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Local Impact of Cocaine Production in South America

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The Bush administration has identified three countries in South America for special attention in an effort to control cocaine production at the source. Although these countries, Colombia, Peru and Bolivia, are the major producers and processors of cocaine, narcotics traffickers have expanded operations throughout the northwest region of the continent. Attempts to control production of this chemical substance, both locally and with the assistance of drug enforcement officials from the United States, have forced traffickers to expand the area for coca leaf planting and to disperse locations of processing labs. However, these three Andean countries continue to provide most of the cocaine consumed in the United States and Europe. Recent events in both the consuming and producing regions have focused political attention again on the severity of this problem and the inability of several legal agencies to control adequately either supply or demand. This brief examination concentrates attention on those countries in the supply side of the political and legal argument in order to describe the local complexity of drug enforcement over which the consuming nations have little or no control.

Regions of Coca Leaf Production

In South American the three primary zones are the Chapare and Yungas regions in Bolivia and the Upper Huallaga region in Peru. Eighty percent of the cocaine imported into the United States is produced here in primary form as coca leaves. In recent years this crop has become the dominant focus of agricultural activity in these areas and provides farmers with their major source of income. Food crops are being abandoned in favor of coca.¹

Bolivia's economy has been transformed by cocaine production and profits from a formal sector, which has become a near fiction, to an informal economy in which cocaine has become responsible for nearly 80 percent of all forms of economic activity. Even contraband trade has become profitable and safe, with U.S. dollars becoming the common currency in Bolivia. The circulation of dollars has allowed the local economy to function more efficiently but has contributed to high levels of inflation.²

In the Peruvian Andes traditional coca leaf growing and transportation between forest regions and the highlands has been changed. Small amounts still are moved to satisfy highland demand but a larger amount is moved toward processing labs in the forest. This lucrative activity has affected migration to the coast for wages; many migrants return seasonally to the forest to work for higher incomes produced by transporting and processing coca leaves and paste through the underground economy. At this time there are no economic alternatives for the Andean Indian to substitute crops for coca. However, the number of people now involved in this informal economy has produced a cash dependence

that could prove difficult if disrupted.³

There are five secondary areas of production. In Bolivia, this is the east facing slope of the Andes near Santa Cruz; the Cuzco region of Peru; Cajamarca Department in northern Peru; the Colombian Llanos; and scattered mountain valleys of southern Colombia. Most of the remaining leaf production is located here and could spread as enforcement officials extend their control over production in the primary areas. The increase in coca leaf production in Colombia is an attempt to expand the supply of this raw product. Producers in Peru and Bolivia now understand the value added component in the price structure as the substance is processed into greater concentrations of cocaine.

The upper Amazon basin of Brazil is a more recent zone of coca leaf plantations. The full extent of leaf production is unknown but authorities continue to discover and destroy coca plants. It appears that these new areas of leaf production in northern Brazil represent trafficker anticipation of supply problems from Peru and Bolivia.

Because of its location between production and processing centers, Ecuador is in a particularly sensitive position and may not be able to avoid the "spillover" effects of increased drug activity or greater law enforcement measures in adjacent countries. Coca leaf production has never been a dominant activity in this country and recent attempts to create small plantations have been defeated by vigilant indigenous residents and police action. Indigenous organization in the tropical rainforest of eastern Ecuador has been particularly strong and an apparent commitment to long-term economic development of a lasting nature seems to have overcome ambitions of short-term wealth and its associated risk. In addition, the Ecuadoreans have a major economic investment to protect, the lucrative oil fields in this region which have been responsible for most of the country's export income in recent years. With the assistance of U.S. advisers and military equipment, police forces have managed to keep coca production under control.⁴

However, increased vigilance along the Ecuadorean border has not stopped the flow of capital and personnel from Colombia. Despite the capture of a few traffickers attempting to enter the country, authorities believe that many ranking members of the cocaine cartels may be residing in Ecuador. Recent purchases of real estate with prices well above recent market value and the availability of dollars are indications that cocaine capital and influence are relocating in this perceived "safe" country.⁵ Another direction of this exodus may be toward Brazil.

Economic and Social Significance⁶

The cocaine industry in South America also includes chemical refinement of the product into an increasingly pure form which requires transportation to laboratories and, ultimately, transportation north to centers of consumption. The value added during this stage of refinement could be twenty times the original purchase price of dried coca leaves from Bolivia and Peru. This highly purified form of cocaine is most economical to transport to consuming countries where it is diluted for street sale at enormously inflated prices. Production, transportation and management of this product may constitute the largest informal or underground business activity in the world. Billions of dollars are exchanged, the labor and management numbers may be in the thousands and the formal economy benefits from this business activity through infusions of capital. However, the risk factor

is so high that participants are forced to protect their interests in a manner that disrupts the normal functioning of society. Corruption and intimidation are the usual byproducts of this system and the public attitude about cocaine as a moral issue is affected by the enormous economic scale of this activity throughout a nation. Consequently, the insistence by U.S. narcotics officials on control of cocaine production at the source has become increasingly difficult to enforce. Cocaine has blurred the difference between legal and illegal activities.

Cocaine represents an important source of income for the Andean countries. About one third of U.S. sales of this product returns to South America, perhaps \$1.5 to 2 billion dollars. In Peru and Bolivia, cocaine is the most important producer of export income. Coffee may rank higher in Colombia, unless international coffee agreements fail and export prices fall.

Jobs are provided by the cocaine industry, both licit and illicit. Perhaps one million people are involved, from actual cultivation through refining, transportation and related occupations in the legal sector who benefit from the multiplier effect. Much income generated by this industry is invested in legal business, some of which have a developmental orientation such as crossbreeding cattle or attempts at improving cotton or sugarcane yields. It appears that cocaine income is financing portions of the formal economy which cannot be financed by the governments. In Bolivia and Peru this income partly compensates for losses in international lending, aggravated by the inability of these countries to repay external debts.

For a large portion of Andean society, economic expectations have increased, from the higher incomes of rural coca leaf growers in Peru and Bolivia to the societal respectability achieved by families with new wealth. In Colombia, the cocaine elite consider themselves to be an emerging social class rather than criminals or revolutionaries. They wish to align themselves with existing oligarchic groups whose politics are to the right. As with so many members of this exclusive group, the new owners of wealth invest abroad or hide currency in tax havens in Central America or the Caribbean. Little of the portion invested locally is placed into mining, manufacturing or transportation, the "core" industries.

Political Impact

Economic power or anticipation of a positive change in lifestyle has generated political strength among the coca leaf growers. To complicate matters, coca leaf production is a legal activity in Peru and Bolivia, despite efforts to limit acreage. Therefore, growers are organized and are well represented in national government. In Bolivia, they have a combined representation of one third of the Chamber of Deputies and they are backed by left and far-left political parties. In Peru, the growers' strength is less but they dominate those regions where coca is produced, the Upper Huallaga Valley. This leftist leaning group is supported by the *Sendero Luminoso* guerrillas whose influence has increased because they have denounced plans to eradicate plants with herbicides. Their combined strength has been demonstrated by mass civil protests as well as sabotage. In Bolivia, coca farmers and their supporters have protested U.S.-Bolivian drug policies by totally blockading the third largest city in that country— Cochabamba. Therefore, U.S. attempts to reduce production at the source may be an unenforceable policy.

In addition to the political power of the producers are the criminal syndicates that handle all cocaine refining activities beyond production of the coca leaf. Colombia is the center of this phase of the industry, especially the cities of Medellin and Cali. The organizers of these refining, smuggling, and distribution operations are well-known as members of the extradition list circulated by the U.S. Drug Enforcement Agency. At the moment (1989) these syndicates are at war with the government of Colombia and their political agenda is designed to block the extradition system by disrupting the justice system and attacking leftists.⁷ Their financial strength has allowed them to influence every national institution. Some syndicate members have gained popular respect by financing public works projects. The purchase of influence has an international dimension in the protection of transportation routes to the United States and Europe. Political affiliations and sympathies differ with position in the vertical integration of the cocaine industry. Coca growers in Peru and Bolivia are aligned with the left and have the protection of guerrilla forces operating in the rural areas. *Sendero Luminoso* may be exploiting anti-eradication policies of the government but these forces also may be financing arms purchases with drug money.

In Colombia where field labor is minimal and activities involve higher management decisions with consequent increases in income, the producers have aspired toward "establishment" positions in the social hierarchy. Investments in land have aligned this group politically with the large hacienda oligarchic class who have been targets of the rural guerrillas. Extortion was common until cartel members brought private armies to protect their interests which may have included cocaine processing labs. Rural violence pitted owners against guerrillas and produced a dirty war that involved massacres of peasants who collaborated with the rural leftists forces. Police, military, landowners and businessmen became sympathetically if not actively involved in rural control of guerrilla groups. It appears that the major cartels obtain their cocaine paste from Peru and Bolivia while guerrilla groups are partly responsible for expansion of coca planting in the Llanos and Amazon regions of southeastern Colombia.

Some conflict between the traffickers and guerrillas is apparent in Peru but the *Sendero Luminoso* appear to have control of the coca-producing regions.

Some Disturbing Conclusions

The production of cocaine in South America is an existing industry. Its economic prominence is a response to the great demand for this product and the success of the cocaine industry as a business venture is undeniable. Its success has influenced the economic, political, and social sectors of several nations and has utilized both the formal and informal organizational structure of business. There have been occasional suggestions to promote legalization of this substance but dominant opinion favors stricter control which implies police, perhaps military action, in producing countries. Human consequences of cocaine abuse have not been addressed here, but availability of this substance in South America is creating greater concern because of increasing use and addiction.

At this time civil disturbances in Colombia appear to have generated an official response. That country appears to be near a civil war which, if true and if conducted to a military decision, could theoretically place in power a government of criminals, as defined by nations whose legal systems consider cocaine production to be a crime. The serious-

ness of this theoretical scenario is strengthened by the realization that many citizens in cocaine-producing countries support production of this chemical, that its agricultural importance is protected in two countries, that some people consider the income generated by this activity to be locally beneficial and economically important for the underprivileged, that officials in several agencies formally and informally participate in some phase of this business, and that some people view the income generated by cocaine as partly offsetting the negative impact of the external debt and, therefore, may have positive developmental applications. Production has simply responded to demand and some responsible analysts of hemispheric problems, such as members of the Inter-American Dialogue, have linked solutions to reduction in demand, especially in the United States.⁸

If current efforts succeed in the consuming countries to drastically curtail use of cocaine, the producing countries may suffer severe economic consequences. According to Rensselaer Lee, hard currency reserves would become depleted, massive unemployment would occur, crime and subversion would increase in rural areas causing a new flood of migrants to urban areas. Present political systems would be threatened by these problems. So long as the demand exists for this substance, methods will be found to produce cocaine for the United States and other countries.

Solutions require an international approach with an understanding that the internal societal structure of some Latin American countries may continue to be seriously affected. Subsequent political directions of threatened societies could reverse the recent return of several countries to democratic government. The profitability of cocaine has undeniably influenced the economic structure of producing countries. Every proposed solution, from reduction in production to reduction in consumption, will inevitably reduce the flow of dollars to Latin America and may be responsible for a new wave of economic chaos.

ENDNOTES

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4. U.S. Department of State, *International Narcotics Control Strategy Report* (March, 1989), pp. 77-80. And *The Latin American Times*, Vol. 9 (December, 1988), p. 31.
5. Personal interviews, Summer, 1989.
6. The remainder of this discussion is partly based on a paper published by Rensselaer Lee III, "Dimensions of the South American Cocaine Industry," *Journal of Interamerican Studies and World Affairs*, Vol. 30 (1988), pp. 87-103.
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