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Organized Crime

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A small corner of the world: Organized crime in the TBA

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The area where the borders of Argentina, Brazil and Paraguay meet seems an isolated; very out of the way place for an unprecedented convergence of transnational organized crime groups to occur. The Tri-Border Area (TBA) has become a major haven for drug and arms trafficking groups, money launderers, and sexual traffickers. In the seemingly remote cities of Ciudad del Este and Foz do Iguacu, over \$12 billion is laundered every year. Ciudad del Este is the commercial center of the TBA generating \$13 billion a year in commercial transactions, both legal and illegal. Much of this business is generated as a result of the city's position as a transshipment point in the robust drug and arms trafficking business.

The TBA hosts criminal organizations from around the world. But, it also has its own indigenous organized crime groups from Paraguay and Brazil. These native syndicates have helped to create a hospitable environment which hosts organized crime groups from Chile, Colombia, Corsica, Ghana, Italy, Ivory Coast, Japan, Korea, Lebanon, Nigeria, Russia and Taiwan. The counterfeiting of CDs and CD-ROMs, as well as other pirated products, links local syndicates with foreign partners in Asia and the Middle East.

Illicit commerce in the TBA is enhanced by virtually nonexistent immigration controls and pervasive governmental corruption. False identity documents, passports and visas, particularly Paraguayan, are easily obtained in the TBA. Police and other government officials suffer from low pay; inadequate or nonexistent training; miserly funding from their central governments; bank secrecy laws, and very weak money laundering controls. In an atmosphere of pervasive governmental corruption and human rights abuses, corruption flourishes.

Geography, Society and the Economy of Crime

The TBA region is defined geographically by three main population centers: Puerto Iguazu, Argentina; Foz do Iguacu, Brazil, and Ciudad del Este, Paraguay. Paraguayan economic planners tried to enhance the tourism business at Iguaza Falls, by creating a free-trade zone in the Ciudad del Este area. The hope was that Argentines and Brazilians would cross the border in search of inexpensive merchandise, particularly electronic products. The net result, however, was the creation of a free trade zone for transnational organized crime groups.

Between 1971 and 2001 the population of the TBA increased dramatically from about 60,000 to more than 700,000, primarily as a result of the construction of the Itaipu Hydroelectric Dam. In addition, the TBA is a remarkably diverse little corner of the world. For example, Foz de Iguacu is populated by 65 different nationalities, including about 7,000 Lebanese, 30,000 Chinese, and 4,000 Koreans. In addition, the TBA has one of the largest Arab populations outside the Middle East. A 2001 report suggests that the TBA's population includes 23,000 Arabs of Palestinian and Lebanese descent. The area was marked by a significant Lebanese emigration during the 1970s civil war in Lebanon. In Ciudad del Este and Foz do Iguacu, 90% of the Arab population is of Lebanese descent.

Ciudad del Este is a South American version of Casablanca in the 1940s. The city is populated with intelligence agents and their informants. Human traffickers, arms merchants and drug traffickers are omnipresent. On the city's streets everything from the newest pirated computer software, to prostituted children, to AK-47s are easily obtainable. An AK-47 sells in the street bazaars for \$375. The city is also a prominent banking and retail center. In fact, Ciudad del Este's retail economy is the third strongest in the world, ranking right behind Hong Kong and Miami. The city has a bigger retail economy than the rest of Paraguay combined. Lebanese and Palestinians operate many of the commercial enterprises in Ciudad del Este although they tend to reside in the Foz do Iguacu area of Brazil.

State Corruption

In many ways it is difficult to determine which of the three countries touching at the TBA is the most corrupt. Carlos Menem, the president of Argentina has resisted any attempts to reform the government and the courts.

Menem has also been alleged to have been involved in a government cover-up of a bombing of a Jewish community center in Buenos Aires and arms trafficking. Menem, whose parents were Syrian immigrants to Argentina, appointed a Syrian army colonel as the head of customs at Buenos Aires' Ezeiza International Airport, one of the prime smuggling entrepôts in South America.

In Brazil, an investigation by the Brazilian Congress in 2000, implicated congressmen, state governors, mayors, judges, and police officials in a series of criminal activities including arms and drug trafficking and tax evasion. That report suggested that Brazil's entire police structure had to be torn down and reconfigured because of the pervasive drug-related corruption. A congressional investigation in 2002 implicated over 100 politicians, police, and businessmen in a massive cargo theft enterprise.

Immigration fraud is abetted by pervasive corruption in the government of Paraguay. One investigation found that annually an average of 570 individuals enters Paraguay through the Ciudad del Este Airport with forged passports, visas, or identity documents. That investigation found that a bribe of \$5000 was sufficient to circumvent immigration controls. More recent investigations have centered on the ease with which Lebanese citizens have been able to enter Paraguay with false documentation. Ahmad Assad Barabat, a regional Hizballah leader, entered Paraguay with a false visa issued in Panama. The Paraguayan consul in Miami, Carlos Weis sold more than 300 passports, visas and bills of lading between 1999 and 2002.

Obviously, the fidelity, honesty and effectiveness of police forces are central to controlling organized criminal activities. Police corruption is a prime precondition for large-scale organized crime activity. Many issues help explain the total lack of effectiveness of the Argentinian police against organized crime. First, the government is far more interested in repressing political dissent and maintaining public order than in fighting crime. Second, the Argentine judiciary moves with great deliberation at a snail-like pace, which is frustrating to many police. As a result police frequently are engaged in brutality, framing suspects, and even murders and rapes. Finally, Argentinian police are paid the equivalent of about \$400 a month. For these reasons and many others, corruption is pervasive in the Argentinian security forces.

But problems with corruption only begin to describe the difficulties of the Argentine police. Since at least the 1970s the Argentine police have been integrally involved in organized crime activities, including prostitution, gambling and kidnapping. The Brazilian police are similarly hampered by widespread corruption and human rights abuses. Brazilian state police forces have engaged in widespread murder, torture, and rape. They routinely detain people without arrest outside of the law. Death-squad activity and vigilantism is epidemic in Brazilian policing. In addition, Brazilian police have been implicated in drug trafficking, kidnapping, and murder-for-hire schemes. Similarly, the Paraguayan police routinely engage in torture; death squad activities; the use of excessive force; illegal detention; and, wanton violations of privacy rights. Paraguayan police also engage in large-scale extortion from both legitimate and illegitimate businessmen, particularly Arabs and others of foreign descent. The police force of Ciudad del Este is widely regarded as pervasively corrupt. Law enforcement largely depends on private security services. All of the 6,000 stores and shops, the 36 banks and the 15 money exchanges in the city employ private guards.

Organizing Crime in the TBA

The TBA is a perfect environment for thriving illicit enterprises and the operations of organized crime groups. Money laundering laws are lax. The governments and police forces are thoroughly corrupt. Unregulated commerce thrives. Immigration controls are easily circumvented. As a result a confluence of both indigenous and transnational organized crime groups has set up operation in the area. Criminal organizations engaged in the trafficking of drugs, guns, children and women flourish. Financial and business crimes are easily conducted. Smuggling of stolen goods and counterfeiting of other products occurs without interference. While organized crime in the TBA may be thought of as in its developmental stages, the conditions for the success of these incipient enterprises are all present.

Luiz Fernando Da Costa heads one of the local organized crime groups. For years Da Costa ran a criminal organization in Brazil that traded arms for cocaine. Da Costa operated in the TBA until 2001. Since then he is rumored to have moved his base of operation of Colombia. Organized crime in Brazil has become much bolder and more violent in recent years. In 2002 the country narrowly averted an attempt by organized crime to bomb the Sao

Paulo Stock Exchange. In 2003, drug organizations engaged in running battles with police in the streets of Rio de Janeiro, snarling traffic and paralyzing the city's business district. Also in 2003 organized crime groups assassinated two Brazilian judges. Additionally, Brazil's most prominent prison gang has close ties to both Da Costa and to Italian organized crime figures. In the TBA, organized crime gunmen attempted the assassination of the Foz do Iguaca city council president.

Ciudad del Este is, for all intents and purposes, a free trade zone for organized crime. Money laundering, the theft of intellectual property, human trafficking, alien smuggling, arms trafficking and drug trafficking all flourish. A significant portion of the illicit market revolves around trades of drugs for arms involving Colombian organized crime and political groups. One of the largest criminal organizations in the Ciudad del Este area is the arms trafficking syndicate run by Elvio Ramon Contero Aguero, out of the town of Pedro Juan Caballero on the Brazilian border. General Lino Cesar Oviedo, the head of the Paraguayan Cartel is also based in Ciudad del Este and Foz do Iguacu. The Paraguayan Cartel was responsible for multi-ton cocaine shipments originating in the TBA during the 1990s, as well as for massive money laundering operations in the TBA. Closely associated with the activities of the Paraguayan Cartel is Paraguayan General Jose Tomas Centurion.

In addition to local generals and crime lords, criminal syndicates from around the world operate in the TBA, in close association with Paraguayan businessmen, politicians, the military, and the ruling Colorado Party. Colombian, Italian and Nigerian organized crime groups all operate in the TBA.

The social demography of Ciudad del Este makes it a perfect location for the operations of Chinese organized crime groups, including the Fuk Ching, Big Circle Boys, Flying Dragons and Tai Chen. Chinese organized crime groups run protection rackets in Ciudad del Este's Chinese community and engage in large-scale trafficking in counterfeit products. In addition, Korean organized crime groups with branches in Ciudad del Este, San Francisco, Buenos Aires, Sao Paulo, and Santa Cruz (Bolivia), are active in the region. Two Canton-based Chinese organized crime groups, the Fu Shin and the Fei Jeii are also active in Ciudad del Este and Foz do Iguacu. Chinese organized crime groups have been able to maintain virtual immunity from prosecution in the TBA because of bribes paid to Paraguayan judges. Several other

Chinese organized crime groups in the TBA deal primarily in counterfeiting. The Sung-I and Ming groups have worked closely in the Egyptian Gamaa Islamiya (a group closely associated with Hizballah) in a product-counterfeiting scheme.

Russian organized crime groups have initiated activities in Paraguay as well, primarily with the intention of trafficking cocaine to Europe, although they appear not to be setting up permanent operations in the TBA. Russian organized crime groups have also opened up contacts in Brazil with the intent of procuring Brazilian women for prostitution operations in Israel. The Russian groups may well be paying for drugs and women with arms. In the late 1990s AK-47s and AR-15s have become more and more common as the weapons of choice for indigenous organized groups in the TBA and adjoining countries. Chechen organized crime groups have also made contact with drug traffickers and money launderers in the TBA from their base in Argentina. Presumably, the Chechen are attempting to open up another guns-for-drug conduit through the TBA.

Organized Crime Enterprises in the TBA

The three countries, which converge in the TBA, have similar characteristics with regard to the drug business. Argentina is not known as a drug producing country, but it does serve as a transshipment conduit for cocaine from Bolivia and heroin from Colombia. Brazil acts as a middleman in the trade between Western European nations and the United States in the precursor chemicals essential to the production of methamphetamine. Paraguay also serves as a transshipment site for cocaine moving out of Peru. The TBA is primarily an area through which drugs destined for Argentina, Brazil and Paraguay pass. The existence of more than 100 clandestine airstrips in the TBA enhances its utility as a transit point for both drugs and arms. This is particularly the case with cocaine, which is usually moved by small aircraft.

About \$12 billion in illicit profits are laundered each year in the TBA. Money launderers use the banks and currency exchange businesses in Ciudad del Este and Fdoz do Iguaca to engage in fraudulent financial transactions. Money laundering activity is pervasive in the financial industry, particularly through Brazilian and Paraguayan banks operating in the TBA. The Central Bank of Brazil estimates that 17 percent of the profits generated by Colombian drug cartels are laundered through the Brazilian

bank system. Brazilian investigators estimate that 40 percent of the local businesses in Foz do Iguaca and nothing more than fronts established by organized crime groups for the purpose of laundering money. Paraguay is internationally recognized as a major money-laundering center. Almost all of Paraguay's \$5 billion money laundering activity occurs in Ciudad del Este.

The theft, smuggling and transport of luxury cars is also a major business in the TBA. Cars that are stolen in Brazil and Argentina are moved to Paraguay, Bolivia, and other points of embarkation through the TBA. More than half of the 450,000 vehicles registered by drivers in Paraguay are acquired through illegal channels. Stolen automobiles and other contraband pass along an illegally opened road cutting through the Iguau National Park. The Asuncion-Paraguayan Highway is also a major conduit for contraband. Counterfeiting and pirating commercial products is also a booming business in the TBA. More than half of all the business software utilized in Brazil is pirated. Forty percent of the cigarettes entering Brazil are illegal contraband smuggled into the country. The large Arab community in the TBA seems to dominate the black market in counterfeit and pirated goods. Some investigators have suggested that bootlegged computer software and CDs are used to raise money for Hizballah and Hamas. Ciudad del Este is the major transshipment point for counterfeit CDs and CD-ROMs entering South America from Hong Kong, Macau, Malaysia and Thailand. About \$1.5 billion worth of these counterfeits move through Ciudad del Este each year. Estimates suggest that 90 percent of the commercial goods sold by stores, street vendors, and other agents in Ciudad del Este are counterfeit. Paraguayan law permits patents to be issued for international brand names by the National Brand Register, thereby facilitating the pirating of contraband merchandise. Much of the counterfeiting activity is directly linked to organized crime groups operating in Korea, Lebanon and Taiwan. The International Intellectual Property Alliance has identified Paraguay as their most serious problem nation.

Conclusion

Social, political, economic and geographic variables have come together to create a perfect environment for sustaining organized crime in the TBA. The TBA is distant from other major population centers, and far from the seat of state power in any of the three affected nations. But even if it weren't geographically isolated, the pervasive political and law enforcement

corruption which defines the state in Paraguay, Brazil and Argentina would still be a significant contributor to the creation of an organized crime entrepot. Lack of banking regulations and extremely permissive banking enforcement in Brazil and Paraguay create a perfect environment for money laundering, which in turn fosters the drug and arms markets. The same preconditions, which have sustained indigenous organized crime, create an attractive environment for the operations of transnational criminal organizations.

The essential unanswered question, however, is whether this set of circumstances is simply a happy coincidence for organized crime or whether its genesis has more sinister roots. It strains credulity to suggest that tens of thousands of Lebanese Arabs, Taiwanese and Koreans simply happened to wander into this South American backwater. In fact, it strains credulity to suggest that they even knew of Ciudad del Este and Foz do Iguacu, let alone the no doubt beautiful Iguaza Falls.

So how did this organized crime boomtown come to pass? On that point there is scant evidence. It is possible that transnational organized crime groups did identify the potential for the area as a result of their normal course of business, which particularly in the case of the Taiwanese may have involved Paraguay. It is harder to explain the Arab migration to the jungles of the TBA. The U.S. government seems to suspect that this may be part of a master plan to fund Islamic extremist groups through illicit enterprise. But the existence of many, many lawless states closer to the Middle East still makes it difficult to conclude that the obvious location for such a complex and sinister plot was a remote corner of Paraguay. Other speculations are also possible. We have seen over the decades the hidden hand of the CIA and the Mossad nudging some organized criminal enterprises into action for a specific purpose. The answer may lie in a combination of all these things. But at the moment, the mystery of South America's 21st Century Casablanca is just that, a mystery.