GLOBAL FINANCIAL INTEGRITY

Trade-Related Illicit Financial Flows in the Western Hemisphere (2013–2022)

February 2026

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ACKNOWLEDGEMENTS

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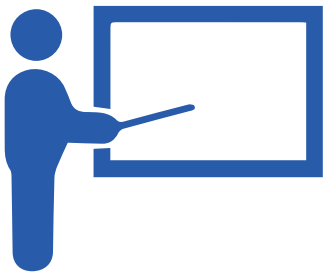
1 INTRODUCTION



Illicit financial flows (IFFs) refer to the cross-border movement of money or value that is illegally earned, transferred, or utilized, encompassing proceeds of crime, corruption, and practices like tax evasion. Curbing IFFs is crucial for sustainable development. Indeed, the international community has recognized this urgency: Sustainable Development Goal target 16.4 calls for a significant reduction of illicit financial flows and the recovery of stolen assets by 2030. Trade misinvoicing, the deliberate over- or under-statement of prices or quantities on trade invoices, is widely recognized as a major channel of IFFs, and is an increasingly important money laundering vulnerability given the growth of world trade. Global estimates suggest the scale of trade-related IFFs is enormous: for example Global Financial Integrity's 2020 estimates suggest that cumulative trade value gaps linked to misinvoicing in developing countries reached around US$9 trillion between 2008 and 2017. These flows represent a massive siphoning of capital that could otherwise finance public services, infrastructure, and development.

Addressing trade-related IFFs is particularly important in the Western Hemisphere, where many countries simultaneously struggle with resource needs and significant capital leakages. Latin America and the Caribbean (LAC) experience substantial trade-based illicit outflows each year, undermining government revenues and broader economic stability. The developmental stakes are high: while exact losses are hard to measure, there is widespread agreement that IFFs drain funds that could be invested in poverty reduction, public health, and infrastructure. Over time, sustained capital flight through illicit channels exacerbates domestic budget pressures and limits governments' ability to finance inclusive and sustainable development.

The regional context of the Western Hemisphere is unique. The area includes upper-middle-income economies with diversified manufacturing trade (e.g. Mexico, Brazil, Argentina), alongside smaller countries that depend heavily on commodity exports or offshore financial activities (e.g. Trinidad and Tobago, Panama, various Caribbean states). Illicit flows via trade thus take different forms, from under-invoicing of mineral exports to evade royalties, to over-invoicing of imports to sneak drug proceeds into the banking system. Notably, the Western Hemisphere is home to robust transnational organized crime networks and narcotics trade routes, which have long exploited trade-based money laundering schemes. For example, Latin American drug cartels use mechanisms like the Black Market Peso Exchange to launder drug dollars via mispriced trade transactions. Such schemes involve falsifying import/export invoices so that illicit cash can be offset against fictional trade payments, effectively integrating dirty money into legitimate commerce. These criminal enterprises have even infiltrated ports, customs, and free trade zones with the aid of corrupt officials, making trade misinvoicing a "low-risk, high-reward" method for laundering funds. The result is a significant illicit bleed of capital from the region. Curbing trade-related IFFs in the Western Hemisphere, therefore, is not only a matter of revenue and taxation, it is also critical for combating organized crime, improving governance, and fostering equitable growth. The following sections outline the methodology for assessing these flows, present new data on their scale and patterns from 2013 to 2022, and discuss policy responses tailored to the region's challenges.

2 METHODOLOGY

This analysis relies on official trade statistics reported to the United Nations Comtrade database, employing GFI's established "mirror trade" gap methodology. In essence, for each country in the region, the country's reported export values for a given commodity and year are compared against the corresponding import values reported by its trading partners (and vice versa). Discrepancies between what one country reports as exports and what its partner reports as imports, after adjusting for insurance, freight, and other known factors, are termed trade value gaps. These gaps serve as a proxy measure for potential trade misinvoicing, a major component of illicit financial flows. GFI calculates such gaps at the detailed product level (six-digit HS code) for each bilateral trading pair and year, then aggregates results to national and regional totals as well as percentages of total trade.

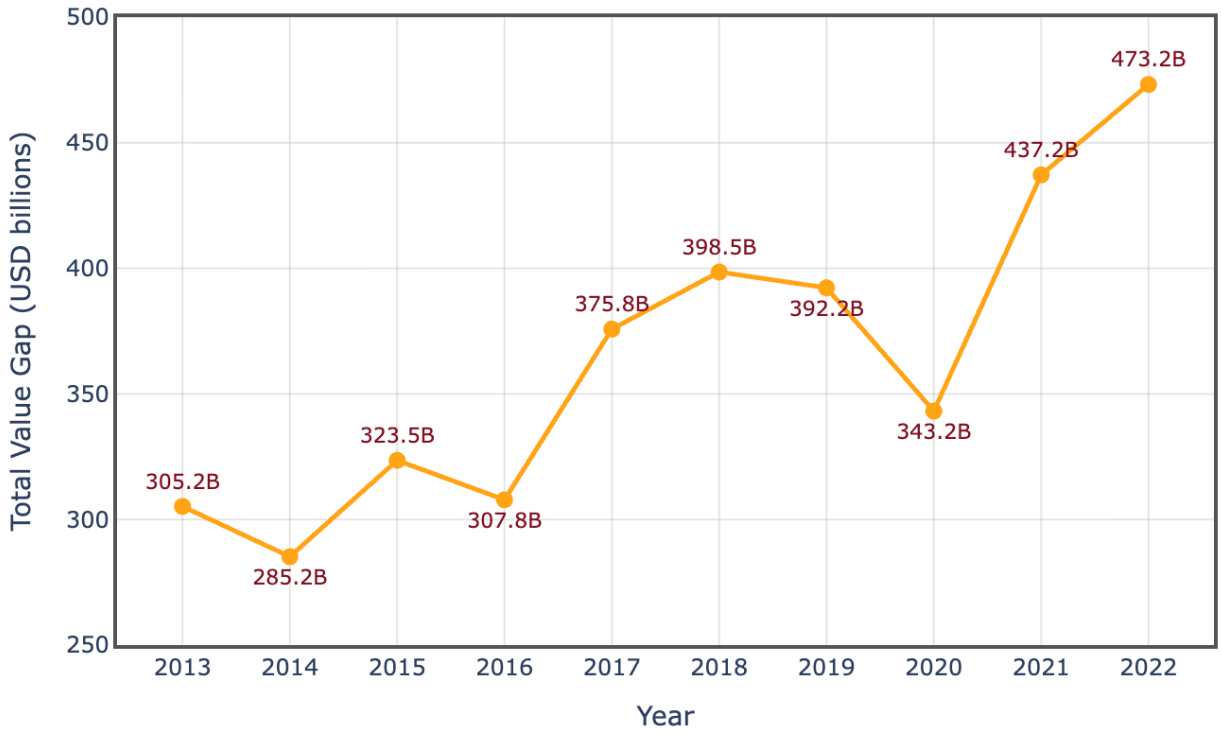
Import values reported on a cost, insurance, and freight (CIF) basis are converted to a free-on-board (FOB) basis using a model of freight and insurance mark-ups, to ensure consistency when comparing against partner export figures. The methodology also includes a series of filtering steps to improve accuracy: for instance, "orphan" records (one country's import with no corresponding export record in the partner's data) and "ghost" shipments (reported exports with no reported import counterpart) are excluded unless there is other corroborating data, as are any obvious data entry errors or mismatches in units. These conservative filters help isolate genuine pricing discrepancies that could indicate misinvoicing, rather than mere statistical noise.

It should be noted that not every gap in the data is illicit, some discrepancies can arise from benign factors like different reporting schedules or classification systems between countries. However, persistent and large value gaps are strongly indicative of trade misinvoicing practices. By focusing on repetitive anomalies over a ten-year period, this report provides a conservative estimate of trade-related illicit flows. The methodology yields what are likely lower-bound estimates of misinvoicing: it captures only mismatches in goods trade (excluding services and intangibles), and only those illicit flows that leave a statistical "footprint" in Customs records. Other forms of IFFs, cash smuggling, hawala transfers, misdeclaration of services, etc., are beyond the scope of this analysis. Despite these limitations, mirror trade gap analysis is one of the most widely used approaches for quantifying IFFs because of its reliance on extensive, publicly reported data. In short, while the dollar figures presented here are estimates (not precise absolutes), they robustly indicate the order of magnitude of the problem and its trends over time. As GFI's longstanding research and other studies have shown, trade misinvoicing is a major vehicle for illicit outflows, and measuring it via trade data analysis provides critical insights for policymakers.

3 | REGIONAL AND COUNTRY-LEVEL FINDINGS (2013–2022)

Recent analysis of Western Hemisphere trade data from 2013–2022 reveals worrying patterns of trade value gaps, both in absolute volume and relative to the size of national economies. Over the decade, trade misinvoicing remained pervasive and showed no clear downward trend across the region.

Figure 1. Trade Value Gaps in the Western Hemisphere (2013–2022) with All Trading Partners

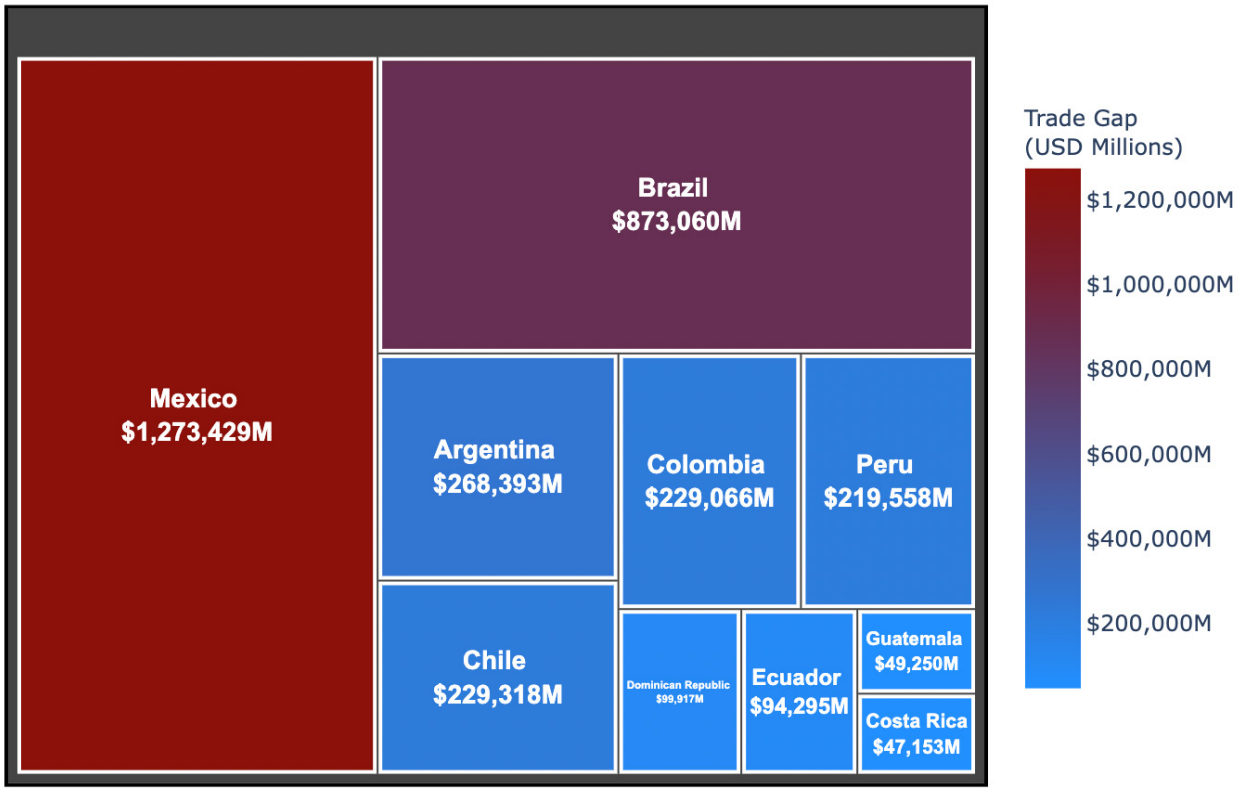


The data show persistently large value gaps throughout the period. From 2013 to 2019, yearly trade gaps fluctuated in a range roughly between USD $285 billion and $392 billion, with no sustained improvement. There is a slight dip in 2014 followed by a peak around 2017 to 2018, but notably no consistent decline that would suggest systemic progress in combating misinvoicing. In 2020, the trade gap contracted to about $343.2 billion (likely reflecting the pandemic-related trade downturn that year), but this respite was short-lived. By 2021, as global trade rebounded, the estimated gaps surged to $437.2 billion, and in 2022 the region hit a new high of $473.2 billion in illicit trade outflows. This post-2020 spike suggests that longstanding structural vulnerabilities combined with pandemic-era disruptions and commodity price swings led to an even greater hemorrhage of capital via trade. The absence of any sustained downward trend over ten years underscores that trade misinvoicing remains deeply entrenched in the Western Hemisphere's trade patterns, it is effectively a structural feature of the region's commerce with the world, rather than an isolated or diminishing problem.

Figure 2. Western Hemisphere Countries' Cumulative Trade Value Gap with All Global Trading Partners, 2013–2022 (USD millions)

Western Hemisphere countries	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	Average
Antigua and Barbuda	69	68	37	43	127	104	103	76	98	132	856	1052
Argentina	28129	26174	25356	23192	28460	25902	24574	22511	29274	34821	268393	13462
Aruba	127	115	88	86	112	109	114	84	95	104	1035	13471
Bahamas	1023	985	802	514	871	725	864	502	534	781	7602	432
Barbados	413	234	259	198	258	242	312	229	309	282	2735	517
Belize	97	85	134	92	166	199	183	165	206	429	1757	225
Brazil	102013	90188	73846	66664	80197	85538	85979	77374	98110	113150	873060	43741
Chile	18726	17033	20235	20318	25720	24900	24342	21471	27508	29065	229318	55119
Colombia	12842	12376	13232	12176	23970	26807	30030	24326	35020	38287	229066	22919
Costa Rica	3704	3846	3685	3983	5116	4917	5155	4940	5593	6214	47153	13811
Dominica	15	N/A	N/A	17	18	26	33	21	22	22	174	2629
Dominican Republic	2983	7101	6993	7525	8345	11280	12952	11818	14599	16321	99917	5561
Ecuador	5824	6362	5627	5147	11505	12733	12953	10823	14081	9240	94295	9711
El Salvador	1889	1927	1909	1944	2348	2328	2397	2048	2578	2981	22347	5832
Guatemala	3527	4024	4365	4521	5813	5199	4773	4584	5958	6485	49250	3580
Guyana	434	382	445	355	402	575	971	1186	1214	2215	8180	2871
Honduras	N/A	1841	1692	1925	3390	3043	2529	2399	2906	N/A	19724	1550
Jamaica	1006	847	794	789	934	1248	1132	1004	1185	1317	10256	1666
Mexico	72627	75218	125525	121434	135669	148756	139430	125598	159478	169694	1273429	64184
Nicaragua	991	1271	1750	2969	3010	1844	1899	2105	2269	3008	21116	64727
Panama	3656	3668	3578	3474	4453	4274	3835	3151	3015	3836	36940	2903
Paraguay	3838	3304	3233	3168	4085	4316	3518	3190	4432	3989	37073	3701
Peru	25919	20672	23034	20447	23436	24270	25379	15918	19166	21317	219558	12832
Saint Kitts and Nevis	29	30	44	45	46	N/A	N/A	N/A	N/A	N/A	194	14650
Saint Lucia	75	80	62	71	109	138	121	56		N/A	711	70
Saint Vincent and the Grenadines	43	36	32	32	35	38	30	29	52	36	362	60
Suriname	397	267	318	220	351	495	677	774	744	693	4935	265
Trinidad and Tobago	3558	3213	3127	2984	2379	3876	3203	2717	3611	3068	31737	1834
Uruguay	4155	3858	3341	3503	4463	4658	4761	4070	5150	5716	43674	3771
Venezuela, Bolivarian Republic	7109	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7109	4617
Grand Total	**305219**	**285201**	**323544**	**307837**	**375789**	**398538**	**392247**	**343169**	**437206**	**473204**	**3641954**	**331733**

Figure 3. Top 10 Western Hemisphere Countries by Cumulative Trade Value Gaps with All Trading Partners, 2013–2022 (in USD)



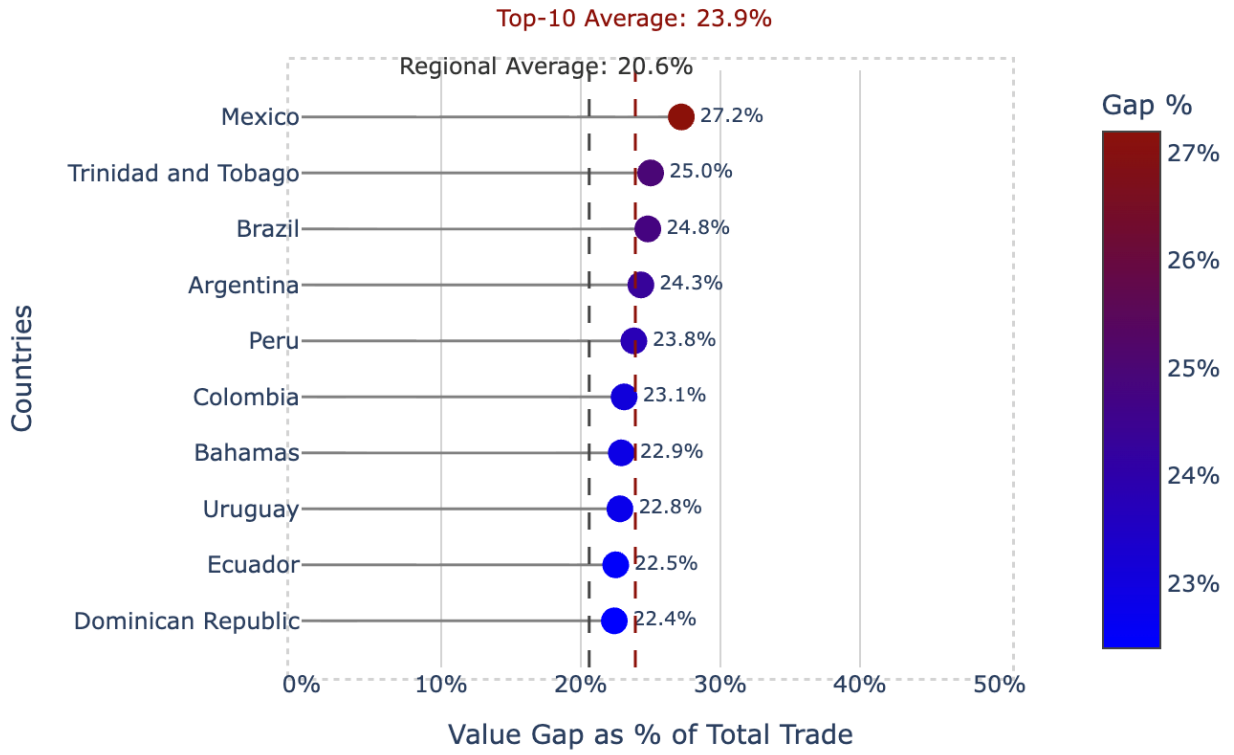
Breaking these value gaps down by country reveals both the concentration of illicit flows in the region's largest economies and some striking outliers among smaller states. Cumulatively over 2013 to 2022, the Western Hemisphere's trade gaps totaled roughly $3.64 trillion. A handful of countries account for a large share of this total. Mexico stands out dramatically, with the highest cumulative trade value gaps in the region, about US$1.27 trillion over the decade (2013 to 2022) as measured against all global trading partners. This reflects Mexico's high volume of trade (especially with the United States and other major markets) combined with significant under- and over-invoicing issues in sectors ranging from electronics and machinery to oil. Brazil follows as the second-largest source of trade gaps, with an estimated US$873 billion cumulatively misinvoiced during 2013 to 2022.

Together, Mexico and Brazil account for nearly 60% of the total value gaps captured among the Western Hemisphere's top 10 countries (as shown in the treemap), indicating that any regional response will need to involve these two economic heavyweights. Other major contributors include Argentina (~$268 billion gap), Chile (~$229 billion), Colombia (~$229 billion), and Peru (~$220 billion) over the ten-year period. Several mid-sized economies in Central America and the Caribbean also register substantial illicit outflows: for example, the Dominican Republic saw roughly $100 billion in cumulative trade gaps, and Ecuador about $94 billion. Even smaller countries like Guatemala (~$49 billion) and Costa Rica (~$47 billion) had non-trivial levels of trade value discrepancies in absolute terms. These figures illustrate that no country is untouched by trade misinvoicing, the issue permeates

trade relations across the Americas, from the largest industrial nations to the smaller developing economies.

Notably, while absolute illicit outflows correlate with economic size (bigger traders lose more in sheer volume), some smaller economies exhibit outsized losses relative to their total trade. It is insightful to consider trade gaps as a percentage of each country's total trade. Figure 3 highlights the top 10 countries in the region by the average trade value gap as a percentage of their total trade over 2013–2022.

Figure 4. Top 10 Western Hemisphere Countries' Cumulative Trade Value Gap as a Percentage of Total Trade, 2013–2022 (All Trade Partners)



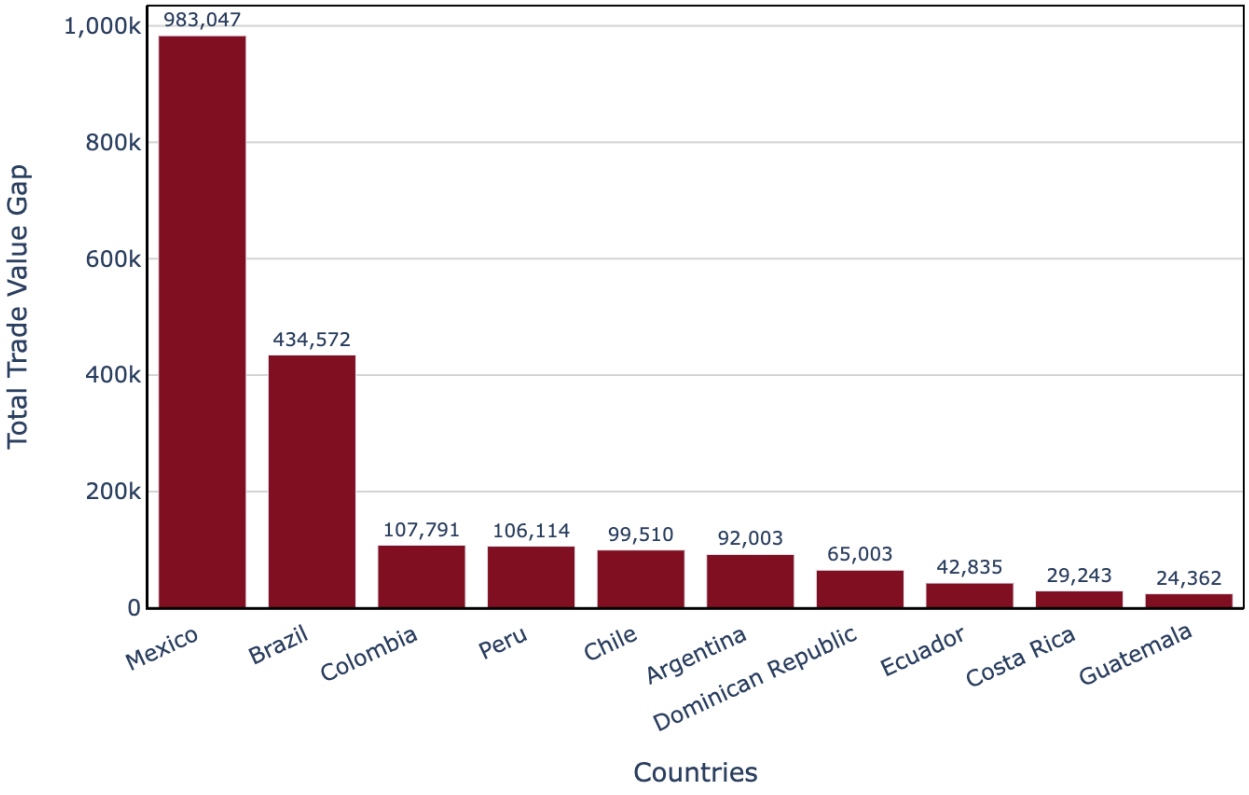
Perhaps surprisingly, Mexico, despite its large, diversified trade, tops this list as well, with an estimated 27% of its total trade value during the period effectively "missing" due to value gaps. In other words, reported trade data indicate discrepancies amounting to more than one dollar for every four dollars of goods traded between Mexico and its trading partners. This finding underscores that illicit trade distortions are not only a problem for small states or narrow commodity exporters; even a G20 economy like Mexico suffers from profoundly high relative leakages. Close behind are Trinidad and Tobago (25%), Brazil (24.8%), Argentina (24.3%), and Peru (23.8%), all of which exhibit trade value gaps equivalent to roughly one-quarter of their total trade over the period. For Brazil, being among the top ranks in both absolute and relative terms (value gaps equal to about a quarter of its trade) signals widespread invoicing problems across many sectors, from its commodity exports (e.g. soy, iron ore) to imports of machinery and consumer goods.

Uruguay and Trinidad & Tobago are notable smaller-country outliers. Uruguay, a financial and logistics hub in the Southern Cone, saw roughly a quarter of its trade value unaccounted, possibly reflecting its role as a transshipment point and financial centre in the region (e.g. activities in free trade zones or serving as an entry point for goods into Mercosur). Trinidad & Tobago, a petroleum-exporting island nation, likewise shows about a quarter of trade value discrepant; this may be related to hydrocarbon exports being undervalued or the use of petrochemical imports/exports for profit-shifting, given its relatively small formal economy and large energy sector.

Rounding out the top 10 by percentage are countries such as Colombia (~23.1%), Bahamas (~22.9%), Uruguay (~22.8), Ecuador (~22.5%), and the Dominican Republic (~22%). The regional average value gap was about 20.6% of total trade, which aligns with patterns observed in other developing regions and North-South trade generally. On average, the top 10 countries exhibited trade value gaps amounting to approximately 24% of their total trade over the period, compared with a regional average of 20.6%. These high percentages signal severe structural issues, such as systemic undervaluation of exports to evade taxes and export controls, and overvaluation of imports to move capital abroad or inflate tax-deductible expenses.

Figures 5 and 6 focus specifically on trade between Western Hemisphere countries and advanced economies (e.g., all G7 countries and other high-income trading partners).

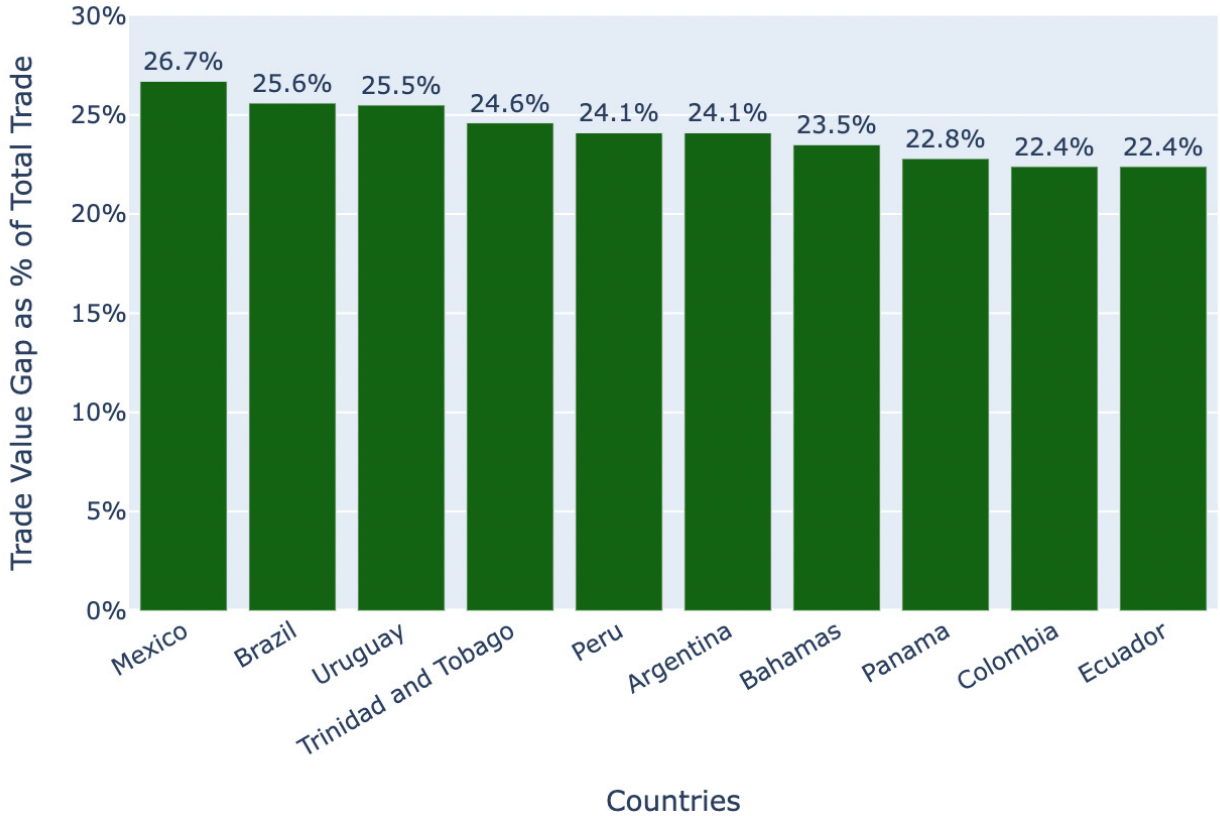
Figure 5. Top 10 Western Hemisphere Countries' Cumulative Trade Value Gap with Advanced Economies, 2013–2022 (USD millions)



Mexico and Brazil massively outpace others in absolute illicit outflows via misinvoicing, reflecting their huge trade volumes. However, several mid-sized economies also exhibit significant cumulative losses. Notably, commodity exporters like Chile, Peru, and Argentina appear in the top ten (with tens of billions in gaps), suggesting mispriced exports and import schemes have materially impacted their trade balances. Regional trade/finance hubs like the Dominican Republic and Costa Rica also rank among the highest – despite smaller economies, their gaps likely accumulate from re-export activities, duty-free zones, or use of shell companies in trade transactions. The presence of such diverse countries underlines that trade misinvoicing is pervasive across the hemisphere's economic spectrum.

Each of the top countries has its own structural vulnerabilities enabling these illicit flows: for example, Argentina (over $90 billion gap) endured strict currency controls and high inflation during this period, conditions known to incentivize under-invoicing exports and over-invoicing imports as means of capital flight; Peru (over $100 billion gap) and Chile (nearly $100 billion) are rich in minerals and metals, which are often undervalued in export to evade royalties; and countries like the Dominican Republic and Costa Rica, while smaller, engage in high-volume trading partnerships (e.g. apparel, electronics) that can hide profit shifting by multinationals. Overall, trade value gaps between Western Hemisphere countries and advanced economies totaled approximately $210 billion over the past decade, illustrating a massive loss of taxable trade income to illicit practices.

Figure 6. Top 10 Western Hemisphere Countries' Cumulative Trade Value Gap with Advanced Economies as a Percentage of Trade, 2013–2022



This chart highlights how smaller economies can have outsized relative illicit flows. Even large countries like Mexico and Brazil lose about a quarter of their total trade value to misinvoicing (26.7% and 25.6% respectively over 2013–22), which is astonishing given their scale. But the highest relative gaps are seen in certain mid-small economies: Uruguay (≈25.5% of trade gap), Trinidad & Tobago (~24.6%), Peru (~24%), and Argentina (~24%) all cluster around a quarter of trade lost. The Bahamas (~24%) and Panama (~23%) also show very high ratios, reflecting their roles as financial/transit hubs. These percentages far exceed what one would consider "normal" discrepancies, pointing to deliberate and systemic mispricing.

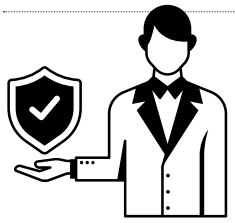
In many cases, such high ratios correlate with known illicit flow facilitators. For example, Uruguay, Bahamas, and Panama are known for their financial secrecy or free-trade zones, which can conceal trade-based money laundering; Trinidad & Tobago and Peru rely on extractive industries where product values are easily manipulated; Mexico and Colombia are major drug-producing/transit countries, and drug cartels frequently use trade misinvoicing to launder proceeds. The clear takeaway is that structural factors, like weak customs oversight, corruption, high corruption proceeds, and commodity-dependent exports, drive these extreme trade gap ratios. Countries with stronger governance and diversified economies (e.g. some larger economies in the region) generally show lower relative gaps, whereas those serving as conduits or facing governance challenges show anomalously high losses. The persistence of these patterns over a decade indicates that without significant reforms, these countries will continue to bleed revenue through their trade pipelines.

Overall, the data portray a region grappling with entrenched trade-related illicit flows. The fact that even the best-performing countries in the Western Hemisphere still show gaps in the teens of percentage points suggests that no country has decisively stemmed trade misinvoicing. Indeed, much like in Sub-Saharan Africa where GFI found no clear improvement over the decade, Latin American and Caribbean countries also did not manage to reduce their trade gaps substantially from 2013 to 2022. If anything, the challenge has grown in absolute terms, paralleling the expansion of trade volumes and complexity of global supply chains. The persistence of high relative gaps implies that whatever efforts have been made (in customs enforcement, trade oversight, or financial regulation) have not yet sufficed to dent the problem at its root. In the next section, we turn to policy recommendations, focusing on how Western Hemisphere nations, in cooperation with international partners, can address the systemic issues underpinning these illicit flows.

Figure 7. Western Hemisphere Countries' Trade Value Gap with All Global Trading Partners as a Percentage of Total Trade, 2013–2022

Western Hemisphere countries	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Geometric mean
Antigua and Barbuda	18.6%	27.5%	9.1%	17.1%	19.4%	16.0%	16.7%	16.6%	15.0%	14.6%	16.5%
Argentina	22.9%	22.1%	23.0%	21.5%	23.9%	23.6%	25.9%	27.0%	26.8%	27.0%	24.3%
Aruba	16.1%	14.5%	16.6%	18.2%	14.8%	17.8%	18.3%	20.6%	18.4%	17.8%	17.2%
Bahamas	29.7%	30.8%	22.6%	19.1%	24.3%	19.7%	25.2%	21.7%	18.7%	20.7%	22.9%
Barbados	24.9%	17.7%	23.0%	18.9%	21.9%	21.8%	24.3%	20.3%	23.9%	19.0%	21.4%
Belize	17.3%	16.3%	20.5%	18.9%	16.0%	15.6%	14.2%	15.9%	16.3%	24.2%	17.3%
Brazil	25.6%	24.7%	23.7%	23.2%	24.6%	24.6%	25.5%	26.0%	25.1%	25.3%	24.8%
Chile	18.5%	18.4%	21.4%	22.5%	25.0%	22.5%	23.0%	22.9%	21.5%	22.4%	21.7%
Colombia	17.8%	18.7%	21.5%	22.2%	25.1%	25.4%	24.8%	25.6%	24.8%	26.7%	23.1%
Costa Rica	18.7%	18.7%	18.8%	19.7%	22.2%	21.3%	23.0%	23.6%	21.7%	22.7%	21.0%
Dominica	12.7%	N/A	N/A	20.1%	14.0%	17.1%	13.7%	19.1%	8.6%	16.5%	14.8%
Dominican Republic	17.5%	22.9%	23.0%	24.1%	23.0%	20.8%	23.3%	22.8%	23.1%	24.0%	22.4%
Ecuador	19.5%	20.3%	19.7%	21.0%	26.1%	25.2%	25.0%	23.9%	24.6%	21.3%	22.5%
El Salvador	16.9%	16.3%	15.8%	16.2%	17.6%	16.7%	16.9%	17.6%	16.0%	17.4%	16.7%
Guatemala	17.3%	18.2%	19.1%	20.3%	22.9%	20.1%	19.2%	19.7%	20.2%	20.0%	19.6%
Guyana	20.9%	19.5%	22.7%	17.9%	12.8%	19.6%	24.0%	27.8%	24.0%	26.0%	21.1%
Honduras	N/A	14.8%	14.2%	15.4%	20.8%	18.9%	19.6%	19.8%	16.6%	N/A	17.3%
Jamaica	21.3%	18.5%	20.1%	20.6%	21.2%	21.2%	19.7%	23.5%	22.1%	20.9%	20.9%
Mexico	16.7%	24.8%	30.9%	30.1%	29.7%	30.7%	30.1%	30.8%	25.8%	26.3%	27.2%
Nicaragua	14.8%	15.6%	19.4%	21.7%	21.3%	17.8%	18.1%	21.1%	16.8%	20.2%	18.5%
Panama	18.1%	20.0%	19.1%	20.4%	24.0%	22.4%	21.0%	22.3%	17.8%	20.0%	20.4%
Paraguay	18.0%	16.5%	18.6%	18.8%	20.2%	21.1%	20.2%	19.8%	21.3%	20.3%	19.4%
Peru	23.3%	23.3%	23.3%	24.3%	25.2%	24.1%	25.0%	23.8%	21.9%	24.2%	23.8%
Saint Kitts and Nevis	23.3%	21.7%	20.6%	19.9%	18.1%	N/A	N/A	N/A	N/A	N/A	20.6%
Saint Lucia	10.7%	12.6%	13.6%	15.0%	20.1%	22.2%	17.2%	10.5%	N/A	N/A	14.7%
Saint Vincent and the Grenadines	21.6%	15.9%	19.4%	18.1%	21.5%	21.7%	18.5%	19.6%	22.1%	19.5%	19.7%
Suriname	27.8%	21.5%	20.9%	14.2%	15.1%	16.4%	19.9%	24.3%	22.2%	22.6%	20.1%
Trinidad and Tobago	27.3%	23.7%	26.7%	29.0%	22.7%	26.2%	24.4%	26.3%	25.9%	19.2%	25.0%
Uruguay	22.0%	22.2%	21.8%	24.3%	22.0%	23.4%	24.3%	24.2%	22.9%	21.3%	22.8%
Venezuela, Bolivarian Republic	23.9%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	23.9%

4 | POLICY RECOMMENDATIONS



Reducing trade-related illicit financial flows in the Western Hemisphere will require a multi-pronged strategy, combining domestic reforms, regional coordination, and international cooperation. Below, we outline key policy recommendations tailored to the region's challenges, building on best practices and lessons learned from both global and regional initiatives.

1. Strengthen Customs Enforcement and Technical Capacity:

The first line of defense against trade misinvoicing is an effective customs authority. Governments should invest in modernizing customs enforcement with advanced tools for risk analysis, valuation, and detection of invoice fraud. This includes adopting data analytics and perhaps artificial intelligence to flag unusual pricing patterns (e.g. imports priced far outside global market ranges) in real time. Training customs officers to recognize trade-based money laundering red flags, such as mismatches between trade documents and actual goods, or frequent unexplained adjustments in value, is essential. Enhanced inter-agency cooperation at the national level is also recommended: customs, tax authorities, and financial intelligence units (FIUs) should form joint task forces to investigate significant trade anomalies. For example, when customs detects repeated under-invoicing by a particular importer, tax authorities and the FIU can collaborate to trace the financial flows and prosecute offenders for money laundering or tax evasion as appropriate.

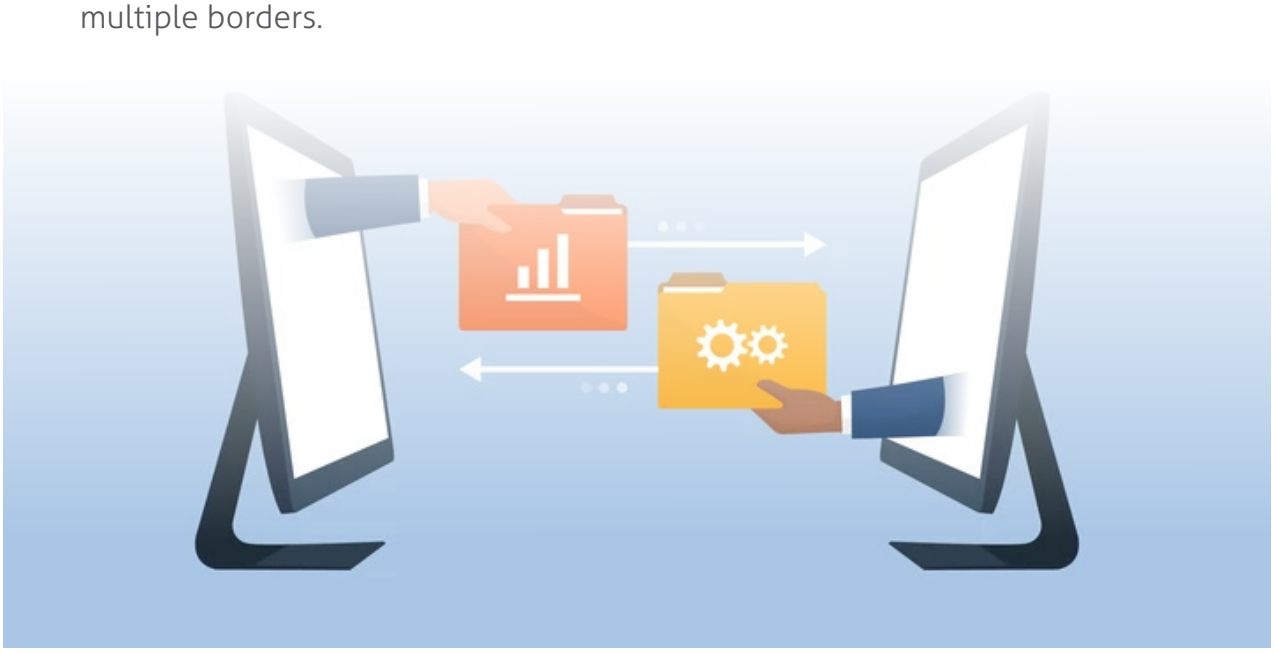
Critically, corruption within customs must be addressed. In some countries, bribery and collusion enable misinvoicing schemes to pass unchecked. Background checks, rotation of personnel, and whistleblower mechanisms can help reduce corruption risk at the border. Latin American governments might look to successful models and seek technical assistance from the World Customs Organization (WCO) in implementing stricter controls. Political will is paramount, leadership must empower customs to enforce laws even when influential companies or individuals are involved. As GFI's research in Mexico and Colombia noted, corruption and lack of political will have been major impediments to combating trade-based laundering. Therefore, demonstrating top-down commitment through high-profile enforcement actions against trade fraudsters can have a powerful deterrent effect.

2. Leverage Regional Trade Agreements for Data Sharing and Joint Enforcement:

The Western Hemisphere has a dense network of regional trade agreements and blocs (such as MERCOSUR, the Pacific Alliance, CARICOM, and numerous bilateral free trade agreements). These frameworks should be leveraged not only to facilitate trade, but also to secure it against illicit manipulation. In practice, this means incorporating customs cooperation and data exchange mechanisms into trade agreements. A good example is Mercosur's INDIRA system, an information-sharing platform that allows member countries (Argentina, Brazil, Paraguay, Uruguay) to exchange detailed customs records in real time. By granting each other access to import/export databases for the last five years, Mercosur countries can quickly cross-verify trade declarations, essentially performing mirror analysis on the fly to spot discrepancies.

This kind of automated, on-demand data interchange helps prevent traders from exploiting the "fog of data" between jurisdictions. Other sub-regions should emulate such systems. For instance, the Pacific Alliance (Mexico, Colombia, Peru, Chile) could establish a similar customs data hub, given their substantial intra-alliance trade and shared interest in curbing laundering tied to narcotics and illegal mining. CARICOM countries, many of whom face capacity constraints individually, might benefit from a unified customs information network to monitor trade through the wider Caribbean. Additionally, joint enforcement operations could be conducted under the umbrella of regional agreements, for example, Mercosur or ALBA could organize periodic "blitz" audits on certain high-risk trade sectors (like electronics or pharmaceuticals imports, or gold and precious stones exports) across member states simultaneously, sharing the results.

Regional trade agreements can also standardize trade documentation and valuation norms to reduce loopholes. Common, harmonized invoice reporting requirements (with digital documentation) would make it harder for traders to play off one country's lenient system against another's stricter one. In sum, the spirit of regional integration should extend to collaborative risk management: trade blocs in the Western Hemisphere should treat an anomaly in one member's trade data as a concern for all, pooling intelligence to tackle sophisticated misinvoicing schemes that often span multiple borders.



3. Enhance Transparency and Oversight in Free Trade Zones:

The region is home to numerous free trade zones (FTZs) and special economic zones, from Panama's famous Colón Free Zone (the second-largest FTZ in the world) to dozens of smaller zones in the Caribbean and Central America. These zones play a significant role in regional trade volumes but are also notoriously vulnerable to illicit financial flows. They often offer more relaxed customs oversight, tax privileges, and simplified transshipment of goods, conditions that, without proper safeguards, can act as a magnet for illicit traders. As the OECD has noted, the proliferation of FTZs (now well over 5,000 zones worldwide) has amplified challenges in combating illicit trade. Within the Western Hemisphere, Colón FTZ in Panama illustrates the risks: it has a long history as a hub for illicit trade and trade-based money laundering, including being implicated in gold smuggling and narcotics money laundering cases. Policy makers should enforce stricter transparency measures in FTZs, such as:

- **Requiring detailed record-keeping** of all transactions and inventory movements in zones, with periodic audits. FTZ companies should be mandated to report any unusually large trades or trades with known secrecy jurisdictions. being implicated in gold smuggling and narcotics money laundering cases. Policy makers should enforce stricter transparency measures in FTZs, such as:

- **Establishing on-site customs and financial regulatory presence.** Rather than treating FTZs as "offshore" bubbles, authorities should station customs officers and even FIU liaisons within major zones to monitor activities. For example, Colombia has customs officials present in its FTZs and considers entries into FTZs as exports for monitoring purposes.

- **Limiting the range of permissible activities** in FTZs to prevent abuse. This could mean disallowing cash transactions above a low threshold, requiring electronic payment records for goods entering/leaving zones, and scrutinizing re-exports that have no clear business rationale.

- **Implementing the FATF best practices on free zones.** The FATF issued guidance back in 2010 on mitigating FTZ risks, but uptake has been uneven. Countries should review their zone regulations to ensure compliance with those guidelines, such as conducting regular inspections and vetting FTZ businesses for links to shell companies or criminal ownership. Free zone authorities must coordinate with national customs and law enforcement, they should not operate as black boxes. Wherever possible, applying normal customs procedures to goods entering FTZs (or at least reporting those movements to customs electronically in real time) will improve visibility and traceability.

- **Public transparency** about zone operations: Governments can publish annual trade statistics and enforcement actions related to their FTZs, naming industries that are high-risk. This sunlight can deter some illicit usage and rally support for reforms.

Ultimately, the goal is to strike a balance where FTZs can facilitate legitimate trade and investment (their original purpose) without offering a safe haven for illicit flows. Western Hemisphere nations might collaborate, perhaps via the OAS or an OECD initiative, to share information on suspect actors operating across their free zones and to harmonize regulatory standards for FTZs.

4. Expand Trade Data Sharing and Analysis through Multilateral and Bilateral Initiatives:

Beyond regional agreements, Western Hemisphere countries should actively participate in global data-sharing mechanisms to detect IFFs. One proven approach is the establishment of Trade Transparency Units (TTUs) on a bilateral basis. TTUs are specialized teams (often within customs or investigative agencies) that exchange detailed customs data with partner countries to identify anomalies. The United States, for instance, has created TTU partnerships with at least 17 countries to compare import-export data and flag likely trade-based money laundering cases. Latin American countries like Argentina, Colombia, Mexico, Panama, Paraguay, and others have engaged in such programs with U.S. Homeland Security, yielding successes in uncovering fraud rings (for example, detecting under-invoiced textile exports or over-invoiced electronics imports linked to drug cartels).

We recommend expanding these TTU arrangements both within the hemisphere and beyond. Governments should seek bilateral agreements to automatically exchange customs transaction data (ideally at the granular level, including the identities of importers/exporters) with their major trading partners. For example, Brazil could benefit from data-sharing with China (a top trade partner) to catch discrepancies in commodity trade, and Mexico with the U.S. (building on existing mechanisms under USMCA). Where full data exchange is not immediately feasible, even aggregated red-flag information can help (such as one country alerting another that a certain exporter consistently under-reports values by X percent).

On the multilateral front, support should be given to initiatives for a global trade data utility, perhaps through the World Customs Organization. The WCO's recent work on a common Customs Data Model and interoperability could facilitate more seamless sharing of customs databases across countries. The key is to move toward real-time visibility: if customs authorities can query each other's records quickly (as Mercosur's INDIRA system allows regionally), the window for criminals to exploit mismatches narrows considerably. Additionally, international organizations (IMF, World Bank) are developing tools to estimate and monitor IFFs, Western Hemisphere countries should volunteer as pilots for these tools, to gain better insight into their own risk areas. This includes incorporating trade-based IFF risk indicators into their national risk assessments for money laundering.

Notably, some countries have not adequately recognized trade-based laundering in their official risk documents, for instance, Mexico's recent FATF mutual evaluation and national risk assessment did not explicitly highlight trade misinvoicing vulnerabilities. This needs to change. Governments should explicitly acknowledge trade-based IFFs in their AML/CFT strategies, which can unlock international technical assistance and prioritize domestic resources to address the issue. In summary, more data sharing, better use of data (through TTUs and analytical tools), and elevated recognition of trade-based threats in national and multilateral forums will greatly enhance the region's ability to detect and deter misinvoicing.

5. Tackle Trade-Based IFFs through Legal and Regulatory Reforms:

A robust legal framework is necessary to prosecute and deter trade misinvoicing. Many countries treat customs fraud as an administrative offense with minor fines, this is insufficient given the scale of harm from IFFs. Western Hemisphere nations should criminalize large-scale trade misinvoicing explicitly, making it a predicate offense for money laundering. This would empower prosecutors to go after not just the act of filing a false invoice, but the entire laundering conspiracy behind it. Mexico provides a recent example: in 2019 and 2020 it enacted laws targeting invoice falsification and shell companies involved in tax evasion and money laundering. These reforms included harsher penalties and granted greater autonomy to the financial intelligence unit to investigate trade-related fraud. Similarly, Colombia in 2015 passed a law strengthening penalties for customs fraud and recognizing the link to money laundering. Other countries should study and emulate such legislative measures.

In addition, regulators should tighten requirements around trade finance and invoicing. For instance, banks and financial institutions that facilitate trade (through letters of credit, trade loans, etc.) must enhance their due diligence, verifying that the pricing and quantities in trade documents make sense. Regulators (and FATF-style bodies like GAFILAT in Latin America) should issue guidelines for financial institutions on red flags for trade-based money laundering, urging them to report suspicious trade transactions (STRs) to authorities. Some red flags include a trader with no history suddenly engaging in large commodity deals, or discrepancies between shipping documents and financing requests. By formalizing such guidance, authorities make the private sector an ally in combating misinvoicing.

Moreover, beneficial ownership transparency is crucial. Shell companies are often used as exporters or importers in fraudulent trade deals. Implementing registries that record the true owners of companies (and making this information available to law enforcement and customs) will make it harder for bad actors to hide behind front companies. Several countries in the region (e.g. Mexico, Panama) have begun strengthening beneficial ownership rules, but consistent implementation is needed across the board, particularly in offshore financial centers in the Caribbean.

Finally, tax authorities should coordinate with customs to conduct post-clearance audits focusing on transfer pricing and related-party trade, since intracompany trade is sometimes used to shift profits illicitly (a form of misinvoicing that may not be caught at the border). By auditing and adjusting taxable incomes based on arms-length pricing, governments can recapture some revenue lost to misinvoicing and discourage future abusive transfer pricing.

5. Pursue International Cooperation and Capacity Building:

Western Hemisphere countries should actively engage with international bodies working on IFF issues to bolster their capacity. The Financial Action Task Force (FATF) and its regional affiliate GAFILAT should continue to emphasize trade-based money laundering in their mutual evaluations; countries should heed recommendations from these evaluations to improve their regimes. Donor agencies and multilateral banks (e.g. World Bank, IDB) can provide funding and expertise for customs modernization projects, such as implementing electronic single windows for trade, which reduce manual intervention and corruption opportunities, or installing scanning equipment at ports to detect undeclared goods. Additionally, international cooperation should extend to law enforcement: complex misinvoicing schemes often involve actors in multiple jurisdictions (for example, a Colombian exporter working with a U.S. buyer and an offshore shell company in the Bahamas). Thus, cross-border investigations and intelligence-sharing are vital. Mechanisms like the Egmont Group (connecting FIUs worldwide) and INTERPOL can be leveraged to trace and prosecute networks orchestrating trade fraud.

By implementing these recommendations, bolstering customs capabilities, sharing data, cleaning up free trade zones, reforming laws, and partnering internationally, the Western Hemisphere can significantly curtail the rampant trade misinvoicing that has plagued its economies.

5 CONCLUSION

The analysis of trade data from 2013 to 2022 makes clear that trade-related illicit financial flows are a pervasive and urgent problem for the Western Hemisphere. On the order of hundreds of billions of U.S. dollars are bleeding out of the region annually through mispriced trade transactions, a silent hemorrhage of capital that the Western Hemisphere can ill afford. These outflows have direct consequences: they erode the tax base, stifle industrial development, worsen balance-of-payments pressures, and perpetuate dependence on external finance. Indirectly, they fuel corruption and organized crime by providing a mechanism to launder proceeds, thus undermining the rule of law. In short, trade misinvoicing is not a victimless technicality, it exacts a human toll by draining resources that could be used for schools, hospitals, and infrastructure, and by entrenching illicit networks.

The findings show that little progress has been made over the past decade in curbing these illicit flows in Latin America and the Caribbean. If anything, the challenge has grown more severe, especially in the wake of global disruptions and commodity booms that provided new opportunities for misinvoicing. However, the outlook need not be pessimistic. The Western Hemisphere has the tools and knowledge at its disposal to tackle this issue, what has often been lacking is the coordination, political will, and sustained attention to implement them. By learning from experiences both within the region (for example, Mexico's recent reforms, Mercosur's data-sharing, Colombia's focus on trade-based laundering in its AML regime) and from other regions (such as Africa's push to highlight IFFs or Asia's adoption of electronic customs systems), Western Hemisphere nations can devise effective solutions.

A recurring theme in this report is the need for better data and transparency. Making illicit flows visible is the first step to stopping them. This means investing in systems that capture trade information in detail and share it across agencies and borders. Another key theme is institutional strengthening: even the best policies will falter if the implementing institutions (customs, FIUs, law enforcement, judiciary) are under-resourced or compromised by corruption. Therefore, capacity building and good governance reforms are integral to any IFF-reduction strategy. Finally, international cooperation emerged as critical. Illicit financial flows are, by definition, a transnational problem, no country can solve it in isolation. Encouragingly, global awareness is rising, and forums like the UN, G20, and FATF are prioritizing this agenda. Western Hemisphere countries should seize this momentum to forge partnerships, secure technical assistance, and hold each other (and their developed partners) accountable for progress.

In conclusion, curbing trade-related IFFs in the Western Hemisphere is both a daunting challenge and a profound opportunity. If the recommendations outlined above are pursued, the region can begin to reverse the "hemorrhage" of capital and ensure that its wealth is harnessed for the benefit of its people rather than siphoned off illicitly. The stakes are high: success would mean billions of additional dollars available for development each year, more stable economies, and stronger states that can invest in their future. It would also send a powerful signal that transparency and rule of law are advancing in the region.

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