiate between gross income and profit. We also generally confuse accounting profit and economic profit. This shows up in our omissions of important cost elements accruing to criminal organizations. For example, violence is a specific characteristic of criminal activity. Criminals are exposed to a risk of arrest, but also to being attacked, injured, or killed by their clients or by other criminals. This is a factor in their costs.

Violence directed at migrants is not a necessary part of the illicit market. It is attenuated by the social networks, cultural norms, and contractual relationships in which the market is embedded (Kyle and Scarcelli 2009). Criminal organizations seem much less violent in human trafficking than in the drug market. Perhaps the reason is the absence of

territoriality. The final distribution of drugs requires the control of a territory in a way that is not required in human trafficking.<sup>10</sup> Furthermore, the fact that drugs concentrate great value in a small volume creates a singular opportunity because it is possible to steal the stock of drugs from a dealer. It is impossible or, at least, more difficult to steal a stock of organs or clandestine immigrants. Violence is therefore fairly rare among the criminal organizations involved in human trafficking. We may thus legitimately consider that the costs are mainly reduced to the costs associated with logistics and corruption.

The less competitive a market is, the less it will be innovative. Drug markets are conservative, with little product innovation relative to legal market counterparts.<sup>11</sup> However, if a new drug is introduced on the market, waves of violence are observed. We might expect the same for criminal activities based on human trafficking, but what would constitute innovation in this field?

The pornographic film industry provides a good illustration of innovation without (much) violence. Note that it is an extremely competitive market: production costs are low, and entry in the business is easy.<sup>12</sup> Initially, the X-rated industry offered poor-quality films. Little by little, the quality improved. The scenarios became more sophisticated, and the shots improved. Progressively, the industry covered all sexual tastes. Now, the catalogue of X-rated offerings allows the consumer a wide choice of sexual orientation and diverse sexual practices. The supply is thus extremely varied. Having accomplished this range, the X-rated industry has also been able to renew itself by offering home movies and then hidden cameras filming without the knowledge of the participants. There have also been films involving actual violence and murder. The X-rated industry's capacity for innovation is impressive.

The industry requires a lot of labor, which is frequently imported illegally (Mahmoud and Trebesch 2009). Indeed, illegal immigrants often agree readily to perform in the films.

### **The need for money laundering**

Transnational human trafficking is a business without territory. Unlike gambling and prostitution, which tend to serve regular clients and involve activities tied to specific neighborhoods, human trafficking mostly involves one-time transactions. Additionally, although many people want

to enter the United States (for example), only a limited number are eligible because smugglers usually select clients based on ability to pay.

Each of the payments that feed the revenue of trafficking organizations is typically small (usually only a couple of hundred dollars), but the revenue can accumulate quickly. The total income is proportional to the number of clients. Some people cross the border many times and spend a lot of money hiring coyotes, but most clients only cross a border once. The relative share of individuals using the service of a coyote only once is certainly higher than the relative share of individuals who use other criminal services, such as prostitution, only once.

The structure of the revenue flows associated with trafficking within a criminal organization depends on the specific activity, whether slavery, the traffic in organs, the sex industry, and so on. In the case of organs, a piece of merchandise can only be sold once. The criminal organization involved carries out most of its activities on the territory of other countries besides the host country. The removal of the organs is usually undertaken in poor countries, and the organs are imported underground into developed countries where they are sold and transplanted. The payments are thus made in the host country, while an important part of the crime is committed abroad. This separation between the location of the crime and the location of the payment makes legal prosecution more difficult. While prosecution for organ trafficking is possible in the host country, it is much more difficult to extend the prosecution to murder even if this is thought to be the source of the organs. We do not address this issue in depth here, but we note that, in this case, the flow of money is collected in the host country. The criminal organization will then either try to launder the money on the territory of the host country or send it back to the source country, which is often also the home country of many of the members of the criminal organization (Kopp 2004).

Prostitution is typically linked to organized crime (Zhang 2009; Zaitch and Staring 2009). The activity takes place in the host country, and the payments are collected there. The money is laundered on the spot or in the country of origin of the traffickers. The logistics of trafficking for prostitution and the sex industry are different from the logistics of organ trafficking. Smuggling dead organs and smuggling living beings present different problems.

The activities linked to living beings imply that the smugglers must maintain contact with the people who are trafficked because these people must be lodged and cared for. Given that they must establish this sort of connection with their clients, criminal organizations take measures to separate manpower and money flows. Police raids and the arrest of prostitutes are almost inevitable; so, the criminal organization must protect its revenue by separating the merchandise (that is, the people) and the money. The money paid by the client is thus usually passed on immediately to a local manager, who then promptly gives it to a collector.

In contrast, organs are discretely removed in a poor country, while the purchasers usually live in rich countries. The transplantation may be carried out in a poor country with good medical infrastructure. We know little about this type of traffic. It is plausible that an organ removed in India, for example, might be transplanted into a Swiss patient who has traveled to Romania for the purpose. In such a scenario, the flow of money is particularly difficult to chart.

Slavery requires different financial circuits. Most often, the individual is offered assistance in entering a host country and then, after the entry, is deprived of his papers. He must then work for a family or, more rarely, a company.<sup>13</sup> The migrant pays the criminal organization. Sometimes, the beneficiary of the labor also pays a fee. The flows are irregular unless the beneficiary wishes to change personnel.

We know little about the laundering techniques used by the criminal organizations involved in human trafficking. It is possible that these organizations have extremely large sums of money and launder them successfully. It is also possible that they possess much more sophisticated laundering systems than anything we have seen in the domain of drugs (Zaitch 1998; Reuter and Truman 2004).

### **The taxonomy of the flows**

We note above that the modes of circulation of the revenue flows created by human trafficking are heterogeneous. It is thus almost impossible to distinguish the sums that correspond to the human trafficking segment of the operations of criminal organizations from the sums that correspond to the pornographic industry, prostitution, or labor. Nonetheless, in table 6.1, we attempt to classify the various flows of money generated by human trafficking according to the most significant characteristics.



**Table 6.1. The Financial Flows Generated by Human Trafficking**

Provider of the money	Recipient	Service	Frequency	Income	Laundering
<i>Source country</i>					
Illegal migrants	border patrol	visas, passports	one time	profit	no
Criminal organizations	government officials and bureaucrats	facilitate the traffic	repeated	profit	depends on the scale
<i>Border</i>					
Illegal migrants	local police	passage	one time	profit	no
Illegal migrants	coyotes	passage	one time	profit	no
Illegal migrants	criminal organization	passage	one time	profit, less cost	yes
<i>Host country</i>					
Illegal migrants	employers	free service (no wages)	repeated	value	no
Illegal migrants	service providers (flesh-peddlers, housing, administrative papers)	protection services	repeated	profit, less cost	depends on the scale
Illegal migrants	government officials	protection	one time	profit	no
Service providers	government officials	protection	repeated	profit	depends on the scale
Criminal organizations	government officials	protection	repeated	profit	depends on the scale
Clients and illegal employers	sex workers, other workers	services, workforce	repeated	profit, less cost	no

Source: Author compilation.

In the table, we first indicate the location of the monetary flow. It can be located in three places: the source country, the border, and the host country. Sometimes, financial flows may transit through one or more third countries. Most of the time, however, this occurs during the laundering process and does not appear in the table. The provider and the recipient indicate who is paying and who is receiving the money. The service gives an indication about what is compensated by the monetary flow. Frequency denotes whether the transaction takes place repeatedly or only once. Income describes whether the flow of money is pure profit or whether the recipient must deduct costs to calculate profit.

The flows of money to the source country, whether originating there or returning from elsewhere, are mainly generated by corruption.

Whether they will or will not be laundered depends on the level of scrutiny of local authorities. Political stability also plays a role. If the government is weak, corrupt government officials and bureaucrats may try to place their assets in other countries where they might plan to go if their security is threatened. These flows are repetitive if they are oriented toward high-level government officials. Most of the time, local bureaucrats can only be corrupted over a short period of time before they are removed from office. There is almost no cost for those who receive the money. The only real cost is the risk of being prosecuted, which is not a monetary cost. This diminishes the economic profit, but not the accounting profit. As long as corrupt officials are not prosecuted, the bribes they collect are both income and profit.

Corruption may occur regularly at border crossings over long periods without this implying that any single individual maintains an income from this corruption for long. Corrupt officials will usually be rotated out of their positions. While their successors may be equally amenable to corruption, and thus the flow of immigrants may be maintained, the window of opportunity for any single officer to take advantage of the demand for illegal border crossings is relatively brief. This implies that individual recipients of bribes do not accumulate sufficiently large sums to be considered to represent a flow requiring laundering. Instead, the sums, which generally amount simply to additional income for local border guards and policemen, are usually spent on consumption or invested with little precaution. Only if a criminal organization establishes an ongoing relationship with a relatively high-level official are the bribes likely to accumulate into sums large enough to warrant a sophisticated laundering scheme.

In the host country, there is a missing monetary flow, which represents the work of those who have, in fact, become slave laborers. It appears in the table as a nonmonetary flow that corresponds to a free service. Another flow represents the services provided by intermediaries who offer protection, housing, and new documents to the illegal workers. These payments are regular. The profit of the intermediaries is the same as the payments they receive as long as they do not have to spend money to provide the service. If they do incur costs, these must be deducted from the income to establish their profit. Generally, the larger the scale of operations, the more likely that intermediaries will incur

costs in providing services. Some illegal workers can obtain the services they need directly by paying government officials or bureaucrats. In such cases, the payment is usually made only once, though the corrupt officials and bureaucrats may receive money regularly from many people.

Most of the time, the corrupt officials do not have to pass on part of their profits to other officials above them in a hierarchy, though it may be that numerous corrupt officials have become involved and require payment for the service activity.

Criminal organizations may pay corrupt officials directly for visas or to turn a blind eye toward the border crossings. They include this service in the package they sell to the migrants, and it is simply a cost that must be taken into account in calculating profit. The breakdown of the profit among the various levels of the criminal organization is unclear. The protection bought from corrupt officials may be used in many activities (illegal drugs, human smuggling, prostitution, and so on). We lack information on the level of diversification in the criminal organizations involved in human trafficking. The flows between the criminal organizations and the government officials are repeated. If a contact is caught and prosecuted, the criminal organization identifies a new contact.

The last flow is composed of the direct payments of clients to illegal workers (prostitutes; employers of maids, housekeepers, and gardeners; and so on). These flows are permanent. The flows compensate the services that are provided by the workers.

## Conclusion

In this chapter, we provide a methodological contribution to the difficult task of assessing the impact of human trafficking in economic terms. First, we underline the reasons to resist the temptation to add together all the flows of money that are more or less linked to human trafficking. If the results of any analysis are to be meaningful, they must be grounded on a realistic understanding of the complex web of criminal activities that are involved in human trafficking. The money flows associated in human trafficking arise through distinct activities that have different implications. It is important to relate the various money flows to the specific criminal activities that generate them.

Second, we point out that, in certain circumstances, it is plausible that human trafficking may only generate a single flow of money within a single local setting for the benefit of a single criminal organization. However, in other circumstances, for instance, if it is mostly based on geographical competitive advantage (villages close to the border) or if it is associated with a job that involves frequent border crossings (truckers, waterfront workers, and so on), human trafficking is a profitable, but weakly organized activity. In this case, most of the criminal income is spent in consumption, and the remainder is invested without specific precautions. The monetary income from the criminal activity is diffused in the economy without noticeable effects.

Third, large criminal organizations that undertake trafficking in illegal workers, including women, are not necessarily involved in prostitution. The biggest profits, however, are derived from exploiting illegal migrants in sweatshops or houses of prostitution. Trafficking is also necessary to provide a labor force for criminal activities. Trafficking is not a particularly profitable business per se. Most of the profit is made in selling criminal services to end users, not in extorting money to help migrants cross borders.

Fourth, we assume that the flow of money entering the source countries and linked to human trafficking is negligible in comparison with remittances sent back by the illegal immigrants to their home countries. Most of the profits made by petty traffickers stay in the host countries. The only significant flows of money back and forth to source countries and host countries are generated by large criminal organizations. It is reasonable to believe that there are considerable flows of criminal money circulating internationally, but it is almost impossible to distinguish within these flows the profits generated by trafficking and the profits generated by the core businesses of large criminal organizations (prostitution, illegal drugs, counterfeiting, corruption, and so on).

Fifth, developing countries are already aware of the negative socioeconomic impact of criminal money flows. We do not believe that, of this money, the small portion produced by human trafficking generates any unique sort of harm. Good governance and civil society are harmed by the total flows of money generated by criminal activities. Distortion, lack of competitiveness, and bad incentives are the well-known consequences

of criminal money. Whatever the source of such money, the impact is likely to be similar.

Our research is preliminary, but it already points to a somewhat modest conclusion, as follows. The money flows linked to human trafficking that enter developing countries are merged into bigger flows of criminal money. There is no evidence that these flows have a specific unique impact on these countries.

## Notes

1. Orrenius (2001) and Orrenius and Zavodny (2005) have documented the supply effects of networks; see also Mckenzie and Rapoport (2007); Sana and Massey (2005).
2. Organ trafficking is included if it refers to killings that are motivated by the desire to sell the organs internationally. The Palermo convention and the U.S. Department of Justice do not consider organ smuggling a part of human trafficking.
3. See the website of the IOM, <http://www.iom.int/jahia/jsp/index.jsp>.
4. It is unclear whether this includes only those who are enslaved or also those who use the services of smugglers.
5. Such an estimate uses trafficking in the narrow sense, that is, only those who are exploited.
6. Feingold (2005) reports that statistics on the end use of trafficked people are often unreliable because they tend to overrepresent the sex trade. For example, men are excluded from the trafficking statistics gathered in Thailand because, according to national law, men cannot qualify as victims of trafficking.
7. In Manila, an employee at the consulate of a French-speaking country demanded US\$500 to issue a tourist visa to an ineligible person. According to our source, he spent three years at his desk providing not more than 20 visas per month. This last number is an approximation deduced from the waiting time for the visas. The employee's justification for a longer wait (three months) than normal for the visas for the ineligible people was the necessity to merge the visas with a substantial flow of real tourist visas. Imagine that five employees had undertaken the same activity: the flow per year would be US\$600,000. In Moscow, a French diplomat was questioned about the origin of the money he used to buy two apartments in the most sought-after location in the city. He resigned from his job at the embassy.
8. The estimate provided by the United Nations Office on Drugs and Crime is higher, close to US\$2,000 (UNODC 2010).
9. At US\$300 for each of 2 million entrants (allowing for some individuals, say 10 percent, to make two or three entries) yields approximately US\$700 million. At

an import price of US\$23,000 per kilogram of cocaine, 30 tons of imported cocaine would yield US\$700 million.

10. Mexican drug violence is not generated by retail activities, but by the fight for territorial control, which is a broader notion than routes and gross delivery.
11. Alcohol and tobacco are extremely innovative. Products, marketing, and packaging are in permanent evolution.
12. The market is less competitive at the distribution level. (Note that distribution over the Web is not the core of the pornographic film industry.)
13. We concentrate on human trafficking toward rich countries and exclude cases of servitude in low-income developing countries, forced labor in war zones, and so on.

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