

**POLS2094
WEEK 11 2026**

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General questions for this week

The goal for Week 11 is to expand our understanding of the international political economy of several illicit economies. The main questions we will focus on this week are: Does the international trade in illicit goods challenge or reinforce traditional IPE theories? Is the illicit economy a distortion of globalisation or an inherent feature of it? What are the main international efforts at combatting illicit economies?

Reading notes and questions

Please read the assigned readings before lecture and tutorial. We will be referring to them repeatedly during the week. For week 11, please read:

Ballam, David N. and Bradford Dillman. 2014. Chapter 15, “The Illicit Global Economy” in Introduction to International Political Economy. Sixth Edition. Sydney: Pearson, pp 400-424. [25 pages]

This chapter examines the illicit global economy as a critical dimension of international political economy, arguing that contrary to expectations, globalisation has expanded opportunities for cross-border criminal networks rather than diminishing them. The authors present several key findings: supply-side enforcement policies often produce unintended consequences like displacement of criminal activity, sovereignty can shield black markets, consumers share responsibility through ‘six degrees of separation’ in global commodity chains, natural resources fuel conflicts when controlled by rebels or corrupt officials, and corruption significantly hampers development. Through case studies on smuggling, drug trafficking, and human trafficking, they demonstrate how these activities challenge all three main IPE perspectives (mercantilist, liberal, and structuralist). While mercantilists stress state primacy, the illicit economy features powerful non-state actors. Where liberals champion free markets, criminal networks exploit open borders.

Ferragamo, Mariel, and Diana Roy. 2023. “These Eight Charts Show Why Fentanyl is a Huge Foreign Policy Problem.” Council on Foreign Relations [8 pages]

This article highlights how fentanyl-linked overdoses have become the leading cause of death among younger Americans, representing a critical threat to US public health, economy, and national security. The global supply chain typically begins in China, where most precursor chemicals are manufactured before being shipped to Mexico, where cartels synthesize and traffic the finished product across the US border. Fentanyl is particularly dangerous because it is cheap to produce, extremely lethal in small amounts, and often taken unknowingly when mixed with other drugs. The smuggling challenge is compounded by fentanyl’s potency and portability making detection difficult at borders. The economic

impact is large, with the US opioid crisis costing ~\$1.5 trillion in 2020, exceeding federal spending on Medicare, Social Security, or national defence.

Reading questions

Remember

1. Explain the concept of ‘six degrees of separation’ as it applies to the illicit global economy. How does this concept implicate ordinary consumers in global illicit networks?
2. How do sovereignty and state interests sometimes protect or enable illicit activities?
3. Balaam and Dillman (2014) suggest that history often repeats itself in terms of illicit activities, with new names for old practices. Identify historical practices discussed in the chapter and their modern equivalents.
4. How do the case studies of smuggling, drug trafficking, and human trafficking reveal different dimensions of the illicit global economy? What common patterns emerge across these different forms of illicit activity?
5. According to the Ferragamo and Roy (2023) article, what age group has fentanyl overdoses as their leading cause of death in the United States?

Understand

6. Compare and contrast the different ways in which natural resources fuel conflicts in developing countries. How do illegal extraction and trade of resources impact state stability and development?
7. How does the Balaam and Dillman (2014) chapter challenge traditional IPE perspectives (mercantilism, liberalism, and structuralism) when examining the illicit global economy? Can you think of any specific examples of how illicit activities do not fit neatly into these theoretical frameworks?
8. Explain why fentanyl is described as particularly threatening compared to other drugs. What specific properties make it especially dangerous?
9. How does the Ferragamo and Roy (2023) article describe the relationship between the COVID-19 pandemic and overdose rates?

Apply, analyse, and evaluate

10. Balaam and Dillman (2014) argue that supply-side policies often have unintended consequences. Can you think of any specific examples from the case studies (smuggling, drug trafficking, human trafficking) that demonstrate this?
11. Evaluate the relationship between globalisation and illicit activities. Has globalisation primarily facilitated or hindered the growth of illicit networks?

12. Analyse how corruption impacts development efforts in the Global South. What solutions does the chapter propose, and how effective do you think they might be?

13. Assess the effectiveness of international cooperation against transnational crime. What factors make such cooperation difficult to achieve and sustain?

14. Consider the Balaam and Dillman (2014) chapter's discussion of consumer responsibility. To what extent should individual consumers be held accountable for their role in global commodity chains that may involve illicit activities?

15. The Ferragamo and Roy (2023) article frames fentanyl as both a public health crisis and a foreign policy problem. Which framing do you think is more useful for addressing the crisis, and why?

Lecture—The international political economy of illicit goods

Part 1: Introduction and background info

So far (Weeks 1-10)

We have focused on monetary, fiscal, trade, developmental, energy, and environmental topics.

We have explored the anticipated and unanticipated consequences of political and economic integration.

However, we have assumed that the only markets that matter are legal/licit ones.

Today

We turn to IPE's dark side.

Both the grey areas and the explicitly illegal ones.

Today's motivating questions

Does the international trade in illicit goods challenge or reinforce traditional IPE theories?

Is the illicit economy a distortion of globalisation or an inherent feature of it?

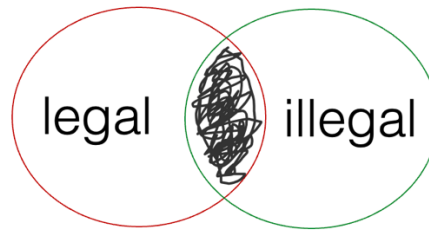
What are the main international efforts at combatting illicit economies?

Sensitive topic warning and support services links

What constitutes the illicit global economy?

How do we distinguish between illicit, illegal, informal, black, gray, shadow, extra-state, underground, and offshore markets?

There are often unclear boundaries between legal and illegal economic activity.



Illicit definition

“Not authorised or allowed; improper, irregular; *esp.* not sanctioned by law, rule, or custom.” Oxford English Dictionary

Key processes/actions

Smuggling/trafficking (1687): To convey (goods) clandestinely into (or out of) a country or district, in order to avoid payment of legal duties, or in contravention of some enactment; to bring in, over, etc., in this way

Money laundering (1973): The process of concealing the origins of money obtained illegally by passing it through a complex sequence of banking transfers or commercial transactions

Tax evasion (1922): The reduction of tax payments by misstatement of income or other illegal means.

Counterfeiting (1340): To make an imitation of, imitate (with intent to deceive).

Definitions from Oxford University Dictionary

The literature and policy

Increasingly moving beyond binaries

Moving past simple legal/illegal dichotomies toward understanding spectrums of legality and legitimacy

Typology of illicit markets

Distinguish between:

Market-banned goods (drugs, certain weapons)

State-regulated commodities traded illegally (cigarettes, wildlife)

Legal goods produced through illegal means (counterfeit products, illicitly extracted resources)

Services with contested legality (sex work, gambling)

The politics of criminalisation

How states define what is illicit and why this varies across time and space

Example of alcohol prohibition in the US, 1920-1933.

How big is the problem?

UNODC estimates that illicit proceeds equal approximately 3.6% of global GDP (about \$2.1 trillion).

Drug trafficking (\$320 billion)
Human trafficking (\$15 billion)
Smuggling of arms/cigarettes/art/resources (\$110 billion)

Fentanyl example

Charts from Ferragamo and Roy (2024) and CDC to illustrate fentanyl's impact as a case study

Fentanyl less of an issue so far in Australia

In Australia in 2023, there were 1,160 drug-induced deaths in major cities and 444 in regional and remote areas.

In 2019 there were 1,950 alcohol-related injury deaths (almost 80% of deaths were males).

(Australian Institute for Health and Welfare)

Measurement challenges

It is hard to have a complete picture of illicit markets

What R.T. Naylor calls "guesstimates"

"Guesstimates" refers to the combination of guesswork and estimation that characterizes many official statistics about illegal markets.

Why guesstimates matter

Policy implications—Can lead to misguided policy responses.

Empirical integrity—Unsure of true scope. Without reliable data, research conclusions remain tentative and subject to questions.

Political manipulation—Can lead to hyperbole towards either government achievements or highlighting threats.

Research methodology—Understand limitations and need for more sophisticated methodologies and cross-verification.

Comparative analysis—Hard to make meaningful comparisons between different types of illicit activities or track changes over time.

My human trafficking research

Measurement challenges

Global Slavery Index example

Historical perspective

Historical examples of smuggling (Silk road silk smuggling)

State-criminal connections (Barbary pirates, Iran-Contra, Pablo Escobar)

From colonial exploitation to modern trafficking networks

Iran-Contra example

North-South Korean balloon examples

Technological transformation

Evolution from physical smuggling to cyber-enabled illicit trade
Dark web marketplaces and cryptocurrency-facilitated transactions
Digital goods piracy and intellectual property theft

COVID-19 impacts

Disruption and adaptation in global illicit supply chains
Disruption and adaptation in global illicit supply chains.
International travel restrictions, lockdowns, enhanced border controls, and reduced commercial transportation
Increased cutting/dilution of products
Growth in localised production of synthetic drugs
Accelerated digitalisation of illicit financial transactions

The six degrees of separation

Global commodity chains connect legal consumers to illegal production.
Between a consumer and the original producer are various actors including financiers, processors, shippers, importers, distributors, and retailers.
The greater our degree of separation from the illicit part of a supply chain, the less responsible we feel for it.
This concept is important because it:
Challenges the binary view of legal vs. illegal economic activity
Implicates everyday consumers in global illicit networks
Demonstrates how globalisation connects legitimate businesses and ordinary consumers to illicit activities
Helps explain why addressing illicit economies requires understanding entire supply chains rather than just focusing on obvious criminal activities

The supply-side/profit paradox

Government crackdowns increase price due to constant demand and limited supply.
Risk premium increases price and higher profit for successful smuggling.
The most ruthless, violent criminals are more likely to be successful.

Globalisation as a double-edge sword

The same forces that drive legal global trade (technology, open borders, deregulation) simultaneously enable illicit networks

The sovereignty shield: How state jurisdictional boundaries protect and sometimes promote illicit activities

Illicit conflict resources

Natural resources fuel conflicts (Congo/coltan, diamonds)
Environmental crime: Scale and impact of illegal timber harvesting, wildlife trafficking

Tax havens: How secrecy jurisdictions facilitate both legal avoidance and illegal evasion

“Criminogenic asymmetries”

Definition: legal, regulatory, and economic disparities between countries create illicit market opportunities across international borders.

Examples include tax differences on cigarettes and alcohol.

When something is legal in one country but illegal in another, smuggling likely to occur.

Wage differences creates incentives for human trafficking from poorer to richer countries.

Enforcement capabilities can differ.

Examples include the fentanyl supply chain and Cambodian antiquities trafficking.

The changing landscape of illicit markets

Synthetic drug revolution: Fentanyl and the transformation of global drug markets

Resource conflicts: Updated cases on conflict minerals (coltan, gold) and enforcement efforts

Illicit financial flows: Tax havens, beneficial ownership, and the Panama/Paradise Papers

Environmental crime: Illegal fishing, timber, and wildlife trafficking as among fastest-growing illicit sectors

Labor exploitation: Modern slavery and forced labour in global supply chains

Differential impacts and power asymmetries

Geographic disparities: How costs and benefits of illicit economies are distributed unequally

Social stratification: Who benefits and who suffers from prohibition regimes

North-South dynamics: Consumption versus production in global illicit commodity chains

Gender dimensions: Differential impacts on women as both victims and agents in illicit markets

Part II: Theoretical frameworks for understanding illicit markets

The theoretical challenge

Why has mainstream IPE historically neglected illicit economies?

How can we reconceptualise IPE to include not just states but non-state actors and networks?

Can we challenge the legal/illegal binary approach to better understand the legal continuum between legality, gray zones, and illegality in global capitalism

Realist/Mercantilist perspectives

Illicit markets are threats to sovereignty and national security

States can weaponize illicit activities against rivals (sanctions-busting, proxy financing).

States can frame drug trafficking, human smuggling, and terrorism financing as security threats.

State-centric approaches can miss transnational criminal dynamics

Examples include nuclear proliferation networks, sanctions evasion, and arms trafficking

Liberal perspectives

Illicit trades can be rational responses to prohibition and opportunity.

Interdiction efforts and regulatory disparities create risk premiums.

Weak property rights, regulatory capture, and corruption are often drivers.

International regimes, conventions, and public-private partnerships are forms of transnational governance:

Often overemphasis on market rationality and an underemphasis on power structures

Examples include smuggling networks, informal cross-border trade, wildlife trafficking

Constructivist approaches

Norm formation and evolution: different behaviors become criminalized or legitimized over time

Identity politics: The role of "othering" in defining illicit actors and activities

Contestation of legitimacy: non-state actors challenge state definitions of illicit activities

Transnational advocacy networks: Civil society's role in reframing illicit activities (blood diamonds, conflict minerals)

Analytical limitations: Insufficient attention to material forces and power relations

Case applications: Changing norms around drug prohibition, sex work, and wildlife consumption

Structuralist/Critical perspectives

Illicit markets as inherent to capitalist development

Historical materialism: Primitive accumulation, dispossession, and illicit appropriation

World-systems analysis: Core-periphery dynamics in illicit commodity chains

Political economy of criminalisation: Who benefits from prohibitionist regimes?

Analytical limitations: Risk of economic determinism, underemphasis of agency

Examples include drug economies in Global South, resource extraction conflicts, illicit financial flows

Feminist and post-colonial perspectives

Gendered dimensions: Differential impacts of illicit economies on women and men

Intersectional analysis: How race, class, and gender shape participation in illicit economies

Colonial continuities: Extraction, exploitation, and criminalization in historical context

Subaltern agency: Resistance strategies and everyday politics in illicit spaces

Analytical limitations: Challenges in operationalizing complex intersectional frameworks

Examples include sex work, drug economies, informal border communities

Emerging synthetic theoretical approaches

Global criminology: Bridging criminology and international relations

Networked governance: Understanding illicit activities through network theory

Illicit assemblages: Actor-network approaches to illicit commodity chains

Political economy of regulation: Regulatory capitalism and its shadow side

Examples include fentanyl supply chains, cryptocurrency-facilitated illicit trade

Research methods challenges

Data limitations: Challenges in measuring hidden activities

Ethnographic approaches: Field research in illicit contexts

Quantitative innovations: Using proxy measures and modelling techniques

Ethical considerations: Research integrity and harm minimization

Future research frontiers: Emerging methodologies and research questions

Toward a comprehensive IPE of illicit economies

Theoretical complementarities: How different IPE approaches illuminate different aspects

The illicit economy as a theoretical laboratory: How studying illicit markets tests and extends IPE theories

Bridging levels of analysis: Connecting macro-structural factors with meso-level networks and micro-level agency

Returning to motivating question

Does illicit trade challenge or reinforce traditional IPE theories?

Part 3: International and domestic policy responses to illicit economies

Global governance frameworks

Evolution of international control regimes

Historical development from colonial era to contemporary frameworks

Main international conventions

UN Convention against Transnational Organized Crime (2000)

UN Convention Against Corruption (2003)

Palermo Protocol (2000)

Drug control conventions (1961, 1971, 1988)

CITES (1973)

Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (1989)

Arms control regimes (NPT, 1968; ABM, SALT I 1972; 1972; bioweapons 1972; chemical weapons, 1993; LTB, 1963, CTB 1996)

International organizations and their mandates

- UNODC (1997)
- Interpol (1923)
- World Customs Organization (1953)
- Financial Action Task Force (1989)
- International Narcotics Control Board (1968)

Institutional limitations

- Sovereignty constraints
- Enforcement gaps
- Resource deficiencies

Regional coordination mechanisms

- EU: Europol, European Arrest Warrant, Anti-Money Laundering Directives
- ASEAN frameworks for transnational crime
- Organization of American States (OAS) drug control cooperation
- African Union initiatives on conflict resources
- Cross-border policing and intelligence sharing

Trade bloc approaches

- Economic integration affects illicit flows through...
- Weakened border controls
- Regulatory arbitrage
- Better infrastructure (physical and digital)
- Regional challenges also from varying capacity, political will, and sovereignty concerns

Region-specific challenges

- Varying capacity, political will, and sovereignty concerns

Supply-side interventions

- Interdiction strategies include border enforcement, military involvement, maritime operations
- Eradication programs include crop destruction and alternatives to illicit cultivation
- Sanctions and embargoes are economic tools against illicit actors and facilitators
- Technology-based controls include tracking systems, biometrics, blockchain applications
- Mixed evidence on effectiveness, displacement effects, unintended consequences
- Case studies include Plan Colombia, Golden Triangle opium reduction, conflict mineral certification

Demand-side approaches

Criminalisation vs. decriminalisation debates: Drug policy innovations in Portugal, Uruguay, Canada
Harm reduction frameworks: Public health approaches to drug markets
Awareness campaigns: Consumer education on counterfeit goods, wildlife products
Market-based incentives: Fair trade, sustainable sourcing, corporate social responsibility
Critical assessment: Evidence base for different demand reduction strategies
Examples include Nordic model for sex work, marijuana legalization experiments

Financial controls and economic governance

Anti-money laundering regimes: FATF recommendations, compliance mechanisms
Asset recovery initiatives: Stolen Asset Recovery Initiative (StAR), civil forfeiture
Beneficial ownership transparency: Corporate registry reforms, FATF standards
Tax information exchange: OECD initiatives, Common Reporting Standard
Banking sector controls: Know-Your-Customer, Suspicious Activity Reports
Cryptocurrency regulation: Emerging approaches to digital asset oversight
Implementation gaps, regulatory arbitrage, uneven enforcement
Examples include Panama Papers response, EU tax haven blacklisting

Public-private partnerships and industry self-regulation

Supply chain integrity initiatives: Kimberley Process, Forest Stewardship Council
Corporate due diligence requirements: Conflict minerals reporting, modern slavery statements
Industry coalitions: Pharmaceutical Anti-Counterfeiting Coalition, Better Cotton Initiative
Financial sector initiatives: Wolfsberg Principles, Equator Principles
Effectiveness, capture concerns, legitimacy questions
Examples include tech platforms' (Facebook, X, Google) responses to illicit content, pharmaceutical industry anti-diversion efforts

Civil society and consumer-driven governance

Transnational advocacy networks: Global Witness, Transparency International, TRAFFIC
Consumer campaigns include fair trade, ethical consumption, divestment movements
Investigative journalism include Panama Papers and Global Witness's work on blood diamonds and other resources
Indigenous and community-led approaches: Local resource management, community policing
Clear power asymmetries, North-South divides, sustainability challenges
Examples include blood diamonds campaign and anti-sweatshop movements

Technological innovations in governance

Remote sensing and monitoring: Satellite imagery for environmental crimes, maritime surveillance
Blockchain applications: Supply chain transparency, digital identity solutions

Big data analytics: Pattern recognition for financial intelligence, customs risk assessment
Artificial intelligence: Automated screening systems, predictive policing
Critical assessment: Digital divides, privacy concerns, technological determinism
Case studies include wildlife trafficking monitoring, maritime domain awareness tools

Policy evaluation and future directions

Challenges in evaluating illicit economy interventions
Unintended consequences include displacement effects, market adaptation, violence
Political economy of policy choices: Who benefits from different regulatory approaches?
Emerging innovative frameworks:
 Regulatory pluralism and polycentric governance
 Harm reduction extending beyond drugs
 Rights-based approaches to criminalized populations

Part 4: Conclusions

Revisiting today's main questions...

Does the international trade in illicit goods challenge or reinforce traditional IPE theories?
Is the illicit economy a distortion of globalisation or an inherent feature of it?
What are the main international efforts at combatting illicit economies?

Illicit markets both challenge and extend traditional IPE theories

Move beyond state-centrism as transnational networks as key political-economic actors
Blurred boundaries between legal/illegal challenge liberal market assumptions
Power asymmetries reflect and sometimes subvert core-periphery dynamics

Illicit economies are inherent features of global capitalism

Historical continuities from colonial extraction to modern trafficking
Regulatory arbitrage and criminogenic asymmetries are systemic features
Globalization's dual effects on both licit and illicit flows

Why international efforts often fall short

Sovereignty tensions and cooperation dilemmas
Misaligned incentives between prohibition and market forces
North-South power imbalances in governance frameworks

Integrated framework for understanding illicit IPE

Multi-level analysis: Connecting global structures to local manifestations
Governance complexities: Formal/informal and state/non-state regulatory authority
Agency and structure: How individual choices interact with systemic constraints

Productive tensions: Using theoretical contradictions to generate insight

Emerging trends and future patterns

Technological acceleration as there is a digital transformation of illicit markets
Climate change impacts involve environmental crime, resource scarcity, displacement
Changing prohibition regimes as there are normative shifts in drug policy, sex work regulation
Geopolitical realignments include multi-polarity and fragmented governance systems

Implications for research and practice

Methodological innovations include new approaches to studying hidden phenomena
Bridging IPE with criminology, sociology, anthropology
Ethics and positionality include reflexivity in researching illicit markets
Policy design principles involve evidence-based approaches to harm reduction

The illicit is central to IPE

Beyond marginalisation by centring illicit economies in IPE scholarship
Questioning assumptions about legality, legitimacy, and authority
Normative considerations include justice, equity, and harm in global governance
Key questions for the next generation of scholars

Week 11 key terms		
Illicit markets	Criminalisation	Supply chain/profit paradox
Smuggling/trafficking	Fentanyl	Criminogenic asymmetries
Money laundering	Guestimates	UNODC
Tax evasion	Human trafficking/modern slavery	Supply-side interventions
Counterfeiting	Six degrees of separation	