

## THE ILLEGAL DRUG INDUSTRY IN LATIN AMERICA: THE COCA-COCAINE COMMODITY VALUE CHAIN

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### I. INTRODUCTION

In this article we will analyze the way in which the coca-cocaine industry has been organized recently, indicating how the changes in its organization have affected the functioning of the industry at the various phases of production and trafficking. Drug production and trafficking present a powerful challenge to Latin American development and it is our understanding that development in the last few decades cannot be well understood without bringing the illegal drug industry into the picture.

The small-scale production of coca in the Andean countries did not develop into the “cocaine business” until the mid-1970s. The industry began to boom by the early 1980s, showing spectacular growth in a context of increasing economic crisis and a state that had been losing legitimacy, failing to meet many of its core responsibilities. The rise of cocaine production and trafficking has been an intricate part of this development. Coca growing and cocaine production appeared to be well adapted to the conditions of the underdeveloped rural economy in the Andean countries. Coca appeared to be an ideal crop, guaranteeing a steady flow of income, softening the impact of the crisis for sizable numbers of the peasant population. Soon, however, it also appeared that the industry’s illegality was greatly affecting the market structure and the strategies of the partners involved -producers, sellers and consumers- turning violence into a resource whose real or potential use has become an almost “normal” element of market competition. The enormous money interests at the various phases of production and trade have led the entrepreneurs involved to defend market positions at all costs.

Within two decades, coca growing has expanded from the relatively small areas where it was cultivated for traditional consumption to regions covering large parts of Bolivia, Peru and Colombia. Expansion in the near

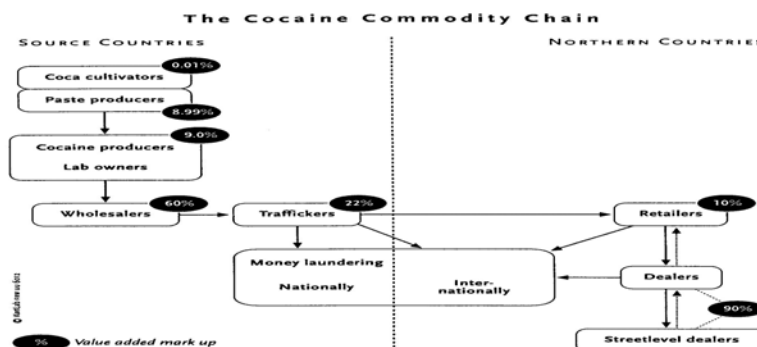
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future into Ecuador, Venezuela, Brazil and Guyana is not unthinkable. In addition, a growing number of countries have become involved in trafficking and money laundering. The mushroom-type growth of the industry and the effects on the socioeconomic and political fabric of society in these countries are conditioned by (a) the structure and functioning of the legal economy and the ways of conducting business (the prevalence of a “get quick rich” mentality); (b) the structure of society, its exclusionary nature, and the access to social mobility promoting mechanisms; (c) the structure of power and politics, political culture, the role of clientelist structures and the legitimacy of official rule. In combination these elements shed light on the why and how of the rise of the drug industry, its persistent presence in producer countries, and the (non)effectiveness of the various methods of control. They also explain the growing gap between legality and socially acceptable behavior, which has opened the door to widespread corruption and an explosive growth of criminal and non criminal underground economies (Thoumi, 1995).

In the areas of production and trade, the drug industry has developed interesting parallels with the dynamics of legal international trade under the influence of increasing globalization and economic integration. In legal as well as in illegal trade, one tries to develop markets at home and overseas, to create market advantage and downstream control, to modernize logistics, to practice technological and product innovation (heroin, crack), and to intervene in the political process in producer and trafficking countries on the basis of accumulated economic power. The coca-cocaine chain ties the production and trafficking activities in the source countries and the Northern countries together with money laundering as its lubricant. Originally the chain counted a number of separated phases: coca growing, paste and base production, cocaine production, wholesaling, exporting, warehousing in Northern countries, regional distribution, retailing, street level dealing. In recent years this phasing has changed. Increasingly, the phases of coca growing, paste and base production are being integrated by traffickers looking for ways to increase their access to a greater part of the added value. Small-scale trafficking operations have increased in numbers. In the Northern countries, large-scale operations in warehousing, transport, distribution and retailing are being avoided with the creation of direct links between the traffickers and the clients downstream, integrating various phases in the value chain.

Figure 1 – The Cocaine Commodity Chain



## II. COCA GROWING AND COCAINE PRODUCTION

Coca is an “easy” crop, and coca growing does not require intensive preparation. The simple tasks of clearing the field through “slash and burn”, preparing the seedbeds, transplanting the seedlings, maintaining the field, and harvesting the leaves, can easily be performed -and often are- by poor migrants without agricultural background. In most regions, coca is cultivated 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 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 access to resources such as capital and technology, but account for a relatively large amount of unskilled labor. They adopt coca cultivation as an almost logical choice with their crop diversification strategy. Coca guarantees a continuous 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 subject to radical price fluctuations than other crops. It has a secure market that guarantees a steady flow of income to the individual peasant

household. This is coca's basic advantage. At the same time, this advantage gives an idea of the magnitude of the problems that accompany crop substitution. 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 investment and attention than other crops once it has been planted and will require only manual labor 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 market nearby. Under "normal" circumstances, coca would be the ideal income-gathering 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: the manufacturing process is not capital intensive, does not have large economies of scale, does not require large amounts of skilled labor, and uses production processes that are relatively easy to organize. These characteristics explain the flexibility with which the industry has been able to respond to the fluctuations in demand in consumer countries, to changes in anti-drug policies, and to repressive operations by the military and law-enforcement personnel. This adaptation also explains why it has been so difficult to find an alternative to the industry.

What parties are involved in this production and trafficking of cocaine, and why and how has this involvement come about? Among the coca-producing countries major differences have developed as to the organization of the sector and the market strategies of the entrepreneurs concerned (Laserna, 1997). Before Bolivia embarked on its "option zero" strategy under the previous government, a certain division of labor had emerged among the three producer countries plus Brazil and Mexico. Colombia had become more involved in cocaine production based on coca paste production elsewhere, and in trafficking, although Brazil and Mexico have been rapidly gaining terrain in this sector. Suppression of coca cultivation in Bolivia and Peru has led to an explosive growth of coca cultivation in Colombia. In Bolivia and Peru the clandestine drug economy had become more interwoven with the formal economy. Many of those involved in drug production and trafficking have been moving back and forth between the two sectors. A small mafia-type drug elite still exists, but it is hardly as prominent as the powerful, well-organized Colombian drug lords of the 1990s. The intensification of repressive policies has strengthened the tendency of these informal and the formal sectors to interpenetrate. Generally, repression of the drug industry's activities 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 (Poret and Tejedo, 2006). In 2004, in the Andean region, the intervention by law enforcement was reported of 8,298 of such coca processing laboratories (World Drug Report, 2006). This way, drug production has become accessible to a wider sector of micro- and small entrepreneurs, who at the same time may be coca-growing 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 internationally operating organizations with a heavy presence of Colombian and Mexican traffickers.

The basic motive for engaging in coca activities and paste production 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 sustainable development in terms of improved housing, education, or healthcare. In this way, Bolivia in particular has been repeating its historical role of supplying world markets with raw materials without reaping major benefits. 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 narcodollars, by the weakening of local industry, by the collapse of non-traditional exports, and by the boom in financial speculation. Since then, the legal economy has recuperated slightly. However, given the small size of the formal economy in Bolivia, a vulnerability to a possible "economic narco-addiction" remains. An important "positive" difference with the Peruvian and Colombian experience, where socially and politically drug-linked violence has been rampant, has been the lack of such widespread violence between drug lords and between them and the state. The major Bolivian traffickers' close family and business links may have contributed to this phenomenon (Painter, 1994).

Coca cultivation and cocaine production has been moving back and forth between the Andean countries and the dynamics of the industry in each of the countries has to take their interconnectedness into consideration. In the course of the last few decades we have seen the so-called "balloon effect" at work, e.g. repressive actions by the forces of law enforcement and/or market considerations affecting supply in one of the

countries, will lead to an expansion of production in the other two (Naranjo, 2007). This way, the total acreage under coca in the Andean region is unlikely to change drastically, in spite of sensational accounts to the contrary by the authorities involved in drug control. In fact, the total area under coca has remained almost the same in the tumultuous decade of the 1990s, although important shifts between the three countries did occur. Estimated total production of cocaine has fluctuated between 774 (1990) and 883 (2000) metric tons (Global Illicit Drug Trends, 2001), of which approximately one-third will be intercepted by law enforcement.

**Table 1 - Area under coca, 1991-2000 (hectares)**

	1990	2000
Peru	121,300	34,200
Bolivia	50,300	14,600
Colombia	40,100	163,289
Total	211,700	212,089

*Source:* World Drug Report (2006).

This relative “stability” also applies to the income from coca cultivation which is substantial in local terms, although it amounts to very little: one percent of the export value of cocaine. No wonder that many peasants will try to get a greater share of the value added by including the production of coca paste in their activities. The procedure is not very complicated and will enable them to increase their share to roughly nine per cent of the wholesale price in the source country.

Coca cultivation will require an annual investment of close to 170 US dollars per hectare. This includes: land preparation, coca seedlings, fertilizer and/or other agrochemicals, equipment. One hectare will yield about three metric tons of leaf per year, which eventually will result in the production of seven to eight kilogram of cocaine. Producing coca paste or cocaine base will require an extra investment of 120 dollars per kilogram. Annual peasant income will amount to close to 2,500 dollars per hectare with coca, an income that would be impossible to obtain through any alternative crop. The cost of putting one kilogram of cocaine in the consumer market abroad amounts to between 6,600 and 8,700 dollars, which represents between 38 and 50 percent of the wholesale price. Every phase in the trafficking process is accompanied by a series of mark ups and prices may reach 100,000 US dollars or more per kilogram at the retail level in the United States or in Western Europe (Allen, 2005; National Drug Intelligence Center, 2004).

**Table 2 - Cocaine Industry Price Structure (in U.S. dollars per kilogram)**

<b>Coca cultivation/coca paste production</b>	<b>600-800</b>
<b>Transport to cocaine labs</b>	<b>100</b>
<b>Chemical precursors</b>	<b>200</b>
<b>Refining costs</b>	<b>200-300</b>
<b>Trafficking to consumer markets</b>	<b>3,200</b>
<b>Vigilance, security, bribes</b>	<b>500</b>
<b>Money laundering</b>	<b>1,700-3,400</b>
<b>Other (lawyers, rents, etc.)</b>	<b>200</b>
<b>Total</b>	<b>6,600-8,700</b>

*Source:* National Drug Intelligence Center (2004), Allen (2005), Zaitch (2002),

These are general numbers. There is considerable price variation over place and time. The illegality of the industry has resulted in great market segmentation. Price levels are not the result of agreements between the major organizations controlling the market, but result from their strong competition and the actions of small smugglers trying to enter the market. The amounts listed in Table 2 represent the costs incurred by major exporters. It shows that the costs of putting a kilogram of cocaine in the American or West European market are by no means insignificant, although they pale in comparison with the net profits. It becomes clear at the same time why in recent years micro entrepreneur-exporters and body packers have been so successful, saving substantial amounts in the trafficking and laundering phases, although probably receiving smaller amounts at the wholesale level in the destination points.

### **Changes in Business Practices**

The drug industry has changed considerably since the demise of the ‘cartels’ in the 1990s. Cocaine production and trafficking has become more differentiated and the enterprises have become more heterogeneous. Those producing cocaine may take many forms. These may vary from a one person enterprise with a small laboratory, selling small volumes to the exporters, to a big laboratory in which many producers and exporters at the same time are involved. Export enterprises are often somewhat larger. This has to do with the complexity of the logistics of an illegal business, the need to deal with international law enforcement, the conclusion of deals overseas, the neutralization of control and detection, and the development

of markets downstream. These enterprises, however, are not 'large' in any physical sense. It would make them vulnerable against law enforcement. They are sizable through their operation of complex systems of contracting and subcontracting, through their access to resources, their capability to move great volumes of drugs and to accumulate mega profits. Next to these businesses, however, also independent or individual exporters have emerged who operate for limited time periods and move smaller quantities of cocaine. These trafficking enterprises -called 'boutiques'- have greatly increased in numbers in the last few years.<sup>1</sup> The sector has a low threshold. All one needs is some basic investment capital, a number of contacts overseas and the capability to enforce the conclusion of deals. These are not stable enterprises. They will often start operations, paying one or two 'mules' for transporting small quantities. As business grows, the need will arise for a larger, more specialized way of conducting the business. In that case, activities in transportation, money laundering, and security may be subcontracted, often in coordination with local networks of traffickers overseas, such as has happened in Galicia, Spain and in various regions in Mexico.<sup>2</sup> However, the notion of "cartel" -applied to the organization of the trade in the 1980s and 1990s- with its suggestion of large, stable, bureaucratic structures, is not a plausible way of conceptualizing present-day drug trafficking operations, at least not in the South American countries.

The people involved in these operations represent a new generation of traffickers, after the marihuana smugglers of the 1970s and the era of the drug lords in the 1980s and 1990s. This third generation of traffickers has been organizing their businesses with maximum flexibility without regulation of any kind, while adapting to the illegal nature of the cocaine trade. The new entrepreneurs are more low-profile with a restrained life style, very different from the conspicuous consumption of the old drug lords. They have no criminal records. They formally do not own property or may present themselves as students or small businessmen without any possible reference to illicit activity. They prefer to operate in total anonymity, do not have offices, work from their homes and refrain from using bank accounts that run the risk of being traced and investigated.<sup>3</sup> They do not use telephones or cell phones for business and prefer personnel messengers to modern means of communication. They transport themselves in old beat-up cars instead of in flashy four wheel drives. Their new organizations are small and cell-like. They are informal, small, mutating and decentralised. Some are individual enterprises, others include temporal partnerships between two or three people. Personnel is often recruited ad hoc as part of complex contracting and sub-contracting schemes.



Coordination with other organizations takes place on the basis of the special knowledge about logistics, communications, security, money laundering, investments, etc. that each may possess. Export volumes may vary from 200 to 300 kilos per month, far removed from those large organizations that have survived and that may transport 7000 kilos or more in one load. Smuggling toward European destination has become a lucrative business yielding up to 80.000 U.S. dollars per kilo wholesale and between 100.000 and 150.000 dollars street value.<sup>4</sup> Large-scale stable organizations are avoided in order to reduce vulnerability in the face of repression and active law enforcement. This does not preclude the possibility of organization among traffickers in order to co-insure shipments, exchange loads or share intelligence. The breaking up of the “cartels” put an end to a small number of businesses whose economic power could give them access to the highest level of government organizations (which in Mexico still can be found) and with a capacity to use violence on such a massive scale that the state would be undermined (such as in Colombia). Their place has been taken by an estimated number of three hundred small refining and trafficking organizations. Among them some fifty organizations stand out.<sup>5</sup> They control the export of cocaine toward Northern markets and function in practice as an oligopoly with often savage internal competition. The development of cocaine and/or heroin distribution networks downstream was helped in the United States by the presence of large Colombian immigrant communities in the big cities, especially in the Eastern part of the country. The formation of these networks and their exclusive claim to markets and market shares was facilitated by the proclivity of Colombians to use extreme violence against competing trafficking organizations. The conditions imposed by illegality call for flexible ways of conducting business and a loose organization minimizing the risk of seizure. Several of these small enterprises may be interconnected while trying to conclude a deal. Some of them will be short-lived, single operations, others may last longer. These new cocaine enterprises are heterogeneous in their structure and operations and in fact consist of constantly changing networks tied together through precarious and variable transactions while functioning on the basis of trust (*confianza*) and the threat of violence (Vellinga, 2004). In many cases, perfectly legal services (in transport, money laundering and investment, legal assistance, etc.), will be contracted. In addition, the business may be extended into society by offering a participation in an export venture as a favor to friends, politicians or civil servants whose support has to be secured

Next to this informalisation of business practices, a certain “democratization” of the trade has taken place. Next to the container-sized

shipments, a great number of couriers are trying to get into the business, smuggling a few pounds of cocaine. Many among them are bodypackers, boleros, smugglers of the bolitos (cocaine put in condoms or fingers of surgical gloves and swallowed). Since the end of the 1990s, these drug couriers have been arriving at American and West European airports by the ten thousands. This modality of drug smuggling is not new. It has been reported in the beginning of the 1980s.<sup>6</sup> What is new, however, are the large numbers of people involved. Official estimates for Amsterdam International Airport, one of the main gateways to Europe for drug smugglers, mentioned numbers between 26,000 and 44,000 for the year 2002. Bodypackers will smuggle between 400 grams and one kilo per person. With the maximum estimate of people involved (44,000), this would have meant an effort to smuggle volumes between 17.6 tons (at 400 grams per person) and 44 tons (at one kilo each) into the country. The minimum estimate (26,000) would produce smuggled volumes between 10.4 and 26 tons. The total volume of cocaine smuggled annually into the European Union has been estimated at between 100 and 130 tons. The present (2006) size of the world market may be estimated at between 500 and 600 metric tons. The bulk of exported cocaine will continue to be smuggled through multi-hundred kilo operations by sea, using regular containership connections, fishing vessels, and speed boats. However, it is obvious that smuggling through individual couriers has become an activity of increasing importance. Worldwide, this activity may involve more than 100,000 people.<sup>7</sup> This mushroom like growth runs the danger of overwhelming law enforcement authorities involved in drug control and has been exhausting the resources needed to catch the major loads. Some analysts even assume this to be a conscious strategy of the major cocaine smuggling organizations.<sup>8</sup> At Amsterdam Airport, the authorities have reacted in mid 2004, intensifying the control of flights from Latin America and the Caribbean. It is still not known to what extent the so-called "balloon effect" (e.g. suppression here will lead inevitably to an expansion in other places) will make itself felt.<sup>9</sup>

Most couriers are contracted for one or two trips. There appears to be an unlimited number of candidate couriers who are willing to take the risk of being caught in order to get access to fast cash. Proceeds may vary from 1500 to 10,000 U.S. dollars per trip, depending on nationality, type of courier and quantity of drugs smuggled (Zaitch, 2002). The risks are being absorbed by the courier. In most cases he will not even know the people who send him on his flight, and those who will be waiting for him at his destination. For the organizers of the trafficking operation the risks are small. Their identities will remain concealed from the law enforcement

authorities in case of seizure. The involvement of ever increasing numbers of people in these illegitimate activities has social consequences, the extent of which we may not even know yet. The generalized presence of role models with a life style showing a background of narco riqueza may prepare an entire generation for a life in crime. This, on its turn, will guarantee an unlimited supply of couriers. Drug control efforts have been largely ineffective in this area. For every smuggler caught, ten or more pass. Next to the larger smuggling endeavours, shipping tons of cocaine packed in containers, the drugs transporting 'mule' will be an increasingly important factor in drug smuggling.

### **Changes in Money Laundering Practices**

Laundering of the proceeds of the drug trade is the crucial phase in drug trafficking (Thoumi, 2003). It determines to what extent the ill-begotten monies can be "legalized" and invested into the legal formal economy. Successful money laundering is a precondition for keeping the illegal drug industry functioning at its present pace. Traditionally, the laundering process has involved three phases<sup>10</sup>. During the first phase, or "placement" the proceeds are moved in cash or as profits of an illegitimate business. This may involve contraband activity, great amounts of cash to be moved abroad, deposits just below the limits allowed in a range of banking institutions, changes from cash to cashier checks, precious metals or diamonds. The laundering process often passes through business activities that normally handle large amounts of cash, like bars, restaurants, night clubs, beauty parlors and check and foreign money exchanges. This first phase is critical and the one most vulnerable to intervention by law enforcement. During the second phase, or "layering", the illegally obtained funds move through various businesses, corporations or financial institutions, are mixed with legally obtained funds and move back and forth between domestic and/or foreign banking institutions in order to escape detection. During the third phase, or "integration", the illegal funds are being used in normal, legal transactions and the laundering process is concluded. Especially in the case of the larger trafficking enterprises, laundering has involved the creation of 'paper' corporations abroad in "safe" financial centers, such as Panama, Cayman Islands, Bermuda, Curaçao, and Switzerland, while establishing foreign bank accounts that permit bogus transactions for consultancy fees, salaries, operation costs, a wide range of services and the like. For the smaller enterprises with less money involved, laundering may be less complicated, above all involving businesses and services that function as a façade behind which money is channeled into the legal circuit through a range of fake activities.

The new generation of traffickers has been operating low profile in all phases of the trade, including the laundering phase. Couriers are used instead of electronic means to carry large sums of cash, eventually to be deposited in national or foreign banks. These sums that are transported, often across borders, may be quite substantial in size<sup>11</sup>. The number of 'mules' carrying great sums of money around, has increased parallel to the sharp increase of 'mules' and body packers carrying cocaine<sup>12</sup>. The double-bottom suitcases have since long given way to more sophisticated ways of hiding cash in articles of 'normal' use that can be carried on the plane, such as household electronics, toys, crafts, etc. Increasingly, proceeds from the drug trade are kept in cash and laundered in small amounts that don't arouse attention of the authorities<sup>13</sup>. To launder large amounts of money at the same time has become difficult in Colombia. People who would do so would become clearly conspicuous and run a considerable risk of being identified. This applies even more to Bolivia and Peru<sup>14</sup>. A new strategy has included investments in life policies that are later cancelled, freeing moneys that than can be invested in the legal circuit. In the years 2001 and 2002, Colombian traffickers appeared to have invested for a total of 80 million U.S. dollars in such policies.<sup>15</sup> In most countries money laundering laws have been woefully out of date complicating financial investigations by the authorities. This situation, however, may change soon. In all Western countries new legislation directed towards the identification, freezing and confiscation of the proceeds from drug trafficking have been put on the books, in particular after the happenings of 9/11. The effectiveness of the new policies is still hard to establish. Yet it is obvious, and we can see this already reflected in the way in which the new generation of traffickers operate, that low profile will remain the rule in laundering for the time to come.

### **Trafficking and Marketing**

Originally, the strategy of Colombian exporters has been to control the process of transport, export and marketing downstream. An estimated 70 to 80 per cent of cocaine exports in the 1970s and 1980s destined for the United States market passed through Colombian hands, using the Colombian migrant communities in the big American cities. Since the, traffickers from Mexico and the Caribbean have become important players<sup>16</sup>. The money interests are huge. One kilo of cocaine in Colombia will cost between 100 and 1400 U.S. dollars. The same kilo may yield ten to twenty times that amount in wholesale markets of major United States entry cities. The Mexican organizations in particular have enhanced their bargaining position with the Colombian cocaine producers and organize

now approximately half of the cocaine transports directed towards the U.S., operating brazenly and violently<sup>17</sup>The other half is smuggled through Central America and the Caribbean (Guatemala, Panama, Dominican Republic, Haiti, Jamaica and Puerto Rico). Only a few percent finds its way directly from Colombia to U.S. destinations. Bulk shipments are transported to these locations, to be warehoused, repackaged and smuggled into the U.S. using an infinite variety of methods (Allen, 2004).

Mexico has become the most important route for cocaine shipments destined for the U.S. Colombian trafficking organizations generally have preferred to maintain ownership of the shipments but soon became dependent on the local Mexican organizations (often traditional drug smugglers) to channel the shipments to the Northern border states. Originally, the Mexican gangs involved in this venture were paid in cash (1500 - 2000 US dollars per kilo), but soon they renegotiated and had themselves paid in cocaine for services rendered. Subsequently, they started moving the trade through their own distribution channels. The presence of sizable populations of Mexican origins in all big U.S. cities, enabled them to control trafficking downstream to the street level. The drug trade has become Mexico's largest foreign exchange earner with an amount estimated at between 30 and 40 billion U.S. dollars annually. Mexico's presence is strongest in the Western part of the U.S. The Colombian traffickers have maintained their hold in the Eastern part with help of traffickers from Puerto Rico, the Dominican Republic, Haiti and Jamaica (Andreas, 2004).

The Caribbean is for Colombian traffickers their natural "bridge" to the United States. At the same time it is the most controlled area by the U.S. coast guard and other forces of law enforcement. However, the high surcharge for moving shipments through Mexico (fifty per cent!) has led to a shift to the traditional Caribbean routes, which calculate a surcharge of less than half the cost of the Mexican route.

Also, the Caribbean is home to an off-shore banking system that serves the laundering of drug money. Many Caribbean nations are economically and politically weak, are sucked into the drug trade and are at risk of losing their sovereignty (Griffith, 2004).

The distribution of profits at the various levels of the value chain is quite uneven. The greatest jumps in earnings occur at the levels of transport and distribution and not at those where the actual commodity is being produced. High percentages of the profits realized in the countries of demand will remain there. Obviously, this whole money making structure remains a function of the industry's illegality.

### III. CONCLUSION

The drug industry is a very dynamic one, expanding its operations and exploring new markets, while constantly changing the organization of the trade, its business practices, the participating personnel, their social practices and relations, the linkages with other sectors of civil society and the state, and the relationship towards networks of organized crime. The industry is forced to be flexible when developing answers to continually changing conjunctures involving changes in demand, actions of law enforcement and drug control or developments in international trade. The well-established drug trade organizations are disappearing. They have proven to be vulnerable against the forces of drug control and law enforcement. Most new drug businesses are informal, small, mutating and decentralized. The trade has ‘informalized’ with a change in smuggling patterns that reflect these developments. A new generation of traffickers has been organizing the trade in a low profile and informal way. They have avoided those features that have led to the demise of the cartels, such as: large scale operations, a visible presence, conspicuous consumption and widespread use of violence. The changing trade patterns have been integrating increasing numbers of people into the drug trade as courier, ‘mule’ or bolero, contracted to carry limited-size loads overseas, using scheduled flights through international airports. This phenomenon reflects the atomization of the drug business after the disintegration of the cartels. Scores of small and micro-entrepreneurs have entered the sector. They often work independently, integrating various phases in the value chain under their own control, while at the same time reaping a major part of the total value mark up. This expansion of the small-scale organization of the trade has presented new challenges to the forces of law enforcement and drug control. The international couriers account for the majority of people detained and charged for cocaine smuggling. However, they will not lead law enforcement to the drug entrepreneur who organized the trade. In most cases, the courier will not know who sent him on his trip and who will receive the load upon arrival. For the organizing entrepreneur the couriers are expendable, personnel that can be replaced easily. ‘Mules’ may be ruthlessly sacrificed as part of smuggling strategies and tactics defined without their knowledge and control. The continuing economic crisis in Latin America has created a huge reservoir of middle and lower-middle class people who are willing to take the risk in search of means to improve their socio-economic situation.<sup>18</sup>

The drug industry has always fascinated outsiders and onlookers. In the news we read about spectacular smuggling operations. The huge profits may entice certain traffickers to “science fiction” type scenarios in order to

get their cargo at its destination and there are few limits to the imagination. In September 2000, a Bogotá-based group of traffickers were apprehended in connection with the construction in secret of a submarine for the transport of cocaine to U.S. shores.<sup>19</sup> At the same time, however, the cocaine trade is also a business in which many small low-profile traders quietly go their ways, refraining from any activity that may call the attention of law enforcement. It is this sector that has grown in importance and one may expect it to be setting the trend for changes in business practices within the industry for years to come. The organization of the coca-cocaine industry and the value mark ups that are realized at every phase of production and trafficking are totally conditioned by its illegality. A change in the prohibition regime towards decriminalization would radically change this picture, erase the mega profits of the trade in one stroke, eliminate its criminal connection and create a situation not very different from the one we have with alcohol and tobacco.

## NOTES

- <sup>1</sup> “Narcotráfico: La Generación ‘\$’, *Revista Semana (Bogotá)*, May 4, 2003; “Burriers”, *El Comercio (Lima)*, February 13, 2005; “Los Narcos Usan de Mulas a Niños y a Gente Pobre,” *La Razón (La Paz)*, September 22, 2005; “Bebés y Ancianos en el Narcotráfico,” *El Diario (La Paz)*, January 16, 2005; “Mulas al por mayor,” *Clarín (Buenos Aires)*, November 25, 2006
- <sup>2</sup> *El Tiempo (Bogotá)*, January 4, 2004; “La Coca de los Divinos Niños,” *Revista Caretas (Lima)*, June 13, 2002; “Mexicanos financian a las micromafias Colombianas,” *El Universal (Mexico)*, July 10, 2006; also Astorga (2004) 85-102.
- <sup>3</sup> “La Nueva Generación de la Mafia,” *El Tiempo (Bogotá)*, September, 2001; “Mafia: El Nuevo Estilo que Opera Desde Hace Varios Años in Colombia,” *El Tiempo (Bogotá)*, January 18, 2004; “Veinte Años Después,” *Revista Cambio (Bogotá)*, January 18, 2004; this change in business practices is generally present, see for the Mexican case: “El Doctor dio al Cartel de Juárez una Visión Empresarial,” *El Universal (México)*, November 22, 2005; “El Narco busca consolidar Mercado Interno,” *El Universal (Mexico)*, May 1, 2006.
- <sup>4</sup> *El Tiempo (Bogotá)*, January 18, 2004; *Folha de São Paulo (São Paulo)*, April 5, 2003; *El País (Madrid)*, September 6, 2006
- <sup>5</sup> “Drogas,” *Folha de São Paulo*, May 4, 2002; *El Tiempo (Bogotá)*, January 18, 2004; Involvement in trafficking among the urban poor has mushroomed ; faced with stagnating income situations, many apparently have taken matters into their own hands, entering the drug trade. This move has been behind much of the upsurge in violence in the big cities of Latin America; “Policia Nacional: Diez por ciento esta implicado en el Tráfico de Drogas,” *La Republica (Lima)*, August 31, 2004; Moser and Mellwaine(2006).
- <sup>6</sup> *Volkscrant (Netherlands)*, October 4, 2003; communication Netherlands Ministry of Justice, OM Haarlem, April 15, 2003; the numbers of drug smugglers arriving at Amsterdam Airport were mentioned by the airport police and the local judicial authorities and at the time represented serious estimates, although at first sight they seemed like an other case

of the statistical sensationalism that we often find in estimates of the impact of the drug trade.

- <sup>7</sup> *NRC-Handelsblad*, (Netherlands), June 26, 2003 and October 4, 2003; cf. the calculations by Zaitch, (2002) 81, on the basis of data from the former *Observatoire Geopolitique des Drogues* in Paris and from various Colombian sources.
- <sup>8</sup> *Volkskrant* (Netherlands), July 28 2004; *NRC-Handelsblad* (Netherlands), July 24, 2004.
- <sup>9</sup> *NRC-Handelsblad* (Netherlands), September 29, 2002; “Por un Puñado de Dolares,” *El Espectador* (Bogotá), August 19, 2003; also Zaitch (2002) 151
- <sup>10</sup> “Lavado de Dinero: Mal que Recorre el Mundo,” *La Hora* (Quito), October 27, 2003; also Reuter and Truman (2005), 25-45.
- <sup>11</sup> “Colombians and the U.S. break up World’s biggest Money Laundering Ring,” *Colombian Office of the President*, April 22, 2002; the massive influx of dollars had severe macro-economic consequences; in 2004/2005 the Colombian peso rose 17 percent against the dollar, The money laundering ring discovered in April 2002 operated through a Panamenian company where regular deposits were made of 150.000 U.S. dollars; *El Tiempo* (Bogotá), September 11, 2005.
- <sup>12</sup> “Alerta por Lavado de Dinero,” *El Tiempo* (Bogotá), April 11, 2002; “La Mafia Diversifica las Formas de Lavado,” *El Comercio* (Lima), September 19, 2005; “Inteligencia Financiera Descubre 55 millones de Dolares en Lavado de Activos,” *El Comercio* (Lima), January 8, 2006; a spectacular exmple presented itself in April 2002 when a courier was apprehended at Cali Airport with 1.3 million U.S. dollars strapped to his body,
- <sup>13</sup> “Por un Puñado de Dolares,” *El Espectador* (Bogotá), August 8, 2003, the courier was apprehended with 25.900 U.S. dollars in his stomach!
- <sup>14</sup> “Drug Money seized in Colombia,” *Associated Press*, August 25, 2001; a total of 35 million U.S. dollars was found stashed away in the walls of two Bogotá apartments; “Narcotráfico,” *Revista Semana* (Bogota), January 21, 2007 reports the seizure of over 60 million U.S. dollars in cash stashed away in a number of trunks kept in a Cali apartment; see Thoumi (2003) 162-168 on the difficulties involved in laundering substantial amounts of foreign exchange;
- <sup>15</sup> “Golpe a Red que Empleaba Polizas de Seguro para Lavar Dolares,” *El Tiempo* (Bogotá), December 7, 2002; “NoTodo que Brille es Oro,” *Revista Semana* (Bogotá), February 12, 2006.
- <sup>16</sup> “La nueva Geografía del Narco,” *La Jornada* (Mexico), July 24, 2005.
- <sup>17</sup> “El Narcotráfico esta fuera de Control” *El Universal* (Mexico), July 26, 2006
- <sup>18</sup> A good picture of this phenomenon is presented in the Oscar-nominated movie *Maria Full of Grace*; in Colombia, the movie struck a cord in the press it was renamed: *Maria Llena de Coca* (Maria Filled with Coca); see *El País* (Cali), February 5, 2005.
- <sup>19</sup> “Mafias de Rusia, Holanda y Carteles Colombianos Detras del Submarino Encontrado en Bogotá,” *El Espectador* (Bogotá), April 17, 2002; also: “A Profundidad,” *Revista Semana* (Bogotá), April 21, 2002.



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