

## I. Illicit drugs and economic development

1. Heroin and cocaine continue to be the illicit drugs that have the most socio-economic impact worldwide, in terms of morbidity, mortality and treatment needs for illicit drug use, as well as in monetary terms. Illicit trafficking in cocaine and heroin accounts for the bulk of the global illicit drug trade in monetary terms. The International Narcotics Control Board therefore has reviewed the impact of illicit opium poppy and coca bush cultivation, as well as trafficking in and abuse of heroin and cocaine, on overall economic development. The Board recognizes also the high impact of many other drugs, primarily cannabis and the various synthetic drugs. The Board decided to focus its review on economic development, as it is a crucial component of human development.

### A. Short-term gains through illicit drug production and trafficking

2. In the rural areas of many countries, the illicit drug industry provides jobs in the agricultural sector to a large number of people with limited skills and education, such as small farmers and itinerant labourers. The illicit drug trade also provides employment for laboratory operators, wholesale distributors, money launderers, retail distributors and runners. Such employment opportunities can be important in economic terms for countries in which there is illicit crop cultivation as well as high levels of unemployment.

3. In the short term, providing income-generating activities for people could be regarded as economically favourable. It is estimated that approximately 3 per cent of the combined rural population of Bolivia and Peru was engaged in illicit drug production in the late 1980s. It is estimated that a similar percentage of the combined rural population of Afghanistan and Colombia was engaged in illicit drug production at the end of the 1990s. In the parts of those countries where illicit drug production occurred, however, the proportion of the local population cultivating illicit crops is estimated to be higher than the proportion of the national population engaged in such activity and could rise to more than 20 per cent.

4. A small number of people, mainly those organizing the illicit drug trade, make large profits from illicit crop cultivation, but the vast majority of people, including most of those who originally benefited from such trade, are adversely affected by that illicit activity. In the long term, the illicit drug industry causes major problems that eventually affect the economic development of the country concerned.

### B. Estimate of income generated through illicit drug production and trafficking

5. Estimates of the income generated by illicit drug production and trafficking and the impact of that income on national economies cannot be precise. Such estimates merely provide insight into the order of magnitude of the short- and long-term economic consequences of such illicit activity in the countries concerned.

#### Large income generated by drug trafficking activities in developed countries

6. In 2001, the total value of illicit opium poppy crops at the farm-gate level was estimated at about 400 million United States dollars and that of coca (based on prices for coca base) was \$700 million.<sup>1</sup> The total value of both those crops (\$1,100 million) appears insignificant when compared with the total farm income in the countries involved (approximately \$86 billion); it accounts for, on average, only about 1.3 per cent of total farm income in those countries. In some countries, the income from illicit drug production may account for more than 5 per cent of total farm income.

7. The total value of illicit opium poppy and coca crops at the farm-gate level in 2001 (\$1.1 billion) is also relatively low compared with other economic aggregates. In the United States of America alone, costs related to illicit drugs in 2000 amounted to approximately \$161 billion, including \$110 billion for loss of productivity and \$15 billion for health care.<sup>2</sup> Thus, the total income of farmers engaged in illicit coca bush and opium poppy cultivation throughout the world could amount to less than 1 per cent of the total

costs related to illicit drugs in only one country in which the drugs are abused.

8. Aggregate farmers' income from illicit coca and opium poppy production amounted to just 2 per cent of global development assistance (\$53.7 billion) in 2000.<sup>3</sup> The conclusion that can be drawn from this analysis is that an increase of 2 per cent in global development assistance, directed to the areas where illicit crop cultivation occurs, could offset shortfalls for farmers who shift to licit crop production. The problem that such assistance could create, however, is that farmers may be lured into first producing illicit crops in order to be subsequently compensated for not continuing to engage in such activity.

9. Aggregate farmers' income from illicit crop production is only a small fraction of the drug control budgets of the countries mainly affected by drug abuse. In the United States, for example, the federal drug control budget amounted to \$18 billion in 2001.<sup>4</sup> In addition, the states provided for more than \$15 billion in their budgets for drug control purposes. Thus, the total of \$33 billion provided in federal and state budgets for drug control is some 30 times more than the global income earned by farmers from illicit coca and opium poppy production.

10. In the United States, expenditure on cocaine and heroin in 2000 was estimated at \$36 billion and \$12 billion, respectively; expenditure on cocaine and heroin accounted for 76 per cent of total illicit drug expenditure in the country.<sup>5</sup> In the United Kingdom of Great Britain and Northern Ireland, the estimated expenditure on heroin and cocaine by drug abusers was \$3.9 billion and \$3.6 billion, respectively; the two drugs together accounted for 68 per cent of total expenditure on illicit drugs in that country.<sup>6</sup> The United Kingdom accounts for about 20 per cent of the heroin abusers and 29 per cent of the cocaine abusers in Western Europe. Extrapolating the data for the United Kingdom to Western Europe as a whole, the expenditure for heroin and cocaine for Western Europe could be estimated to be around \$20 billion and \$12 billion, respectively.

11. Expenditure on cocaine is estimated to be \$48 billion and expenditure on heroin is estimated to be \$32 billion in both the United States and Western Europe, which are the main illicit drug markets. Those estimates, which are considered to be conservative, suggest that only 1 per cent of the money that is

ultimately spent worldwide by drug abusers on maintaining their drug habits is earned as farm income in developing countries.

12. The remaining 99 per cent of the global illicit drug income is earned by drug trafficking groups operating at various other points along the drug trafficking chain. Profits made from illicit drug trafficking in developed countries usually account for between one half and two thirds of total drug trafficking profits and are much larger when the extra income from adulterating heroin and cocaine with other substances is included. The bulk of the drug trafficking profits are not made in developing countries but in developed countries.

13. Data for the first two quarters of 2000 suggest that, in the United States, approximately 74 per cent of the total profits from the cocaine and heroin sold were generated in that country alone.<sup>7</sup> The profits made from cocaine (\$27 billion) and heroin (\$9 billion) amounted to \$36 billion in 2000 in the United States. In the same year, between \$12 billion and \$13 billion were made in developing countries by shipping cocaine and heroin to the United States. Though large in absolute terms, the profits from heroin and cocaine trafficking in the United States are modest when expressed as a percentage of gross domestic product (GDP): 0.4 per cent of GDP. Even if the profits from trafficking in other drugs were added, the total amount added to the economy would not be more than \$50 billion, or 0.5 per cent of GDP. In contrast, in some developing countries where the profits, in absolute terms, are significantly smaller, expressed as a percentage of GDP they are much higher than in the United States.

#### **Small income generated in countries in which illicit crop cultivation takes place**

14. The overall income from illicit coca bush and opium poppy cultivation depends on the quantities of the raw material that have been transformed into the end products less the amount lost to seizures in illicit traffic, as well as losses incurred during the transformation process. Another important parameter is the involvement of local criminal groups in international drug trafficking operations and the proportion of the funds that are repatriated or spent locally.

15. Reasonable approximations of income from illicit crop cultivation and drug trafficking in different

countries can be derived from a simplified calculation, where actual crop output, transformed into the end product, is multiplied by the average wholesale prices in neighbouring countries. The rationale for this approach is that, apart from a few exceptions (such as Colombia), criminal groups in countries producing illicit drugs tend to play only a minor role in international drug trafficking. Their involvement is largely limited to drug trafficking within the country and to shipping illicit drugs to neighbouring countries. The overall injection of drug-related funds into the national economies of developing countries producing illicit drugs amounted to approximately \$3.8 billion in 2001, according to calculations of the United Nations International Drug Control Programme (UNDCP).<sup>8</sup> In some countries, such as Afghanistan, the Lao People's Democratic Republic and Myanmar, the inflow of funds into the national economy from illicit opium poppy cultivation is relatively high compared with the GDP of those countries. Coca and cocaine production, expressed as a percentage of GDP, was highest for Colombia, followed by Bolivia. In recent years, illicit drug production and trafficking, expressed as a percentage of GDP, was estimated to be between 10 and 15 per cent for Afghanistan and Myanmar, but between 2 and 3 per cent for Colombia and the Lao People's Democratic Republic, slightly more than 1 per cent for Bolivia and less than 1 per cent for all other countries.

16. In general, the aggregate economic benefits resulting from the inflow of money from illicit drug production into a national economy are likely to exceed the initial inflow of money because of the ripple effects of that inflow. Thus, the multiplier effect of the actual amounts initially injected is important in understanding the potential impact of such activity on the economy. Much of the drug-related income of farmers, for instance, is used to purchase goods and services to meet their daily needs, which in turn provides local traders with additional income that is then spent on other goods and services. In each round of spending, extra amounts will become available to the population, amounts that vary from country to country, mainly in accordance with the savings ratio and the import ratio (expenditure on imported goods expressed as a percentage of GDP).

17. The savings ratio in low-income countries amounts to an average of 20 per cent of income. The import ratio amounts to an average of 26 per cent. Combining

the savings ratio and the import ratio, the expected multiplier effect would be 2.45,<sup>9</sup> resulting in a total purchasing power of approximately \$9.3 billion from the initial income of \$3.8 billion.

18. In the case of illicit drug production, a number of factors suggest that the actual multiplier effect of the income generated from illicit drug trade will be less than those arising from comparable lawful activity. The consumption pattern of drug traffickers in a country where illicit drugs are produced is characterized by a high level of conspicuous consumption, due to their lifestyle. Also, drug traffickers tend to purchase more imported goods than the general population, thereby increasing significantly the average import ratio. Based on the items usually purchased by drug trafficking groups, expenditure on imported goods is estimated to account for up to 80 per cent of all expenditure. The multiplier effect arising from the expenditure of drug traffickers could then fall from the original estimate of 2.45 for lawful economic activity to 1.55.

19. Therefore, drug-related income of traffickers would contribute about 36 per cent less to the local economic development than income from licit products. Separating the overall drug-related income of \$3.8 billion in 2001 in countries producing opium and coca leaf into income for farmers (\$1.1 billion) and income for drug traffickers (\$2.7 billion), the application of the differentials in the multiplier effect could result in the farmers having a total purchasing power of \$2.7 billion from the \$1.1 billion income accruing to them (using 2.45 as the multiplier). In addition, \$4.2 billion would be the total purchasing power from the \$2.7 billion income for drug traffickers (using 1.55 as the multiplier). The purchasing power of \$6.9 billion from the proceeds of \$3.8 billion from illicit drug trade would therefore be about one quarter less than the expected purchasing power. Nonetheless, even if the multiplier effect is less than it would have been if the money were injected into the national economy through lawful activity, the net results, from a purely short-term economic point of view, remain positive.

### C. Illicit drug production prevents long-term economic growth

20. Contrary to the widespread perception that income generated from the illicit drug industry automatically fosters economic development, there are no indications that the expansion of illicit crop cultivation has led to an overall improvement in the economic situation or to the improvement of any broader development indicator at the national level. While there is evidence that sales of illicit drugs can foster economic development in the short term, the question remains whether that leads to a process of sustainable development in the long term. Available evidence shows that the countries in which illicit drugs have been produced have suffered a decline in economic growth.

21. In the Andean subregion, the increase of coca bush cultivation in Bolivia and Peru in the 1980s and in Colombia in the 1990s did not lead to an overall increase of economic growth in those countries. Though coca bush cultivation increased in Colombia in the second half of the 1990s, economic growth lost momentum and even turned negative towards the end of the 1990s while illicit coca leaf production expanded strongly.<sup>10</sup> Despite falling coca leaf production in Bolivia and Peru, economic growth accelerated throughout most of the 1990s, exceeding the average for Latin American countries. In the period 1998-1999, economic growth in both Bolivia and Peru, though modest, remained above the average for Latin American countries while economic growth declined in Colombia in spite of increased coca bush cultivation.

22. Where there have been shifts in opium poppy production in South-West Asia the situation is similar. Though reliable data on Afghanistan's economic development over the last two decades do not exist, there is enough evidence to suggest that economic growth in that country has been negative since the country first engaged in large-scale illicit opium poppy cultivation. There can be no doubt that overall living standards have fallen since then. The massive increase in opium production, which turned Afghanistan into the world's largest producer of illicit opiates in the early 1990s, helped to fuel civil wars but clearly failed to contribute to the country's overall social and economic development. By contrast, the Islamic Republic of Iran and Pakistan, which reduced or completely eliminated opium poppy production,

recorded positive economic growth rates in both the 1980s and the 1990s. Pakistan reported the strongest decline in opium production in the 1980s, when it had the strongest economic growth rate (6.3 per cent annually) in South-West Asia, clearly exceeding growth at the global level (3.4 per cent annually). In the Islamic Republic of Iran, the economic growth rate rebounded in the 1990s, without any recourse to illicit opiates.

23. The same pattern of economic development has been observed in South-East Asia. In the 1980s, illicit opium production in Myanmar increased 10-fold, but at the same time the country had the lowest GDP growth rate in the region. When, in the 1990s, opium production declined by one third, GDP growth increased to the levels reported in neighbouring countries. However, if illicit opium production had provided a basis for economic development, Myanmar would not have the lowest per capita income in the region, based on purchasing power parities.

24. Thailand was the first country in the region to drastically curtail illicit opium production (from 146 tons in the period 1965-1966 to less than 60 tons in 1982<sup>11</sup> and to 6 tons in 2000). As the levels of illicit opium production in Thailand fell in the 1980s, its GDP growth rate exceeded those of neighbouring countries, and today Thailand is one of the most developed countries in the region.

25. Data for both the Lao People's Democratic Republic and Viet Nam show an increase in GDP growth rates in the 1990s compared with the 1980s. The increase in the GDP growth rate in both countries was accompanied by a decline in opium production in both of those countries in the 1990s.

26. Similarly, in the 1980s, there was increased illicit production of cannabis and opium in Lebanon, notably in the Bekaa valley, fuelled by the civil war, the breakdown of State institutions and the various militias trying to use the illicit drug trade to finance their activities. Though there are no reliable estimates on economic growth in the country in the 1980s, it can be assumed that the destruction of production capacity resulted in negative growth. In the 1990s, the authorities succeeded in implementing a ban on illicit drug production. At the time of the enforcement in Lebanon of the ban on illicit drug production, GDP grew by 7.7 per cent annually, a growth rate that was clearly above the world average (2.5 per cent per year)

and the average for the Middle East and North Africa (3.0 per cent per year).<sup>12</sup>

27. There is, of course, no proof that increased illicit drug production is necessarily linked to a decline in overall economic activity. Illicit drugs are only one of many different factors that determine economic development. Economic decline and poor growth are often the result of overall situations of instability, which, in turn, may lead to increased illicit crop cultivation and drug trafficking because of a country's weak governmental and administrative structure, while good governance has a positive impact on growth.

28. The most obvious explanation for the negative correlation between illicit drug production and economic development is that engaging in illicit crop cultivation has been, in many parts of the world, a reaction to deteriorating economic conditions. That was the case with the expansion of illicit coca production and illicit opium poppy cultivation in the Andean subregion and in Asia in the 1980s. Such a defensive reaction does not address underlying social tensions and development problems in society. Indeed, it may perpetuate them; eventually, it may itself become the key impediment to development. The emergence of a drug economy can result in the destabilization of the state, the political system, the economy and civil society.

#### **D. Destabilization of the state**

29. The destabilization of the political system relates to the ability of the illicit drug industry to finance electoral campaigns and corruption, as well as insurgency, terrorism and organized crime. It can distort the investment climate and the basis of sound macroeconomic decision-making.

30. The destabilization of the state is usually the most serious consequence of the existence of a large illicit drug industry in a country. While funds generated by drug trafficking in developing countries may not be large enough to create an economic boom, they are usually more than enough to allow for corruption in the political system. Insurgency groups may discover drug trafficking to be a lucrative source of income; in some countries, such as Afghanistan, Colombia and Myanmar, illicit drug production has been linked to and nourished by civil wars.

31. One of the main consequences of the destabilization of a country is decreasing investment. Once the safety of legitimate investments has been jeopardized, the business climate deteriorates and the prospects for new investment decline. With investment levels declining, economic and social progress and thus long-term development are compromised. In the countries of the Andean subregion, for example, illicit coca production fell as investment ratios rose, and vice versa.

32. Another related problem is the difficulty of making rational economic policy decisions when underground economies, fuelled by illicit profits, thrive. Under such conditions, the economic data available for a country become misleading (see paragraphs 34 and 35 below). Wrong economic decisions are taken, adversely affecting the credibility of the state and the country's investment climate.

#### **E. Destabilization of the economy**

33. Destabilization of the economy takes on various forms: (a) it undermines macroeconomic decisions to counter the flow of illicit profits, thus creating high interest rates and crowding out legitimate investment; (b) it brings about an overvalued exchange rate as a result of the inflow of illicit profits, diminishing legitimate exports; (c) it promotes illegal business and unfair competition, including obstacles put on legitimate business; (d) it encourages conspicuous consumption at the expense of long-term investment; (e) it encourages investment in non-productive sectors; and (f) it exacerbates unequal income distribution.

34. At the macroeconomic level, the existence of a large underground economy can seriously undermine rational decision-making by policy makers. Macroeconomic management is difficult at the best of times, but with illicit drug money circulating in an economy on a large scale, it becomes an almost impossible task. Macroeconomic management is particularly difficult when there is a need for economic policy changes, such as austerity measures to curb inflation, or attempts to diversify the export base. In such situations, illicit drug money tends to counteract government action, either by preventing a predicted outcome from materializing, by prolonging the time frame for macroeconomic stabilization or by prompting

the Government to take measures that are too drastic, thus creating unemployment and social unrest.

35. The reaction to inflationary pressure often results in the introduction of more severe monetary policies, leading to a decline in the money supply and increased interest rates. However, such policies will only prove successful if the economy reacts in a predictable way to the changes introduced. But when illicit profits are available in large amounts, the economy may continue to overheat, showing marked inflation, despite a restrictive monetary policy. Such a development may prompt the authorities to take even more drastic monetary and other restrictive economic measures. In the process, legitimate business, which does not have access to such illicit funds, may be squeezed out of the market due to high interest rates, and new legitimate investment may not take place.

36. Another form of crowding out is the result of an overvalued exchange rate, a consequence of an inflow of illicit profits into a country. Legitimate exports are systematically crowded out by illicit drug exports. Overvalued exchange rates also pose problems for domestic industry producing for the local market because domestic production will be increasingly substituted by imports. Thus, overvalued exchange rates can ruin entire economic sectors, which, once they cease to exist, may be difficult to re-establish.

37. Illicitly funded business enterprises may squeeze legitimate competitors out of the market by underselling goods or services. Such enterprises usually serve as "front" companies, participating (or pretending to participate) in legitimate trade as a cover for money-laundering. In such cases, low prices do not reflect efficiency but may force far more efficient, legitimate companies out of business, leaving entire sectors in the hands of unlawful enterprises. Such a situation is particularly problematic as new competitors are deterred from entering the market.

38. The spending patterns of drug trafficking groups create further problems for long-term development. They are often characterized by conspicuous consumption (expensive cars, yachts, electronic equipment and clothing, usually imported). Such conspicuous consumption may take place at the expense of investment and may even reduce investment that otherwise would have taken place. For instance, the high import content of goods being consumed may upset the trade balance, prompting foreign banks to

increase the credit risk of the country, resulting in overall higher interest rates and thus less investment.

39. Weapons are another frequent spending item of drug traffickers. Such purchases not only prevent alternative spending on capital equipment, but also contribute to the spread of fear and violence, making the overall business environment more unfavourable.

40. When drug trafficking groups do invest significant sums in the economy, there is often a bias towards investment in largely non-productive sectors, such as real estate and the entertainment industry (gambling, brothels and similar businesses). Many of those investments do not constitute a sound basis for long-term development, the only goal being either short-term profits or money-laundering. For example, such investment in real estate is frequently speculative and is not used productively as it is done either to drive up prices or to hide illicit gains. Such investment may have an overall negative effect on the purchasing power of local communities.

41. Another negative aspect of investment derived from illicit drug money is the lack of continuity. Much of the investment actually depends on the continuity of the illicit drug operation. Because of its status of illegality, the illicit drug operation may be suddenly disrupted and related investments may decline or disappear due to law enforcement actions and prosecution. As a consequence, several illicit drug production and trafficking areas have undergone steep boom and bust cycles.

42. A further important consequence of the establishment of an illicit drug industry is not only the perpetuation, but also the accentuation of income inequality, which originally might have been one of the causes of the participation in the illicit drug production and trafficking. Illicit drugs are not the only reason for changes in income distribution, but they often contribute to it. This is particularly problematic because perceived income inequality is at the heart of various social problems faced by many countries, including illicit drug production and trafficking, thus forming a vicious circle. In other words, unequal income itself is apparently an important factor affecting the readiness of people to participate in the illicit drug industry, while the existence of an illicit drug industry fosters unequal income distribution.

43. Income inequality is accentuated not only by drug trafficking groups accumulating fortunes but also by their spending patterns, notably their desire to acquire land. If small-scale farmers are not willing to sell their land voluntarily, they are forced to do so by intimidation. The result can be an inverse land reform, marked by the distribution of land to a few big farms by small farmers who do not have the educational background and skills to move into other sectors of the economy.

44. Similarly, drug-related violence acts as a deterrent to investment, reducing employment opportunities and income. The same is true for tourism, which otherwise tends to spread its value added among a large number of individuals. Drug-related crime also has a major impact on members of the lower segments of society, who are less able to protect themselves, while members of high-income groups can afford to pay for security equipment and services. In addition, the fight against drug trafficking and organized crime draws on scarce government resources, reducing in one way or another the amount available for welfare transfers and services.

45. United Nations Development Programme data in *Human Development Report 2002*<sup>13</sup> seem to confirm the above-mentioned tendencies. Examination of the ratio of the income of the richest 20 per cent of the population to that of the poorest 20 per cent shows that income inequality has increased in the Andean subregion over the last decade. The richest 20 per cent of the population in Colombia earned 16 times more than the poorest 20 per cent in the period 1980-1994 and 20 times more in the second half of the 1990s. Smaller increases in income inequality were also reported in Peru, where the ratio shifted from 10 to 12, and in Bolivia, where the ratio shifted from 9 to 12. Income inequality in all three countries in the Andean subregion was thus at a level above the global average, and in Colombia the ratio was above the ratios reported in neighbouring Venezuela (18), Panama (15) and Ecuador (9). Income inequality was also more pronounced in the three Andean countries than in the following developed countries: United States (9); Australia and the United Kingdom (7 each); Austria, France, Netherlands and Switzerland, (6 each); Belgium, Canada, Germany and Spain (5 each); Denmark, Norway and Sweden (4 each); and Japan (3). It may also be interesting to note that there is a strong correlation between income inequality and the number of chronic drug abusers, an indirect measure of the size

of the illicit drug industry in developed countries. While the United States has the highest number of chronic drug abusers per capita in the world and the United Kingdom has one of the highest numbers among Western European countries, the number of chronic drug abusers per capita is relatively low in countries that have low levels of income inequality, such as Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Norway and Sweden,<sup>14</sup> and chronic drug abuse is apparently even lower in Japan. The causality, however, needs to be studied further.

## F. Destabilization of civil society

46. The illicit drug industry can destabilize not only the state and the economy but civil society as well. This can happen as a result of increased levels of crime (gang wars, kidnapping, extortion); the erosion of social capital; compromised rule of law; the corruption of the elite and/or the political system; gambling and prostitution; drug abuse; and the loss of community cohesion.

47. The main symptom or manifestation of the destabilization of civil society is rising levels of crime, notably violent crime, which has a strong impact on consumption patterns (such as the need to pay for security services) and on individual freedom (notably freedom of movement). Drug-related crime includes acquisitive crime, gang wars, violence in public spaces, extortion and kidnapping.

48. In the last two decades, the greatest destabilization of a civil society in connection with the illicit drug trade has probably occurred in Colombia. In that country, the number of homicides increased from 17 per 100,000 persons in the period 1973-1975 (that is, prior to the country's involvement in the global cocaine industry) to 63 per 100,000 persons in 1988, during the initial phase of the Medellín cartel's war against the state.<sup>15</sup> That figure increased significantly to about 80 per 100,000 persons in 1992 as the fight against the Medellín cartel was intensified. The figure then declined in 1993 and 1994, following the gradual dismantling of the Medellín cartel, and again in 1995, following the dismantling of the Cali cartel. In 1997, the last year for which internationally comparable data are available, the figure for Colombia was 58 per 100,000 persons. The figure for Colombia was second only to the figure for South Africa (61) and was

significantly higher than the figure for Peru (10), the United States (7), Chile (5), Italy (1.5), Germany (1.4), Switzerland (1.2) or Japan (0.5).<sup>16</sup>

49. A prolonged period of crime and violence contributes to the erosion of a country's social capital and, in general, compromises the rule of law. In economic terms, that creates high transaction costs, as the state can no longer be relied on to provide the necessary framework. The consequence of high transaction costs is a general decline in overall economic activity and, thus, a decline in the welfare of society at large.<sup>16</sup>

50. Another element contributing to the erosion of social capital is corruption, notably corruption of the political elite and the political system as a whole, which is another manifestation of a compromised rule of law. While no society is immune to corruption, the availability of large amounts of illicit funds perpetuates corruption. That, too, increases overall transaction costs and thus reduces the potential welfare of society.

51. Moreover, the social fabric suffers once illegal activities become the norm. The quick profits to be made from drug trafficking also provide an incentive for young people to drop out of school. Incentives are thus being created for a whole generation to live a life in which they are educationally deprived. A society deprived of educational opportunities cannot develop. The fact that families are also affected poses a serious problem, as families usually form the very basis of a society.

52. Contrary to expectations that drugs illicitly produced in a country would only be transported to illicit markets outside the country, experience has shown that most countries in which illicit drugs are produced and transit countries eventually face their own domestic drug abuse problems, as spillover is a common phenomenon. Local drug trafficking groups, which assist in the transit operations, are often paid in kind, and they sell their share of illicit drugs in order to generate income. As they rarely have access to foreign markets, they sell the drugs locally. Drug abuse may also continue after local illicit drug production has been curtailed; for example, Pakistan, after having eliminated virtually all illicit opium poppy production by 2001, still faced a severe heroin problem, as imports from Afghanistan replaced domestic production.

53. Similarly, in Bolivia and Peru, an increase in coca production in the 1980s resulted in a sharp increase in the abuse of basuco and, subsequently, cocaine. Despite the decline in coca production in the late 1990s, those abuse levels remained relatively high. In Colombia, the cocaine abuse level in the late 1990s increased together with increases in coca production. Also, Mexico and the Caribbean countries were affected by growing levels of cocaine abuse, as those countries were increasingly being used as transit countries while the shipment of cocaine from Colombia directly to the United States was declining. Rising levels of cocaine abuse have also been reported in recent years in Brazil and South Africa, which also serve as transit countries. Similarly, the Islamic Republic of Iran, countries in Central Asia and a number of Eastern European countries have been particularly affected by rising levels of opiate abuse in recent years, as those countries are used as transit countries by heroin traffickers.

54. Drug abuse, whether in developed or developing countries, creates a whole range of additional problems for society, adversely affecting health, productivity and education and leading to increased crime and accident rates and to family disintegration. Those issues are beyond the scope of the present discussion and have been dealt with in several other United Nations publications.<sup>17</sup>

55. The existence of a large illicit drug industry disrupts social cohesion involving the family, the community and the state and seriously erodes social capital. Without social capital, development is unlikely to occur.

## **G. Policy implications**

56. The short-term benefits of illicit drug production and trafficking are offset by significant long-term losses. It stands to reason that Governments, even if they act purely out of self-interest, should pursue policies to fight illicit drug production and trafficking. There seem to be at least two reasons why this does not always happen:

(a) Some Governments only see short-term benefits but fail to recognize long-term losses in terms of development. In this regard, they fail to regulate the financial system and they fail to allocate funds and to

take appropriate measures to fight illicit drug production and trafficking;

(b) Drug control policy is sometimes conceived in a national context, ignoring long-term international consequences.

57. There is a link between development and illicit drug production and trafficking, as well as between developmental policies and drug control. It could be argued that drug control is actually a prerequisite for successful development, while successful economic development may be a precondition for sustainable successes in drug control.

58. While there is empirical evidence to support the thesis that drug control actually serves development, the inverse relationship of high general economic development being a prerequisite for successes in drug control is less certain. The evidence does not allow for a definitive answer. Evidence can be found that development, in different contexts, can either reduce or increase drug problems:

(a) Higher level of development:

(i) A higher level of development means more purchasing power, more performance-oriented stress and more recreational choice and therefore may mean more recourse to psychoactive substances;

(ii) However, a higher level of development also means more resources and capacity for prevention, treatment and enforcement;

(b) Low level of illicit drug production:

(i) Relatively low levels of illicit drug production are found in countries that have had high economic growth rates during the last decade;

(ii) However, relatively high levels of illicit drug production can also be found in countries with high economic development; nonetheless, as an analysis of the magnitudes of drug-related income shows, the importance of such production, expressed in terms of the overall size of the economy, tends to be minimal in such countries.

59. Economic development is an important issue for international drug control. Long-term benefits will accrue if a country rids itself of illicit drug production, trafficking and abuse and of money-laundering, but

that will entail short-term costs, both for government and for certain segments of society. It is necessary for the international community to help countries in need to bear at least some of those costs and thus enable interventions that should prevent illicit crop cultivation and generate long-term gains. That should be the primary rationale of international assistance, whether bilateral or multilateral, in the area of drug control.

60. If the chain of drug control is broken in one country, the whole international drug control system may be put in jeopardy. The adage that a chain is no stronger than its weakest link is particularly applicable to any multilateral system such as the United Nations and the international drug control system of which it is custodian. Unilateral action, conceived in a purely national context, can compromise the integrity of the entire international drug control system.

61. The tendency to define a problem in purely national terms and in the short term is not specific to drug control efforts. Development policy is also often conceived in a national context, and it has led to unintended international consequences (trade wars, arms races, environmental problems). In the last decade, deregulation, liberalization and globalization have been seen as mechanisms for fostering development at the global level. However, there have also been unintended consequences—falling raw material prices, increasing unemployment in some areas, migration and increasing cross-border transactions—which have contributed to increasing illicit drug production, trafficking and abuse.

62. The international drug control apparatus that is in place can deal with the drug-related consequences without jeopardizing other benefits resulting from international cooperation and the process of globalization. Key tasks for the international drug control system are thus to coordinate and streamline actions taken to fight illicit drug production and trafficking and to encourage Governments to deal with the problems of drug abuse by fostering drug abuse prevention and treatment activities and by learning from best practices. The international response to illicit drug production and trafficking also contains an element enshrined in the Action Plan on International Cooperation on the Eradication of Illicit Drug Crops and on Alternative Development, adopted by the General Assembly at its twentieth special session (Assembly resolution S-20/4 E).<sup>18</sup> In alternative

development programmes, small farmers—a key link in the drug production and trafficking chain—are assisted in switching from planting illicit drug crops to generating income by lawful means. International drug control thus contributes to the goal of sustainable long-term development by counteracting the negative side effects created by a proliferating illicit drug industry.

(i) Illicit drug production and related economic activities compromise long-term economic development because of their destabilizing effects on the state, the economy and civil society.

## H. Conclusions

63. Drug control efforts should take account of the following:

(a) Illicit drugs provide short-term gains for a few but long-term losses for many;

(b) The drug problem has to be considered in the overall economic and development context of a country;

(c) There are well-established multilateral mechanisms for dealing with both the drug problem and the development problem, and the two mechanisms have to be better integrated as long-term economic development in a country is not feasible without an effective drug control system;

(d) In countries with high unemployment, illicit drug production and trafficking provide considerable employment opportunities but jeopardize the development of human capital;

(e) Small farmers derive, in the short term, economic benefits from illicit drug crop cultivation, but the sum of those benefits is less than 1 per cent of the turnover from the world's illicit drug trade;

(f) Ninety-nine per cent of the value added in the global illicit drug trade is generated by trafficking at the national and international levels;

(g) The bulk of the profits from the illicit drug trade are made in developed countries; however, the economic impact of the drug problem is felt more in developing countries, where the value of the illicit drug trade represents a larger proportion of the economy than in developed countries;

(h) There is generally a negative correlation between illicit drug production and the economic growth of a country;