ILLICIT DRUGS AND THE WORLD ECONOMY

Why a world economy that gives us cheap coffee also gives us cocaine.

The rapid decline in raw commodity prices and accumulation of foreign debt in developing countries in the 1980s lies behind the escalating illicit drug production and trafficking activities in some of those countries. Examples are given of the economic pressures behind coca cultivation in Latin America and heroin production in Asia. The conclusion is that global economic reform is essential to the elimination of illicit trafficking.

UN Information Service

This article is reprinted from Drug Trafficking and the World Economy *(UN Department of Public Information, 1990), with extracts from "Narcotics and Development" by Patricia Ardila (*The Panos Institute*: February 1990, p.1-8). Our thanks to the UN and to the Panos Institute for permission to reprint.*

TWO OF THE economic trends that shaped the world in the 1980s were the rapid decline in the prices of raw commodities such as minerals and agricultural goods, and an accumulation of external debt among many of the developing nations. The pincer action of these two forces tore apart the development plans of scores of countries and brought on, for the first time in the post-World War II era, continent-wide increases in poverty.

It also ushered in another major trend of the 1980s: the worldwide traffic in illicit drugs became a dominating world industry, with net sales greater than those of petroleum and exceeded only by the international arms trade. According to an estimate in *Fortune* magazine, drug trafficking is now a $500-billion-per-year business.

These bellwethers of the world economy in the 1980s – debt, falling commodity prices, poverty and drug trafficking – are interconnected and mutually reinforcing. The decline of prices for commodities like sugar (by 64 per cent), coffee (30 per cent), cotton (32 per cent) and wheat (17 per cent) between 1980 and 1988 motivated farmers to turn to cash crops like the coca bush and the opium poppy to avoid economic ruin.

At the national level, export of illicit drugs often took up the slack in foreign exchange depleted by falling prices for agricultural goods as well as for minerals, including tin (down by 57 per cent in the 1980–1988 period), lead (28 per cent), crude oil (53 per cent) and iron ore (17 per cent).

The situation was especially desperate in nations burdened with external debt, which needed to be serviced with scarce foreign exchange. Indebtedness and declining revenues from export commodities brought on internal budgetary deficits for many countries, and debt-repayment guidelines demanded reduced spending in the public sector.

Under these conditions, attempts to stem drug trafficking through strengthened law enforcement or increased social services were effectively crippled. Programmes for replacing illicit cultivation with food crops or other legitimate cash crops, which had achieved some success during the 1970s, suffered in the 1980s due to falling prices for agricultural commodities. As farmers turned away from food crops, the need for imported foodstuffs increased, further weakening currency reserves and bringing about greater dependence on foreign exchange inputs from drugs.

The constituent elements of the illicit drug economy are found in highest concentration in the western hemisphere. Latin American and Caribbean nations were hurt badly by plummeting prices for coffee, sugar, tin and petrol, among others. Their combined foreign debt will reach $420 billion in 1990, greater than that of any other region in the world.

In the mean time, the burgeoning United States market for illicit drugs was close at hand. Estimates put its size at from $50 billion to $100 billion a year. Cocaine from South America holds the lion's share of the market, but Mexico, Central America and the Caribbean islands are involved as transit points for cocaine traffic, as well as the production of cannabis. Cultivation of opium poppies for heroin also takes place in Mexico.

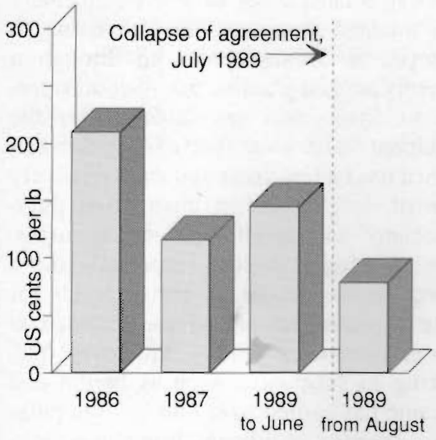
Coca dollars and banks

According to press reports, suitcases filled with $50 and $100 bills are turned in routinely at bank windows for conversion to pesos in the Colombian city of Medellin, home to the largest of the cocaine cartels.

Peruvian banks maintain busy branches in frontier hamlets of the Upper Huallaga Valley, where the most extensive cultivation of coca bushes in the world is carried out. An informal currency exchange market is run on Ocona Street, in the capital city of Lima, where $3 million change hands daily.

A similar situation prevails in Bolivia. A 1986 report by economist Samuel Doria Medina found that four-fifths of the exchanges in Bolivia's 'parallel' currency market – easily the largest source of dollars

International coffee market and cocaine



Colombian coffee on the New York market[1]

Colombia's most important legal export cash crop – coffee – as well as its most important illegal export – cocaine – are heavily linked to the US market. Last year, US policy regarding coffee producer countries contributed heavily to the collapse of the international coffee agreement. The US backed a call for other producers of Colombian-type coffee to be given a bigger share of the export market. American trade officials hoped to increase availability and so decrease prices, but the move ended in a failure to renew the agreement. This triggered a 50 per cent fall in coffee prices, which is likely to cost Colombia some $500 million in export earnings in 1989. The estimated loss is 7.5 times greater than the $65 million in military aid that the United States offered the Colombian government last year to fight the war on drugs.[2]

in that country – can be traced to sales of coca and coca paste.

Coca dollars loom large in precarious South American economies, but they are only the tip of the iceberg. The US Drug Enforcement Administration estimates the Colombian cocaine cartels gross about $50 billion a year, yet only $2–$4 billion accrue to the Colombian economy. Doria Medina calculated that 15 per cent of the total value of cocaine from Bolivian coca stayed in the national economy. Clearly, the greater part of profits from the western hemisphere drug nexus is invested outside source countries or held in overseas bank accounts.

The major repositories of coca dollars are banks in Europe, the United States and islands of the Bahamas and in the Caribbean. Banks wittingly or unwittingly help drug barons launder as much as $100 billion a year in proceeds from sales in the USA.

One way to trace the flow of drug money into banks is to look at currency surpluses. Under usual conditions, bank deposits and withdrawals over a given period tend to even out. A currency surplus indicates large deposits of cash from informal or illicit sources and is connected by the US Treasury Department to laundering of drug receipts.

Thus the currency surplus of banks in Florida, traditionally the main gateway for cocaine smuggled into the USA, increased from $576 million to $1.5 billion in 1976. By the end of the 1980s, the flow of cash turned into a deluge swamping the entire southern border of the United States.

The effect of the debt crisis in stimulating drug trafficking has come full circle. Loans from US banks to developing countries set the stage for the crisis, and defaults on the loans undercut the stability of the US banking system. Now the proceeds from drug trafficking are helping to buoy the liquidity of US banks and figure prominently in payments on Latin American debts. The impact of coca dollars in the western hemisphere now extends from peasant farmers in the Andean mountains to national governments across Latin America and the boardrooms of major banks.

The cocaine economy

The cocaine industry is a major employer in the three key nations of Bolivia, Colombia and Peru. Estimates of the number directly employed range between 600,000 and 1.5 million. About three quarters are farmers and coca-leaf pickers; nearly one quarter are *pisadores* (stompers) who mix leaves and raw chemicals like kerosene with their bare feet; a few thousand work in clandestine laboratories processing coca paste into cocaine; and a thousand or so, including cartel billionaires, direct import–export and finances.

In addition, many more people owe their livelihood indirectly to the multiplier effect on local economies – although not as many as would be the case with legitimate industries of the same proportions, since most of the locally retained profits are spent unproductively on real estate, luxury goods, status-symbol cattle ranches, private armies and bribery.

What are the returns on their labour for the 99 per cent of the cocaine workforce who grow coca and turn it into paste? A study of peasant farmers in the Chapare district of Bolivia, largely Andean Indians, looked at the effects of integration into a cocaine economy. The coca leaf boom took off in 1982–3, at the same time that economic recession and a severe drought wrought havoc in the rural highlands.

Bolivia's gross national product declined by 17 per cent between 1980 and 1985, per capita consumption fell by 30 per cent, per capita income by 20 per cent, and unemployment doubled. Terms of trade for farmers suffered from inflation of 2800 per cent in 1984 and 10,000 per cent in 1985. In 1985, producers of coca leaves could earn $9000 from 2.2 acres, while those growing the next most profitable crop, citrus fruits, were averaging only $500 from plots of the same size.

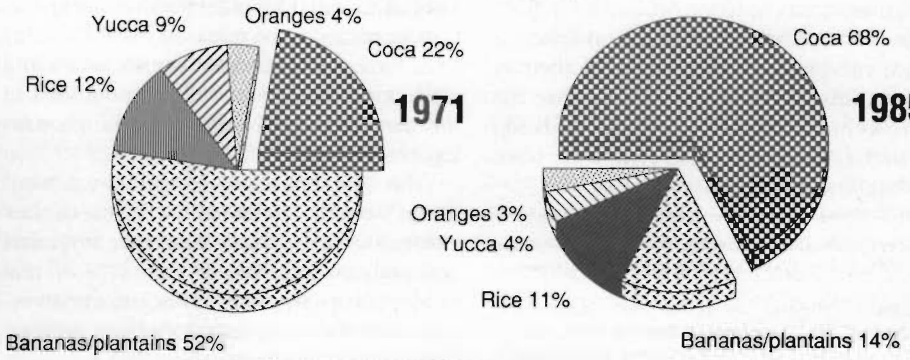
Landless farmers, and workers laid off due to the collapse of the tin market, found work as *pisadores*, earning wages six to eight times higher than those for any other skilled or unskilled labour in the legal rural economy.

Despite the immediate benefits, including sheer economic survival, there has been a high price to pay. The cost of living, once relatively low in Chapare, rose to greater heights than in any other section of Bolivia, eating away at earnings. Cash exchange

Bolivian peasants switch land to coca[3]

A study of the coca economy in Bolivia reports that in the department of Cochabamba, coca produces the highest net income of the local economy, that is, 3.2 times more than that obtained from oranges, and more than 6.3 times the income from banana production.

While the average gross domestic product per capita (GDP) for the rural areas in Bolivia as a whole was $401 in 1988, in the regions of Chapare (department of Cochabamba) and Yungas (department of La Paz) – the largest coca producing areas of the country – average GDP was $566 and $509 respectively.



Peasant land use trends in tropical Cochabamba, Bolivia

replaced traditional forms of barter and mutual support that provided stability and equity in Indian communities. Food crops such as potatoes and maize were in uncharacteristically short supply, due to diversion of labour to coca.

As local development corporations did not receive revenues from the illicit coca trade, investments in drinking water supplies, plumbing and electrification were not made. The work of the *pisador*, involving the treading of kerosene–leaf mashes throughout the day, day after day, is unhealthy in the extreme. Finally, there is the subjection of local residents to intimidation and brutality – they are simultaneously vulnerable to the coercion of criminal organisations and to police and army crackdowns. For all this, the local population has become dependent on the price of coca, which has been falling sharply since 1985.

An additional impact is the breakdown of tribal, communal and cooperative rural organisations under pressure from traffickers and affiliated terrorist groups. Conversely, in Bolivia and throughout the Andean regions, areas with the strongest local organisations have best resisted submersion in the cocaine economy.

The heroin economy

In its ability to addict consumers and generate multi-billion-dollar sales, cocaine is rivalled only by heroin. A kilogram of heroin has a wholesale value of about $400,000 in the United States; cut to 6 per cent purity, its value reaches $2.2 million. Shadowy warlords operating inside the 'Golden Triangle', a mountainous area where the borders of Myanmar (formerly Burma), Thailand and the Lao People's Democratic Republic meet, were estimated to be producing 60 tons of heroin per year in the mid-1980s. Of these, 20 tons were directed to European and North American consumers.

This indicates sales of tens of billions of US dollars in Western markets alone. The remaining 40 tons would be divided between sales in Asia, where prices are considerably lower and purity is generally higher, and caches held as hedges against confiscation or poor crop years.

As with cocaine, only a small percentage of total sales accrue to the producing region. Finance and distribution of Golden Triangle opium, morphine and heroin are handled by various outside consortia. Most utilise the freewheeling Hong Kong financial markets, although Japanese criminal syndicates have also become involved.

Food crops no substitute for drugs

The difficulty of substituting legitimate crops for the opium poppy is indicated by a study conducted in the area of Mahaban Mountain, in Pakistan's North-West Frontier Province.

About 125,000 people live on the ridges and valleys of the mountain, most cultivating plots of land averaging only half an acre.

The opium poppy has been the main crop since the 1800s, when it was legally grown for export under British colonial rule. Thin soil, steep slopes and small plots make profitable cultivation of any other crop difficult – earnings for poppy cultivation are roughly ten times higher than for tobacco and fruit.

Crop substitution programmes have encouraged alternatives such as wheat grown from high-yield seeds, but the international price for the crop has been falling during the 1980s. A relatively undeveloped regional infrastructure provides little opportunity for non-agricultural income, and the long-standing values of the local Pushtun people place a premium on landowning status.

In addition, pressure is exerted on them to continue poppy cultivation by opium traffickers located in the town of Gandaf, at the foot of the mountain.

The dominance of the Golden Triangle in production of opiates has been eclipsed in the last two decades by the 'Golden Crescent', encompassing lands running through Pakistan, Afghanistan and Iran. As social upheaval and civil strife in Iran and Afghanistan in the 1980s disrupted production and shipping, Pakistan became the world's largest source of heroin. By 1984, European police concluded that 70 per cent of the world's supply of high-grade heroin came from that country.

Cost of consumption

A report commissioned by the US Alcohol, Drug Abuse and Mental Health Administration, expected to be released in 1990, states that the costs of drug abuse and drug trafficking amount to $60 billion a year in the world's largest drug-consuming country.

The bill that must be paid by United States society includes the costs of law enforcement, medical treatment for users and addicts, inflation of the price of real estate, non-payment of taxes and the diversion of money and resources from productive to non-productive enterprises. The authors admit they have not been able to track down all the side-effects of drug abuse and drug trafficking, maintaining that the complete cost is certainly much higher than $60 billion.

Drug-related costs of law enforcement and medical treatment are also rising in Europe, as cocaine pours in through a recently opened pipeline from South America to Spain and eastwards across the continent. The countries of sub-Saharan Africa until a few years ago were relatively free of drug problems apart from those associated with locally produced cannabis. Use of African nations, especially those along the west coast, as transit points for drug shipments has placed a new burden on law enforcement agencies. Moreover, trafficking in substances such as heroin and cocaine has spilled over into local populations, creating significant drug abuse problems. Australia is a major destination for heroin from the Golden Triangle.

Major drug-producing nations are also experiencing the social and economic costs of drug abuse. A 1985 US State Department *International Narcotics Control Strategy Report* estimated the number of addicts in Bolivia to be 40,000 to 50,000, about 150,000 in Peru, and 600,000 in Colombia. In these countries, where cocaine addiction was sparse a few decades ago, the drug of choice among the poor is *basuco*, a smokable mixture of tobacco or marijuana and coca paste. In the mid-1980s, there were thought to be well over a million heroin addicts in Iran, 600,000 in Thailand, and 650,000 in Pakistan.

Added to the price the world pays for drugs in terms of destruction of human and economic resources, is the destruction of natural environments. Processing of coca leaves into coca paste in the Andean and Amazonian regions of South America causes tons of toxic chemical residues to be poured into the rivers, poisoning already threatened ecologies and contaminating farmland and livestock.

On the west coast of the United States, covert laboratories producing methamphetamine for the illegal market also turn out by-products of toxic hydrogen chloride gas and lead acetate, and explosives such as ether and red phosphorus. Toxic sludge from the labs is dumped into rivers, forests and plumbing systems, contaminating dwellings and polluting the soil and water.

THE TRAFFIC IN illicit drugs, led by but not limited to cocaine and heroin, is truly an international phenomenon. The industry mimics the structure of transnational corporations, connecting production, marketing and finance in an intricate web that disregards national boundaries and penetrates every continent. The correlation between debt, poverty, unstable commodity prices and the rise in drug trafficking in the 1980s indicates that a comprehensive effort to eliminate any one of these problems must also deal with the rest. ■

1. International Coffee Organisation. *Weekly report on prices*, 3 May 1990; *Prices*, 1988. Colombian coffee was not quoted in 1988.
2. Ardila P. "Beyond law enforcement: narcotics and development." *The Panos Institute*: February 1990, p.1-8. International Coffee Organisation, personal communication, May 1990.
3. Ardila P. op cit.