The Political Economy of the Drug Industry in the Andean Countries

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The nine books listed above are a selection from the avalanche of publications on the drug problem that have appeared since the mid 1990s. Earlier publications had focused on the impact of illicit drug consumption and drug control policies in industrialized countries, in particular the United States. Much less was known (either in quantitative or qualitative terms) about the impact of drug production, consumption and trade in developing countries. Research had concentrated predominantly on macro-political issues concerning the effects of the methods defined to control production and trade. The books reviewed here serve to close this knowledge gap. They offer a wealth of information on the wide-ranging social and economic consequences of drug production and trade in those developing countries most noted for being large producers or transiters. Their analyses focus on those illicit drugs figuring prominently in international transactions, such as cocaine, opium, heroine and marijuana, with special attention for the supply side of the cocaine trade.

Clawson and Lee offer a general overview of the cocaine industry, its economic and political impact in the source countries, and the policy issues that it has generated. The industry has grown to huge proportions. It has remained notoriously difficult, however, to assemble precise information on its size and structure. Impact by this sector is equally difficult to establish. The data on
production and trade represent educated guesses at best. Moreover they are
often manipulated for political reasons. The sharp fluctuations in supply, as
producers and traffickers respond to anti-drug operations, further complicate
the picture. Clawson and Lee estimate the street value of the cocaine exports
towards the United States and Western Europe between forty-six and seventy-
four billion US dollars. The amount earned by the producer countries in the
Andean region is estimated between eight and twelve billion US dollars
(1993). Recent estimates mention an annual amount of sixty billion US dollars
spent on illegal drugs within the United States alone. Most of this amount is
spent on cocaine. Federal, state and local spending on drug control programs
exceeded thirty billion US dollars in 1998, which gives some indication of the
high stakes the United States is willing to wage in the ‘war’ on drugs.

The books primarily dealing with the effects within the coca-producing
countries: Clawson and Lee, Painter, Léons and Sanabria, and Thoumi, all
focus on similar issues such as: identifying the coca producers and the reasons
why they cultivate coca; identifying the producers and traffickers in the cocaine
industry and the reasons why they are involved in this activity, as well as how
this sector has become organized; the effects on economy and society on a
micro- as well as on a macro level; the impact of the ‘war’ on drugs and, in
general, the effects of repressive policy options. The studies reviewed here
offer a wealth of information, which is quite an accomplishment given the diffi­
culty of doing research on the dynamics of a criminal underground sector with
a history of extensive use of violence. However, the studies are mostly descrip­
tive, and with the exception of Thoumi’s book, lack theoretical reflection.

**Coca Supply**

Who is producing coca and why? In most regions coca is cultivated by peasants
on small family plots seldom exceeding the size of two hectares. It is mostly
grown in combination with other market crops and with food crops as part of a
diversification strategy. Coca ‘plantations’ covering extensive areas are very
rare. Only in recent years has this phenomenon emerged in Colombia. Most
coca cultivation takes place in areas of recent colonization and expansion of
the agricultural frontier. The peasant households in these areas have little ac­
cess to resources such as capital and technology, but dispose of a relatively
large amount of unskilled labour. They adopt coca cultivation as an almost
logical choice within their crop diversification strategy. Coca guarantees a con­
tinuous flow of income and this continuity is almost as important as the amount
of income. Consequently, peasants will respond to a drop in the price of coca
leaf by expanding the coca cultivated area instead of shifting to other crops.
Within the diversified agriculture in the frontier areas, coca has been less sub­
ject to radical price fluctuations than other crops. It has a secure market which
guarantees a steady flow of income to the individual peasant households. This
is coca’s basic advantage. At the same time, it gives an idea of the magnitude of
the problems that accompany crop substitution. Painter’s excellent study ex­
plains very clearly the issues involved. A peasant household can expect to have
some income within twelve to fifteen months after having planted coca. The
shrub is fully grown after two to three years and will continue to produce for
fifteen years or more with three to four crops a year. Coca requires less in-
vestment and attention than other crops once it has been planted and will only require manual labour and no special skills. Most peasant families in Bolivia and Peru are familiar with coca. The product is easy to harvest, pack and transport and in most cases will have an assured nearby market. This explains why it has been so difficult to find an alternative and why the strategies to control coca cultivation have encountered so many setbacks. In fact, as most other books reviewed here are also pointing out, under 'normal' circumstances coca would be the ideal income-generating crop to alleviate poverty and rural underdevelopment. Also, the production of cocaine is not a very elaborate or difficult process. The industry is in fact perfectly adapted to the conditions of an underdeveloped rural economy. Converting coca leaves into coca paste involves a relatively simple process that can be realized in small jungle 'labs' that can be set up and removed in a few hours. The production of cocaine base and cocaine requires more expertise and the use of a range of chemicals, but it still is not a complicated affair.

Cocaine Production

Who are involved in this production and trafficking of cocaine and why and how has this involvement come about? Clawson and Lee, Painter, and Thoumi devote broad attention to these questions. They note major differences between the coca producing countries as to the organization of the sector and the market strategies of the entrepreneurs concerned. A certain division of labour has emerged between the three countries. Colombia is more involved in cocaine production based on coca paste produced elsewhere, and in trafficking, although Brazil and Mexico are rapidly gaining terrain in this sector. In Bolivia and Peru the clandestine drug economy is more interwoven with the formal economy. Many of those involved in drug production and trafficking move back and forth between the two sectors. A small mafia-type drug elite exists but it is hardly as prominent as the powerful, well-organized Colombian drug lords. The intensification of repressive policies has strengthened the tendency of these informal and formal sectors to interpenetrate. Generally, repression has resulted in a dispersal of production facilities and a decomposition of the production process into small, technically simple units that do not require a major investment. This way drug production has become accessible to a wider sector of micro- and small entrepreneurs, who at the same time may be coca-cultivating peasants and managers of small coca-paste producing facilities. Especially in Peru this activity to produce coca paste or even cocaine base by peasants who in the past were just selling coca leaf has become widespread. This way they pocket a greater share of the value added and sell directly to representatives of wholesalers who connect with exporters who in turn have a direct link to international organizations, mostly Colombian cartels.

The basic motive for engaging in these activities is simple and flows from the countries' long-term structural poverty and underdevelopment and the absence of economic alternatives. In the coca-producing regions, the economic rewards have helped to cushion the worst extremes of poverty but they have not brought sustained development in terms of improved housing, education or health. In this way, Bolivia in particular has been repeating its historical role of supplying world markets with a raw material, without reaping major bene-
fits. Painter, and Léons and Sanabria show how in the late 1980s Bolivia had become heavily dependent on income generated and employment secured by the drug industry. Its legal economy had been undermined by overvalued exchange rates resulting from the massive influx of narco dollars, by the weakening of local industry, the collapse of non-traditional exports and the boom in financial speculation. Since then, the coca price has dropped while the legal economy has recuperated slightly. However, the small size of the formal economy in Bolivia has made the country vulnerable to ‘economic narco-addiction’.

An important ‘positive’ difference with the Peruvian and Colombian experience, where social and political drug-linked violence has been rampant, has been the lack of such widespread violence. The major traffickers’ close family and business links may have contributed to this phenomenon.

Both Painter, and Léons and Sanabria give broad attention to the various attempts by the Bolivian government and by international organizations to control supply. Both studies discuss ‘alternative development’, the most favoured strategy today to control the supply side of the drug industry in source countries. In Bolivia this effort to combine crop substitution, rural development projects and law enforcement has not been able to create levels of living that will eliminate the need for coca cultivation.

In Peru, this strategy has not produced any better results. Tullis, and Joyce and Malamud explain the complications involved in reducing – let alone abolishing – aggregate coca growing by the world’s primary producer of coca leaf. Substitution programs, through which coca growers received funds to induce them to replace coca with other crops, eventually led to the displacement of coca cultivation from project control areas to other areas. Pressuring the Peruvian government, spraying with herbicides, controlling the imports and internal transports of precursor chemicals used in cocaine production, applying military pressure towards the coca growers, all these policies have not been able to book progress towards aggregate crop suppression. In the 1990s, alternative development was considered the solution but, as in Bolivia, the difficulties in organizing a proper contextual support system (credit, technical assistance, access to inputs) for a transition to alternative crops in regions located at a great distance from potential markets has frustrated results. In addition, production mobility, as in the case of these supply-control programs, has remained a major concern. Program success does not guarantee that production will not migrate elsewhere. Moreover, the alliance between coca growers and the guerrilla movement Sendero Luminoso hampered supply control up to the mid 1990s. Since then however, government repression added to the effects of a destructive fungus attacking Peruvian coca has led to a decline in production. Nevertheless, there are strong indications that this decline is temporary. Growers have moved from the traditional coca growing areas in the Upper Huallaga Valley to other locations, and their new crops have only recently entered into full production.

The Political Economy of the Drug Industry

Most studies reviewed here – as I noted before – are rather descriptive and factual. They often lack a more profound analysis of the issues. Such analysis, however, is indicated, first, on the micro level, where the strategies of peasant
households should be taken into consideration in the light of the specific economic, social, cultural and environmental circumstances that influence coca cultivation in their respective region or sub-region. Most studies mention the tradition of coca cultivation and consumption in the Andean region, and this long-standing familiarity with the crop is obviously an important consideration. However, coca cultivation in the colonization areas in Bolivia, Peru and Colombia has become part of an extraordinarily complex situation that goes far beyond the dictates of tradition. Second, on a societal level, analysis is required of the political economy of the drug industry. In order to get a better understanding of the possible policy implications, it is necessary to understand how social and economic developments since the 1950s have produced an environment conducive to the growth of this industry.

Thoumi's insightful and provocative analysis of the illegal drug industry in Colombia stands out among the volumes reviewed here. *Political Economy and Illegal Drugs in Colombia* is an excellent book, rich in information as well as in analysis. Thoumi explains how an increasing delegitimation of the regime and the weakening of the state – processes accompanied by extremely high levels of violence – has led to a growing gap between the legal system (legality) and socially accepted behaviour (morality). These developments have created an environment which is experiencing a mushroom-like growth of a high profit and high risk underground business sector in which conflict cannot be resolved through legal channels. Understanding why the drug industry has flourished in the country in the way it has, and the extent to which its growth has affected economy and society, will require knowledge of Colombia's history and political economy. Also, the drug industry has become an integral part of societal dynamics and any profound analysis will need to include the relationship to the state, the legal private sector, the non-drug underground economy, the political parties and other social and political organizations. It is Thoumi’s thesis that, given the characteristics of Colombia's political economy, the country became an attractive location for the illegal drug industry from early on. Colombia offered conditions that minimized the risks for the cocaine refining industry, allowed the control of coca leaf marketing in Bolivia and Peru and assured a dominating role in the United States cocaine market.

For Thoumi, the basic factor behind the country's 'comparative advantage' in the establishment and growth of the illegal drug industry, has been the process of delegitimation of the regime. This process has been going on for more than half a century. During this period, the Colombian state has grown increasingly inefficient, unaccountable, unresponsive to citizen's demands, more and more corrupt and unable to exert effective control over large areas of the country. At certain points in time, Colombia has shared the characteristics of an increasing delegitimation of the regime and a disintegrating state apparatus losing control over parts of its own territory with other countries in Latin America, and certainly with those in the Andean region. However, Thoumi sees the Colombian case as very different from the other ones. In Colombia, the delegitimation process began several decades earlier than elsewhere and, moreover, it has continuously been accompanied by extremely high levels of violence. The institutionalization of violence as a 'normal' option in the settlement of disputes of any kind has served sectors like the drug industry. The illegitimate nature of its business precludes resolving conflict through legal
channels which, added to the high profit and high risk characteristics of the industry, almost automatically will lead to the use of violent means. The regime's delegitimation is furthered by other factors, such as the long tradition of contraband, black marketeering and laundering of foreign exchange, experiences that resulted from long-term official exchange controls and restrictive import policies and were transferred to the drug industry. In addition, Colombia’s brand of capitalism, operating on the basis of a ‘production-speculation’ mentality, with little investment in long-term capital equipment, a focus on commerce and quick turnover and high short-term profits has generated an economic ‘climate’ propitious to the growth of a sector like the drug industry. This brand of capitalism is shared with many other countries in Latin America, where it has equally discouraged the development of more stable economic activities and encouraged speculation. In combination, however, with the characteristics of the state-society relationship mentioned above, this brand of capitalism may have had a special impact in the case of Colombia.

Some additional factors should be mentioned that may explain why the drug industry has flourished in Colombia. Thoumi mentions the country’s complex geography that has kept many regions isolated and fairly self sufficient. Large areas of the country have remained outside the government’s control, providing safe havens for the production and logistics centres of the cocaine industry. Overseas, the presence of large Colombian migrant communities in the United States have completed Colombia’s international competitive advantage in cocaine manufacturing and distribution. The presence of these communities has facilitated downstream penetration of the United States market and has permitted the Colombians to organise their own logistics and sales network, bypassing the American wholesalers.

The critical institutionalist perspective managed by Thoumi produces good insight in why the drug industry has thrived in Colombia. His argument that institutional and ethical legacies of the past are important factors that condition the behaviour of present economic actors is convincing. He, as well as Clawson and Lee, have tried to establish the identity of these entrepreneurs in the drug industry, their operational strategies, their behaviour towards the rest of society, and their efforts to incorporate themselves and their capital into the mainstream of Colombian society. This is a fascinating area of research, but at the same time an area in which information is sketchy and sometimes contradictory. According to Thoumi only one study based on actual interviews with industry actors has ever been realized. There is an urgent need for more information. However, research in such a violent underground sector is extremely difficult and dangerous. Clawson and Lee estimate the size of the small elite of entrepreneurs dominating the Colombian cocaine business at five hundred. This group supervises every aspect of the business, including the movement of cocaine from source countries to consumer markets, overseas distribution and the recycling of the proceeds. Traffickers from the same town or region have pooled their interests through the formation of 'cartels' with the intent to maximize export volumes while minimizing risk. One of the main objectives of these entrepreneurs concerns their assimilation into mainstream society in order to protect and legitimize their property, legalize at least part of their wealth, obtain an economic status and social recognition comparable to other rich people in the legal circuit, participate in the political process and access public office.
In short, they wish to become respectable citizens. This movement has been strongest in Colombia, obviously because of the strength of its drug elite. However, in the other countries we have observed similar phenomena. Remember the spectacular case of Bolivian drug lord Roberto Suárez Gómez, who as the story goes, in 1984 offered to pay off two-thirds of Bolivia's foreign debt – which at the time stood at three billion US dollars – in exchange for government tolerance as a legitimate entrepreneur.

The integration of the drug traffickers into the Colombian economy has been subtle, but pervasive. Thoumi mentions the differences in strategies that have been followed in pursuing assimilation, conditioned as they are by the diversity in social origins, connections with the national power structure, objectives and ways of operation. Some of the strategies are confrontational. Interests are being protected through the association with guerilla movements or through the organization of para-military groups in the cocaine producing regions or in those where extensive investments in real estate have been made. However, most entrepreneurs follow a more low-key approach, using their wealth to gain the favour of politicians, clerics, military leaders and other relevant members of the establishment. The experience of the drug lords in running an illegal industry, based on personal trust and dependency relationships, permit an easy connection with the clientelistic and paternalistic dimensions of the Colombian political system.

The exact degree of economic integration of these entrepreneurs is difficult to ascertain. Drug-related income and capital is notoriously difficult to identify. The size of the resources, added to the widespread illegality of many economic activities and the large underground economy, offer numerous possibilities for laundering capital. Given the widespread lack of respect for laws that apply to economic transactions, and the fact that most firms operate simultaneously in the formal and informal economies, there is no way of establishing where returned drug capital has been invested. Thoumi and Painter comment extensively on the ways to estimate general socio-economic impact. This procedure is most complex and establishing the effects on the political economy of the countries concerned will involve a long list of trade-offs and social costs. Traditional cost-benefit analysis does not serve in the analysis of these issues.

The methodology of drug trafficking is dealt with extensively by all authors. It is the most spectacular sector of the drug industry and the one generating most value added. Clawson and Lee show how the drug trade is increasingly conforming to more general ground rules of international trade in areas such as: increasing the efficiency of production, the improvement of logistics and transport (containerization), the downstream penetration of markets and the diversification of product-market combinations. In addition, an increasing number of countries are getting involved in transport and laundering.

Toro describes how Mexico has become a transit point in trafficking directed towards the United States market. Between fifty and seventy per cent of total United States cocaine imports is estimated to pass through Mexico. Mexican ‘cartels’ have come to play an increasingly important role. Traditionally, marijuana and heroin have dominated Mexico’s drug trade and the bulk of the drug money has come from the export of these two products, but the cooperation between Colombian and Mexican traffickers is changing this picture. An increase in drug-related corruption and violence has accompanied this devel-
opment. The proximity to the United States has made it difficult for the Mexican government to maintain autonomy from United States enforcement programs, and the effects of the United States organized 'war' on drugs have posed challenges to Mexican sovereignty in this matter. The Mexican government has been dragged into a spiral of increasingly punitive programmes with the paradoxical effect of making drug trafficking even more appealing. As in Colombia, the danger exists of the formation of powerful organizations in this illegal market that will pose a challenge to the authority of the state. The greater part of Toro's book is dedicated to macro-policy considerations directed towards these issues. However, little is learned about the organization of drug production and trafficking in Mexico, the entrepreneurs involved and the interaction between the informal and formal economies in this sector of activity.

The other transit point between the Andean producer countries and the United States market is the Caribbean. Its geography and location make the region conducive to drug trafficking where it serves as an almost natural 'bridge' between suppliers and consumer markets. The structural weakness of the island economies makes them vulnerable to the enticement of alternative economic opportunities as offered by the drug trade. For the individual Caribbean states, weak and defenceless as they often are to the mighty drug cartels, the consequences are far reaching. Griffith rings the alarm bell: for many small countries, the illegal drug traffic threatens their very existence. Drugs and Security in the Caribbean is a very useful book. Griffith presents a comprehensive account of all that has become known in the last few years on drug trafficking operations and money laundering in the region. He outlines the all too familiar effects in terms of increased crime, systemic and institutional corruption, arms trafficking, and total distortion of individual economies. The drug business in the Caribbean has become a matter of international concern and intervention by the United States, Canada, Britain, France and The Netherlands. There is no simple solution to the drug threat. Participation in trafficking feeds on the same manifestations of underdevelopment that preclude the eradication of the coca production in the Andean countries. In this situation of massive unemployment and a continuing lack of economic opportunities, a persisting demand for drugs from the United States and European markets will reduce the effectiveness of any anti-drug action. Trafficking, in addition to increased marijuana production and exports, could then well be seen as a useful way to cope with depressed exports in the formal economy.

The 'War' on Drugs

So, where do we go from here? Drug production in source countries has proven to be difficult to control, let alone to eradicate. Drug exporters show a flexibility and inventiveness that beats any controlling agency. The potential supply is virtually unlimited; the trafficking routes to the markets in Europe and the United States are multitudinous. The equipment and inputs used in production and trade, and even the drug shipment itself, can all be easily replaced.

Tullis, Clawson and Lee, Bagley and Walker, and Joyce and Malamud, all give wide attention to these policy issues, debating the pros and cons of the various counter-narcotics programs that, in the course of the past decades, have been defined and put into action. They all agree that the Andean counter-
narcotics effort has not been successful. This applies to all phases: eradication, precursor chemicals control, destruction of production facilities, interception of shipments, control of money laundering, and to the projects of alternative development.

The lack of adequate information on the functioning of the drug industry has hampered the definition of adequate policies. Little is known about the diversity of motivations and circumstances determining coca cultivation as part of peasant household strategies. Supply side control projects have preferred to deal with the coca producing peasantry as a homogeneous group instead of taking their diversity into account. There is also a lack of exact information on the economic structure and functioning of the drug industry, its interaction with the formal economy and its macro-economic impact.

In the absence of such information, governments – and in particular the United States government – have opted for the ‘quick fix’. Counternarcotics programs were forced onto the respective governments, who – in turn – have forced them onto the drug producing peasantry. International pressures dictated unrealistically short time-spans for these programs and failed to organize adequate contextual support. Most organizations involved were hard-pressed for results. The ‘war’ on drugs has to be won and positive news of the front has to be communicated back to the base. Failure was responded to by repression towards the coca growers. Through the years, they have been bearing the brunt of this ‘war’ effort.

These programs need to be phased out. This is not going to be an easy task, because they include support for a wide range of institutions, such as: police agencies, security forces, judiciaries, academia, the media, NGOs and consultancy agencies, all of whom are committed to the continuation of the failed policies of the past. They should realize that supply suppression will not solve the problems with demand. It has accomplished nothing in the consumer countries and has caused great problems in the source countries.

Decriminalization or legalization would undo the drug mafia, but it would also hurt the hundreds of thousands of coca growers. Both stand to gain from a continuation of the current prohibition regimes. However, such radical actions on the demand side are not conceivable in the present international political conjuncture.

In fact, the short-term policy choices of the Andean governments are very limited. The Colombian government, especially, has lost the capacity to implement policies of any kind. Its institutional weakness coupled to the lack of social cohesion and social control in civil society has made it unable to cope by itself with the problems that have arisen from a drug industry growing in response to an expanding demand in the United States and Europe. For Colombia, the basic imperative concerns the long-term process of strengthening the legitimate institutions of government, society and the economy.

Clawson and Lee see only short-term possibilities for successful counternarcotics action in efforts to break up the trafficking cartels, to combat high-level corruption and – above all – to encourage the development of the legal economy in the drug producing countries. Breaking up the cartels would produce the comparative ‘advantage’ of having to deal with hundreds of ‘mom-and-pop’ refining and trafficking operations instead of with a small number of large drug businesses whose economic power could give them access to the
highest levels of government and the capacity to use violence on such a massive scale that the state would be undermined. This policy would counteract present developments in the drug industry which – as in legal trade – show a trend towards concentration.

Reinforcement of the legal economy in source countries is probably the best manner, on the short-term, to reduce the relative importance of the narco economy and, subsequently, its political weight. In fact, this has already happening in Peru. The policy requires international aid, credit and foreign investment, but – above all – major changes in trade regimes that will allow access to overseas markets. The European Union is already managing a system of generalized preferences that gives preferential access to the European market by the source countries involved in the ‘war’ on drugs. The system can be improved and its effectiveness increased. In spite of its flaws, it represents a promising initiative that should be followed by the United States government. For the immediate future there are few other options open.

On the long-term, radical solutions are necessary. These should be directed towards demand reduction and, on the supply side, towards massive long-term regional development efforts, operating on the basis of an intense participation by the communities and the households involved. The latter is in fact the only strategy that has never been tried. Yet, it seems the logical way to go, given the fact that rural underdevelopment is at the heart of the problem and also because all other options have been exhausted. However, this approach would take more patience, good thinking and investment than presently realistically can be expected from the governments and international organizations participating in counter-narcotics activities.

Notes

1. ‘Ending the War on Drugs’, The Economist, 2-1-1999, pp. 75-78.