

WHAT CREATES COMPARATIVE ADVANTAGE FOR DRUG PRODUCTION? LESSONS FROM COLOMBIA

Political and social problems in Colombia created opportunities for illegal drug production, explains **Francisco E Thoumi**. Similar conditions in Papua New Guinea mean that it could follow the Colombian path, warns **Susan Windybank**

Colombia is today the largest grower of illegal coca and the largest producer of cocaine in the world. It is also a principal supplier of heroin to the US market. It is the first or second largest producer of counterfeit US dollars; has the highest number of kidnappings and assassins for hire; is second in the number of child warriors and displaced people; is the first or second largest Latin American exporter of prostitutes; and has the longest or second longest running Marxist guerrilla insurrection. Colombia is a producer of top quality EU passports and Euros. In mid-2006 the police found a factory producing the very hard to counterfeit Australian dollars. Inevitably, in these circumstances, corruption is widespread.

Drug trafficking has been a feature of Colombia for the last 30 years. The illegal drug industry started with marijuana planting, and it evolved into the processing of cocaine from coca paste imported from Bolivia and Peru by drug 'cartels'. In the early 1980s Colombia began to produce coca as a backward linkage of cocaine manufacturing. Coca planting exploded during the 1990s and by 1999 the country was the largest coca grower in the world. During the 1990s opium poppies began to

be grown to produce heroin for the US market.

The government succeeded in destroying the drug 'cartels' so that by the mid 1990s the industry had become fragmented into a large number of small trafficking groups or 'cartelitos'. These groups did not have the capacity to fund strong armed groups to protect their interests and began to hire those services from paramilitary and guerrilla groups. They soon realised that the control of the industry required strong armed branches. Guerrillas and paramilitary groups consequently gained territorial control in many areas of the country where the state's presence was weak.

Paramilitary groups started in response to guerrillas' kidnappings and extortion of landlords, and as a component of the drug 'cartels' that needed protection for their rural land investments. They were also used to displace peasants and

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increase rural landholding concentration. A new 1991 Constitution sought to decentralise political power, establishing large transfers from the central to local governments. This created a premium on territorial control by armed groups who could benefit from the transfer 'bounty'. Both the guerrilla and paramilitary groups' territorial control allowed them to profit from illegal trade. In the areas under their control they established what can be considered a monopsony (sole buyers) facing coca and poppy growing peasants and a monopoly (sole sellers) confronting drug traffickers. Today coca growing peasants receive lower prices than those that prevailed under the large 'cartels'. Central government transfers, extortion, kidnapping ransoms and drugs are the main sources of funds for the illegal right and left wing armed groups that control a significant part of the country's territory. They also derive some funds from investing in the legal economy.

Various Colombian governments have attempted to negotiate with the guerrillas but failed. Since 1998 the government has strengthened the army in an effort to increase its territorial control. The US government through 'Plan Colombia' has supported these efforts. It was argued that illicit crops funded the guerrillas, so in 2002 when President Uribe was elected on a 'hard hand' platform, aerial drug spraying was intensified. During each of the last four years the government has sprayed a larger number of coca hectares than those estimated to be under cultivation. Retail cocaine prices in the principal illicit retail markets have, nevertheless, not risen. Aerial spraying contributes to the displacement of people increasing the supply of warriors to the armed groups. Plantings are now dispersed in most of the country's departments. Spraying also contributes to deforestation of original tropical forests. As has been the case with all failing drug policies, the response to failure has been to do more of the same.

Despite this gloomy picture, the Uribe government has achieved an improvement in security. It is now possible to travel by land to a large part of the more populated areas. Most importantly, economic growth has risen though it is only about 5%, a rate that cannot have a significant impact on unemployment or improve real wages and salaries.

President Uribe has negotiated a peace process with paramilitary groups. He is now attempting the same with the guerrillas. His 'hard hand' policies against drug trafficking have produced over 400 extraditions of Colombians to the United States. Paramilitary members had a strong incentive to

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re-enter normal society rather than be extradited. In practice this has meant that pure traffickers are extradited while traffickers who also control paramilitary groups can negotiate with the government, try to legalise their wealth and even hope to be elected to Congress.

There is no doubt that President Uribe is extremely popular and his recent re-election implies a continuation of past policies. A major question, however, is to what extent can they succeed. To answer this question, it is necessary to analyse the reasons why drugs are produced in Colombia and the effect they have on the country.

Why are illegal drugs produced in Colombia?

The success of anti-drug policies depends on understanding the development of an illegal drugs industry. The usual answers to this question can be classified into three groups. First, it is asserted that the growth of the illegal industry is due to poverty, income and wealth inequality, economic crises, corruption and geographic location.

A second group of explanations is based on models of crime as deviant behaviour. These models imply that laws are the result of legitimate social processes and those who break them are deviants who should be corrected. Thus, anti-drug policies should be repressive.

A third group of explanations is based on drug profitability generated by their illegality and their large international demand. The assertion that when there is demand, there is supply is frequently used as an irrefutable reason for drug production and trafficking. Colombian economists following

this approach claim that drug production grew in their country as a result of an 'external shock' of drug demand.¹ Their model argues that in the late 1960s Colombia had average levels of criminality, but that the large increase in international drug demand triggered the development of an industry that is the principal cause of the country's current problems. This model argues that the reasons why Colombia produces drugs are external and that the only solution is for the world to legalise drugs.

Empirical evidence does not support these explanations. They do not explain why coca/cocaine and poppy/opium/heroin production and trafficking are concentrated in a few countries. For the deviant behaviour theory to be valid, it would have to be accepted that some countries are genetically more prone to crime than others. Genes would also not explain why drug activities also vary

inequality led to drug production and criminal economic behaviour, why has such behaviour surged in Colombia at a particular point of time and not earlier or later?

The explanations that drugs developed because the country was on the route from coca sources to key markets also do not hold. Colombia's geographical location does not explain why Colombia developed large trafficking 'cartels'. Besides, when the difference between FOB (free on board) and CIF (cost, insurance and freight) prices is ten fold or more, transportation costs are irrelevant. Risk minimisation to traffickers is the key issue.

Undoubtedly, if there were no demand, drugs would not be produced. But it is also true that if there were no supply, nobody would consume. These are valid but trivial and incomplete paradigms. Every elementary economics course teaches that demand and supply are the two blades of a pair of scissors, with both necessary to create a market. Profitability is a necessary but not a sufficient condition for the production of drugs and most countries that could produce drugs do not. Colombians have to answer the following basic question: why has the production and trafficking of easily produced goods, namely cocaine and heroin that have globally been declared illegal, that do not require large inputs of capital or scarce labour, been concentrated in countries and regions where the rule of law is the weakest and where social mores are most tolerant of illegal economic activities? Colombia has become the major centre of production and trafficking of cocaine and a principal supplier of heroin to the United States because it has developed a comparative advantage for producing illegal goods and services.

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significantly through time in each location.

The profitability based arguments fail to explain why most countries that can grow coca or poppies and refine cocaine and heroin do not do so. Coca can grow in some 30 countries and poppies in many more. Cocaine and heroin can be refined everywhere. If profitability would determine location, Colombia would be one of many producers and would not have a huge problem with illegal drugs. The supporters of this model do not explain why an 'external shock' impacted Colombia so much more than neighbouring countries such as Ecuador, Bolivia and Peru where large trafficking organisations did not develop. Malaysia, Indonesia, Taiwan and the Philippines grew and exported coca in the past but they ceased when it became illegal.

Other explanations also fail because poverty, economic crises, inequality and corruption are endemic in many societies that do not produce or traffic drugs. In other words, if poverty and

An illegal drug production and trafficking map

An illegal drug production and trafficking map highlights the factors that make a society prone to illegal economic activities. Coca and poppy production has been concentrated in countries or regions with ethnic groups at the margin of the social mainstream (Peru, Bolivia, Myanmar, Laos and Pakistan), isolated and marginal groups (Thailand, Appalachia), and areas with a weak central state or ones with internal or external

conflicts and wars (Colombia, Afghanistan).

Drug production and trafficking have been controlled by groups with weak or no loyalty to a central state or those involved in armed conflicts or liberation wars (Chechnians, Chinese in Myanmar and Thailand, and the Crips, Bloods, Hell's Angels and recent immigrants in the United States).

Amphetamine production can take place anywhere yet it is concentrated in a few places, notably where there is social tolerance for such production or for illegality. Locations include Holland, Poland and Myanmar and the above mentioned groups in the United States.

Solutions will not come from abroad

The world is deeply prohibitionist. The United States is a main driver of prohibitionist policies, but so are Sweden, all the countries of the former Soviet Union, the Islamic countries, China, Japan, Australia, Eastern Europe, Sub-Saharan Africa, and most Latin American countries. It is frequently asserted in Colombia that Western Europe is not prohibitionist. This is false. It is true that in Holland, Spain, Portugal, Switzerland, the United Kingdom and the north of Germany drug consumption is seen more as a public health problem with social roots than as a criminal problem, but legal production and trade in cocaine, heroin and other hard drugs are not accepted.

World prohibitionism has produced three UN drug conventions and one on organised crime. Currently a new convention against terrorism is being developed. To legalise drug production and trafficking Colombia would have to unilaterally renounce or substantially modify those conventions. This is not practicable.

Only a few politically weak groups are currently proposing a free market for heroin and cocaine. Most proposals are for highly controlled markets. Nobel Prize winner Gary Becker, for example, has proposed a high consumption tax to support addicts' treatment. In this case, there would be a black markets for drugs, that although less profitable than currently, would still induce Colombians, who have well established trafficking networks, to continue supplying illegal drugs.

Colombians frequently assert that the drug problem is global and the solution should be global. In fact, the problem is not global although

it is international. Drugs do not affect all countries equally. In many countries they are not a serious policy issue. Colombian suggestions for world legalisation are understandable as the clamour of a society that feels overwhelmed by drug problems. Colombia, however, cannot expect the world to change because Colombia cannot stop producing illegal drugs.

Why current policies fail

Repressive anti-drug policies attack drug profitability by increasing risks and lowering returns. Some of these policies have unintended opposite effects because when profitability decreases in one stage of an illegal business chain, it tends to increase in other parts of the chain. For example, when aerial spraying kills crops in one place, it increases profits in drug trafficking and for crops elsewhere. Repressive policies may have short term successes in some locations when they lower profits. But as drug production and trafficking are concentrated in societies prone to illegal activities, while drugs remain illegal, repressive policies fail because they do not eliminate the causes of that concentration.

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Arguing that the only solution for Colombia is world drug legalisation implies that as long as drugs are illegal, Colombia will be a focus of cocaine and heroin production and trafficking.

Why Colombia?

To answer this question it is necessary to explain how and why Colombia developed an environment that favoured the growth of an illegal drug industry. Individual human behaviour is limited by explicit social and legal norms and laws and by socially determined personal constraints. To explain why Colombia is prone to illegal economic activities it is necessary to explain why the state and other institutions such as family, religion, schools and peer groups do not impose limits on individual behaviour but tolerate the breaking of the law and

social norms. Colombia has less civil solidarity, reciprocity and trust, and a weaker national identity, than other societies in Latin America.

A body of Colombian literature has sought to identify the main obstacles the country has faced in developing and solidifying a national identity and social capital, and that differentiate the country from others in the region.² This literature

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highlights the geographic barriers that prevented communications and trade for several centuries and led to the development of strong regional identities, but a weak central state that could not collect taxes and therefore remained poor and ineffective. This pattern existed before the Spanish conquest. Indian settlements were chiefdoms that fought each other. The Spanish conquistadors coming from a Spain still in the throes of unification reinforced the pattern. Colombia thus faced the largest integration costs in Latin America, but its geography also produced the lowest exports per capita in the continent. The central state thus had very low tax revenues.

Other factors aggravated this situation. Bolivar's campaign to liberate Ecuador, Peru and Bolivia was funded through foreign loans that saddled Colombia with an unpayable external debt. Colombia's very low income and savings, and consequently poor infrastructure, meant it could not begin to integrate until the 1920s when funds became available from a coffee boom and the US compensation for Panama's independence.

Until the mid-twentieth century, Colombia was a collection of regions with strong local identities, accents and mores controlled by distinct local elites. The central state had weak law enforcement capabilities. Weak national loyalty contributed to the generation of strong, even fanatical loyalties to the two traditional parties, the liberal and the conservative. This was a key factor in violent internal conflict during the 1940s and 1950s that resulted in some 200,000 deaths in a population

of about 13 million.

Government policies and ideology sought to isolate the country from non-Catholic influences. The 1886 Constitution that lasted, with a few reforms, until 1991, aimed to create a Catholic state that was hostile toward immigration. Colombia has by far the lowest per capita number of immigrants, particularly non-Catholic, in Latin America. In the words of former President Alfonso López-Michelsen, Colombia was the Nepal of South America.

Colombian armed forces failed to foster a national identity. In contrast to the rest of Latin America, the army and police forces have been weak, they have not been able to control the territory and have had low status. Ironically, Congress has no generals and one former police sergeant but it has several former guerrillas.

Like many other developing countries Colombia experienced large rural-urban migrations. In Colombia a significant proportion of this movement was triggered by violence. People became uprooted. There was also rural to rural migration to unsettled regions where the state had very little presence and where land was not suitable for sustainable agriculture. A large part of the country consists of tropical forests that only have a thin covering of soil. Such remote areas are only suitable for forestry or other low population density and long term profitability activities. This presents a dilemma for the state. On the one hand, it is very expensive to exercise sovereignty over large parts of the country that cannot contribute significantly to the legal economy; on the other hand, para-state organisations can profit by controlling such remote areas if they produce illegal crops or refine drugs.

In the past Colombian governments have attempted to maintain the country's sovereignty in remote areas through international treaties with their neighbours. They have not spent the resources necessary to have a strong presence. Now the enemy is internal and not external. The country's elite is not ready to assume the costs of real sovereignty in remote areas.

The fragmentation of the country has prevented military and left wing coups common to other Latin American countries. These were disastrous to the economy of other countries in the region, but they allowed for the political expression of the grievances

of excluded groups. Colombia is the only country in the region without any left of centre reform such as land reform. For those seeking social change, the guerrillas have been a good option.

Colombia has experienced civil violence since the early 1930s. At times the rates of violent deaths have been extremely high. Most Colombians have the experience of having had a parent, a close relative or friend assassinated. The post trauma stress that so many Colombians know is an important obstacle to the development of a peaceful conflict resolution.

Colombia's economy grew sufficiently from the 1930s until 1999 for people to become literate, women to participate in the labour force, and for urban and some rural infrastructure. Today Colombia is not the primitive country of a century ago. It is no longer one of the poorest in Latin America. A veneer of modernity thus hides the deep problems arising from an extremely individualistic society with very weak civil institutions and state and social controls on individual behaviour.

When international marijuana and cocaine demand increased Colombia was ready to take advantage of the opportunity to supply them. As production grew the propensity to illegality flourished leading to a prevalence of dishonesty. A dishonesty trap has been created where it has become very costly to be honest and operate fully within the law. The illegal industry had positive short run effects increasing income. But it generates cumulative negative social and political effects. In the late 1970s and early 1980s most Colombians saw cocaine as a godsend that produced individual wealth and ample foreign exchange for the country. Today they see it as the source of most of the country's problems although it is the country's social weakness that is the underlying problem.

Solutions from within

Reducing the drug economy cannot be achieved by traditional repressive policies. It requires changes in civil society norms. It is imperative to develop the rule of law, but the law must reflect a broad social consensus about the inherent nature of Colombia. This cannot be imposed from above by a small elite

or by foreigners. Social capital has to generate trust, reciprocity and solidarity. Colombia must learn to live with international drug prohibition because the world is not going to change in response to the country's problems.

The first step to transform Colombia requires the acceptance of the need to change and confront illegal economic activities. Otherwise the society will continue blaming the outside world and suffering the problems generated by widespread illegality.

Institutional changes cannot be formulated as a universal reform recipe because they depend on each country's own history and institutions. History shows that institutional evolution is possible. The Soviet Union and its East European satellites and South Africa are examples that give hope to Colombia.

Endnotes

- 1 Gaviria, Alejandro, 'Increasing returns and the evolution of violent crime: the case of Colombia', *Journal of Development Economics* 61:1 (May 1998), pp 1-25.
- 2 See for example, Hernando Gómez-Buendía, 'La Hipótesis del Almendrón, in *¿Para Dónde Va Colombia?*, ed Hernando Gómez-Buendía (Bogotá: TM Editores-Colciencias, 1999); María Teresa Herrán, *La Sociedad de la Mentira*, Second Edition (Bogotá: Fondo Editorial CEREC-Editorial la Oveja Negra, 1987); Salomón Kalmanovitz, *La Encrucijada de la Sinrazón y otros Ensayos* (Bogotá: Tercer Mundo Editores, 1989); Francisco E Thoumi, 'Some Implications of the Growth of the Underground Economy in Colombia', *Journal of Interamerican Studies and World Affairs* 29:2 (Summer 1987); Francisco E Thoumi, 'The role of the state, social institutions, and social capital in determining competitive advantage in illegal drugs in the Andes', *Transnational Organized Crime* 5:1 (Spring 1999); Francisco E Thoumi, *Illegal Drugs, Economy and Society in the Andes* (Baltimore: The Johns Hopkins University Press, 2003); and Emilio Yunis, *¿Por Qué Somos Así? ¿Qué pasó en Colombia? Análisis del mestizaje* (Bogotá: Editorial Temis, 2003).