

## NEWS RELEASE

### ROYAL UNITED SERVICES INSTITUTE (RUSI)

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## **New Study Outlines Strategy to Keep Criminals Out of Free-Trade Zones**

***A new study by the Royal United Services Institute (RUSI) argues that free trade zones might not be as risky as they seem. It reveals why some zones are riskier than others and shows how governments can mitigate the threat of criminals seeking to exploit light-touch regulations designed to attract trade.***

There are reportedly over 3,500 zones in 130 countries today, compared to just 79 zones in 25 countries in 1975. Governments continue to establish new free trade zones (FTZs), but bodies such as the EU, World Customs Organization and Financial Action Task Force (FATF) all highlight their significant criminal risks.

The FATF has branded free-trade zones (FTZs) a 'money laundering and terrorist financing threat' and last year the European Parliament called for the 'urgent phasing out' of freeports across the EU. The UK recently committed to introducing 10 new freeports after Brexit, a move some experts have called a major financial crime risk. This year, China established at least 6 new zones across the country.

FTZs are known to facilitate trafficking in endangered wildlife and counterfeit goods, as well as sanctions evasion and weapons smuggling. This study also confirms the abuse of FTZs for money laundering, terrorist financing and tax evasion.

However, RUSI's study rejects a blanket approach to free-trade zones. It argues that 'an approach that regards all of these FTZs as generically high risk is unlikely to improve global standards.'

'No two zones are exactly the same and standards can vary considerably across zones within a single country, with certain FTZs presenting a higher risk than others.'

Criminal risks in free-trade zones are 'formidable but not insurmountable.'

'Nor is this to say that FTZs are uniquely susceptible to crime: all of the illicit trade and financial crime common to FTZs also occurs outside of them.'

Entitled 'Improving Governance and Tackling Crime in Free-Trade Zones', the new study identifies factors that render free-trade zones vulnerable to illicit trade and financial crime and proposes measures to detect and prevent it.

It identifies common factors that make some FTZs risky, like their geographic location, the activities they are designed to facilitate and level of transparency.

Researchers from RUSI evaluated the world's leading free-trade zones, including those in Morocco, Panama, Singapore and the United Arab Emirates (UAE). These countries differ in their economic, geographic and social profiles, but all face common challenges in their administration and oversight of FTZs. All have been criticized for criminal risks in their FTZs.

In **Morocco**, the study found that free-trade-zones may pose lesser criminal risks than many of the country's other border crossings and logistics hubs. By virtue of being subject to at least some level of regulation and control, FTZs may in some countries actually be more secure than other facilities.

In **Singapore**, the country's tariff regime is so liberal that the distinction between FTZs and the country's customs territory is all but irrelevant. This reduces incentives for smuggling goods from an FTZ into Singapore's domestic market but does not affect its position as a transshipment hub for illicit goods.

In **Panama**, the Colón Free Zone retains its poor international reputation, despite measures supposedly taken by the government to improve governance there in recent years. Business users interviewed by the project criticised its 'high-risk' designation, citing barriers to access to banking services.

The **United Arab Emirates'** 2020 National Risk Assessment reportedly concluded that 85% of FTZ-based companies were inherently high-risk, compared to 55.86% of companies across the country.

RUSI's study calls for 'a concerted effort from governments, FTZ administrators, users and other private sector actors to improve the integrity of FTZs'.

It makes a number of recommendations to help governments improve their FTZs, including the need for greater monitoring, enforcement and coordination among domestic law enforcement agencies and improved cooperation with the private sector.

The findings and recommendations are part of a two-year project to help understand and improve the integrity of free-trade zones worldwide. The authors of the study will publish practical manual that private sector companies can use to assess their exposure to the risk of unwittingly facilitating crime when dealing with businesses that are based in or use FTZs, due 2021.

#### NOTES TO EDITORS

1. 'Improving Governance and Tackling Crime in Free-Trade Zones' is a RUSI Occasional Paper by Anton Moiseienko, Alexandria Reid and Isabella Chase.
2. Anton Moiseienko and Isabella Chase are Research Fellows at RUSI's Centre for Financial Crime and Security Studies.
3. Alexandria Reid is a Research Fellow in RUSI's Organised Crime and Policing research group.
4. The paper will be available online at (stable URL): <https://rusi.org/publication/occasional-papers/improving-governance-and-tackling-crime-free-trade-zones>
5. The Royal United Services Institute (RUSI) is the world's oldest and the UK's leading defence and security think tank. RUSI is a research-led institute, producing independent, practical and innovative analysis to address today's complex challenges.
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