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Intelligence Report

*Office of Transnational Issues
DI Colombia Working Group*

Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity



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A Research Paper

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Intelligence Report

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Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity [Redacted]

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A Research Paper

This paper was prepared by the Office of Transnational Issues and the DI Colombia Working Group. Comments and queries are welcome and may be directed to the Chief, Strategic Assessments Group, OTI, on [Redacted]
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Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity 

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Key Findings 


The underground economy in Colombia—a complex web of semi-legal and illegal activities not counted in government statistics—is growing, eroding economic prospects and state capacity. 

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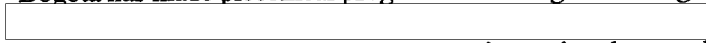

 Colombia's underground economy dramatically expanded between 1993 and 1999 and may total nearly 60 percent of GDP:

- Of the three major components of the underground economy, a substantial **informal economy** is longstanding but growing in scope and vitality because of the formal economy's woes in recent years, spendthrift governments, and stifling regulations.
- The **drug economy** is increasing because of an explosion of illicit crops since the mid-1990s; Colombia has become the world's top producer and trafficker of cocaine. In areas where the drug industry is concentrated, it skews local prices, wages, credit, and investment.
- The **insurgent economy** is growing more menacing as Colombia's illegal armed groups step up their involvement in the drug industry and gain influence throughout the country by means of extortion, kidnapping, and enforcement of guerrilla "laws." It has become parallel to—or a replacement of—the formal economy, especially in the safehaven (*despeje*) of the Revolutionary Armed Forces of Colombia (FARC) and in remote areas of the south and east. Doing business with the insurgents is becoming an economic alternative for some rural Colombians as the formal economy falters—a vicious cycle that bolsters guerrilla rhetoric about the failings of the "neoliberal" model. 

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The underground economy provides jobs and a means around excessive redtape but, on balance, erodes economic prospects and state capacity. It deprives workers and firms of legal security, reduces government tax revenue, and fuels corruption and violence that discourage private investment and undermine institutions. 

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Bogotá has made piecemeal progress in tackling the underground economy,  Policy steps in the past two years reveal the government is moving down a slippery slope, as Andres Pastrana's administration overcorrects to address unintended consequences of earlier reform attempts.  Colombian authorities should continue to rein in government spending—freeing up

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capital for the private sector—while stamping out waste and corruption [Redacted]

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[Redacted] a number of government policies are inadvertently encouraging further growth of the underground economy:

- Government borrowing to cover a large fiscal deficit is crowding out the private sector. Bogotá's imposition of a politically expedient and easy-to-collect financial transactions tax has been counterproductive—the widely disliked measure is causing increased tax evasion as checks are endorsed multiple times rather than cashed.
- The lack of clear, stable “rules of the game” discourages investment and adherence to government regulations. Tax evasion is significant, and collection has hovered at some 11 percent of GDP despite seven tax reforms in the last 10 years. [Redacted]

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[Redacted] Colombia is unlikely to make substantial progress in the next two to five years in reversing the underground economy, which is deeply entrenched and requires a substantial commitment to comprehensive, long-term solutions. [Redacted] in 2000 that the country requires sustained GDP growth greater than 4 percent per year to begin sufficient job creation to reduce the size of the underground economy:

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- However, without major innovations and policy reforms, a sweeping peace agreement, and a dramatic improvement in the security situation, local and foreign analysts stress that Colombia—having escaped the fate of the rest of the region in the 1980s—may be entering its own lost decade. [Redacted]

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Looking ahead, a growing underground economy in Colombia will adversely affect the formal economy and government effectiveness along the border with neighboring countries, especially Ecuador, Panama, and Venezuela. It will preclude a resurgence in private investment and contribute to instability; the drug and insurgent economies in particular are likely to bring increased violence and security problems:

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- Growth of the world-leading counterfeiting industry will cause problems for already-dollarized Ecuador and El Salvador and other Central American countries considering dollarization. 

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In the short-term the Pastrana government may not have many choices, but over the long term a new policy regime—combined with progress toward a peace settlement—could begin a virtuous cycle:

- Phasing out of the financial transactions tax and other improvements in the tax system would help, as would steps to spur new private-sector lending to small businesses and farmers switching to licit crops. Efforts to reduce the underground economy by reducing transactions costs are likely to be relatively effective.
- Bogotá also can tackle the underground economy by improving government capacity and will continue to look for technical assistance from the United States, other developed countries, and international financial institutions. This could include help with programs to combat corruption, modernize tax and customs authorities, and strengthen the government's supervisory and regulatory agencies. 

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Contents

	<i>Page</i>
Key Findings	iii
Scope Note	ix
Introduction: Tangled Web of Activities Weave Underground Economy	1
Definition	1
Establishing the Trend: Underground Economy Outstripping Formal Economy's Growth	1
Formal Economy, Historically Strong	1
Underground Economy Picking Up Steam	2
Examination of Underground Economy Components	3
The Informal Economy: Growing Refuge as the Formal Economy Struggles	3
The Drug Economy: Booming but No Redeeming Features	6
The Insurgent Economy: Rising Menace	10
Rolling Back the Underground Economy Demands Comprehensive Solution	12
Growing the Formal Economy	13
Combating Contraband and Corruption	13
Promoting Alternative Development	13
Hitting the Insurgents in the Pocketbook	15
Reaching Out	16
Outlook: Underground Economy Will Spread, Resist Quick Fixes	16
Implications: Undermining Economic Stability and Institutional Capacity	17

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Appendixes

A.	21
B. Estimating the Size of Colombia's Drug Economy	23

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Tables

1. Underground Economy Links to the Formal Economy	2
2. Key Bureaucratic Obstacles in the Formal Economy	5
3. Underground Economy Clouds Balance of Payments	6
4. The Economics of Geography: Insurgents' Influence Greatest Where Population, Production Least	11

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Scope Note



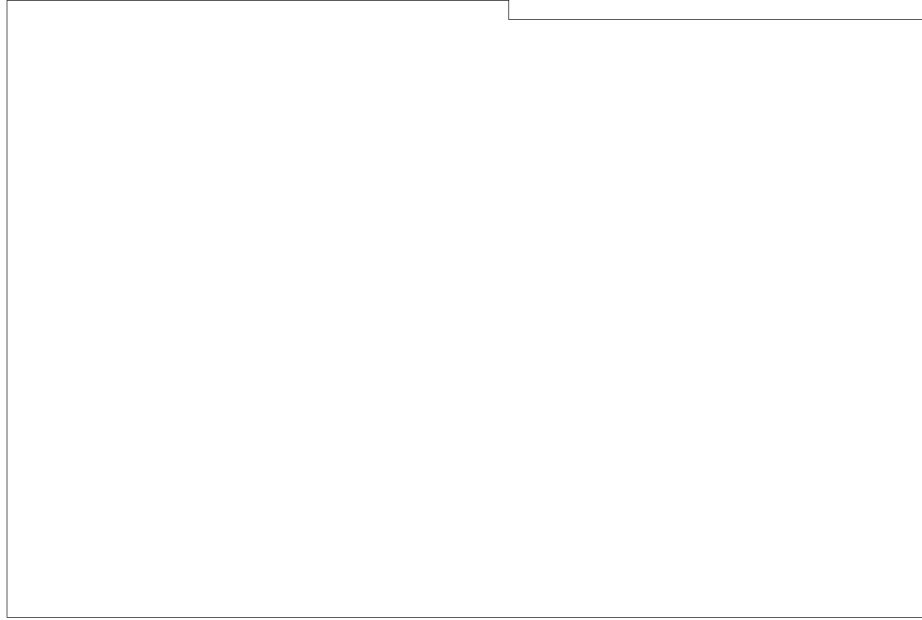
This paper is the culmination of a six-month program of research and analysis on the underground economy in Colombia.



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Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

Introduction: Tangled Web of Activities Weave Underground Economy

The underground economy in Colombia—a complex mesh of semi-legal and illegal activities not counted in government statistics—is growing, eroding economic prospects and state capacity. There are many causes of the underground economy, from demand for drugs to burdensome government regulations, and an equally wide range of solutions. A number of these solutions dovetail with Plan Colombia programs, such as alternative development to wean coca farmers off illegal crops, but more are needed. US assistance will help, but only Bogotá can be responsible for the paramount task of improving Colombia's business and security environment.

Definition

Formal or official economic data reflect economic activity captured in government statistics, such as GDP and employment. Significant economic activity is not counted by the government, however, because many economic actors wish to hide their activities. There are many definitions of what constitutes this *underground economy*; some researchers focus on uncounted legal activity, such as barter or underreporting of legally acquired income, and others focus on illegal activities. In this paper we accept a broad definition, identifying the following loosely defined components of Colombia's underground economy:

- The *informal economy* encompasses activities that are basically legal but not reported to the government because of an unwillingness to comply with government regulations or an explicit desire to hide income or assets from the government. This includes everything from sidewalk vendors to large corporations underreporting (legally acquired) taxable income.
- The *drug economy* encompasses all facets of the narcotics industry, from cultivation to processing, from trafficking to money laundering.

- The *insurgent economy* encompasses the activities of Colombia's illegal armed actors, the two major insurgent groups and their paramilitary adversaries. This paper focuses particularly on the most powerful group, the Revolutionary Armed Forces of Colombia (FARC), but similar analysis applies to the National Liberation Army (ELN) and the United Self-Defense Groups of Colombia (AUC), an umbrella organization formed to confront the guerrillas. The insurgent economy has paralleled—and indeed contributed to—the growth of these groups.

These components frequently overlap with each other and the formal economy. Smugglers laundering drug money deposit their proceeds in honest banks; insurgents use revenue from their increasing involvement in the drug trade to buy legitimate provisions—the combinations are endless. As a result, the whole underground economy is less than the sum of its many parts. (CNF)

Establishing the Trend: Underground Economy Outstripping Formal Economy's Growth

Formal Economy, Historically Strong

For most of the past half century, Colombia's formal economy was one of the strongest performers in Latin America. The economy averaged 4.7-percent growth from 1950 to 1995, enduring high violence and periodic economic downturns elsewhere throughout the region. Colombia even managed to weather the Latin American debt crisis in the 1980s and avoid default, largely because of sound economic management. During most of the 1990s, Colombia was one of three countries in Latin America to hold an investment-grade rating from leading international ratings agencies. The economy began to weaken in the latter half of the 1990s, however, and collapsed in

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Table 1
Underground Economy Links to the Formal Economy [redacted]

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There is a constant, fluid overlap between the underground and formal economies. Experts caution about drawing sharp distinctions but agree that there are a few sectors where interactions are concentrated. A common feature is the use of cash—the preferred medium of exchange for underground activities—rather than checks and other financial instruments. [redacted]

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Sector	Comment
Commerce	Retailing of contraband allows traffickers to launder drug money. Some contraband products are counterfeit, controlled, or illegal; some are legitimate. Many buyers and sellers are otherwise law-abiding citizens and firms.
Real Estate	Land and buildings are popular assets for those who wish to invest ill-gotten wealth with little hassle, but the overall economic climate—including interest rates and property demand—can make such investments speculative. The use and management of these properties may support numerous legitimate and illegitimate activities.
Financial System	Persons involved in underground economy transactions commingle licit and illicit currency in bank deposits. Rules on the size of deposits may be circumvented by “smurfing,” ^a and rules on the origin of deposits may be circumvented by corruption. Small and rural institutions are more likely to have suspect accounts. Traffickers and insurgents may steal financial information from banks to facilitate kidnappings and extortion of their clients.
Currency Exchange	As typified by the Black Market Peso Exchange, the exchange of dollars and pesos allows funds from underground activities to enter and leave the formal economy. Once fueled by government currency controls, the market now feeds off drug profits; many law-abiding citizens and firms take advantage of the cheap dollars.

^a Smurfing is defined as structuring, i.e., a money laundering placement technique in which the launderer divides large case deposits into smaller amounts and attempts thereby to avoid currency transaction reporting requirements [redacted]

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1998-99 as a host of negative local factors converged with spillover from the global financial crisis—for example, skyrocketing interest rates and plummeting oil prices. Currently, more than half of the population continues to live below the poverty line—defined as earning \$50 per month— [redacted]

23 percent to 58 percent.¹ The rise in 1997-99 reflects a particularly noteworthy shift: Colombia’s underground economy is growing in scope and vitality. [redacted]

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Growth of the underground economy has not been clearly cyclical or countercyclical in relation to [redacted]

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Underground Economy Picking Up Steam

The underground economy in Colombia has grown steadily since the mid-1970s with only two reversals—during 1984-86 and 1991-93— [redacted]

[redacted] The most dramatic expansion in underground activities took place between 1993 and 1999, a measured increase in the ratio of unofficial to official income from [redacted]

¹ Experts emphasize that all measurements of underground activity are imprecise and prone to measurement error. Nevertheless, the relative size of Colombia’s underground economy is roughly similar to those in other countries in the region. [redacted]

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[redacted] underground economies in Latin America ranged from 25 to 60 percent of formal GDP. [redacted]

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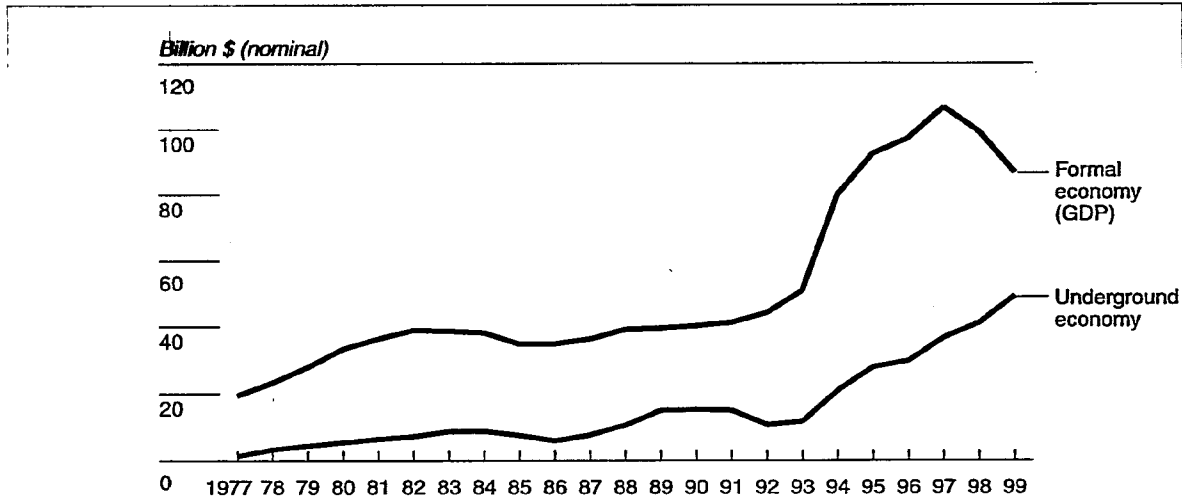
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Figure 1
Colombia: Underground Economy Growing [redacted]

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[redacted]

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changes in the GDP. This reflects the complex interrelationship between the formal economy and the underground economy, as well as among various components of the underground economy:

- A decrease in the formal economy reduces legal income that could be spent or invested in underground activities and vice versa.
- On the other hand, growth in the formal economy—often fostered by market-friendly rules and regulations—may draw people out from the shadows to obtain greater access to credit and other benefits. Our assumption and the view of experts we have consulted is that, over the long run, growth and health of the formal economy is critical to reducing Colombia's underground economy. [redacted]

Examination of Underground Economy Components [redacted]

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An examination of developments over the last several years in the components of Colombia's underground economy upholds the trend [redacted]

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[redacted] In general terms, the "informal" economy is largest, but all three have significant impacts. [redacted]

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The Informal Economy: Growing Refuge as the Formal Economy Struggles

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The informal economy has existed throughout Colombia's history, beginning with smuggling in the [redacted]

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colonial era as Colombians tried to avoid Spanish tariffs. Smuggling—of both imports and exports, everything from refrigerators to exotic animals—remains the main industry in some parts of the country. Free trade zones are notoriously exploited for contraband purposes;² various sources estimate total Colombian contraband trade at \$3-5 billion per year. There are three main reasons for the strong allure of contraband trade, from both the supply and the demand side:

- Prices for contraband are as much as 50-percent less than those for comparable legal merchandise, with much of the discount resulting from cheap currency—largely from illicit transactions—available in the Black Market Peso Exchange.³ The BMPE began in the 1950s, as smugglers traded black-market US dollars to avoid regulations and taxes, and has thrived as drug traffickers learned to use it for money laundering.
- Some consumers readily evade taxes and tariffs to obtain a bargain, even if the quality of goods is low and there are no warranties. In recent years, various sources have estimated that 80 percent of cigarettes sold in Colombia—and similar percentages of liquor, electronics, and appliances—were contraband. A thriving black market in gasoline, run by “gasoline cartels,” has emerged as Colombia has gradually let the domestic cost rise to reflect global oil prices.
- Contraband has quasi-legal status in some parts of Colombia and is rarely prosecuted. [redacted] Enforcement is complicated by a host of factors, including [redacted] and weak controls on incoming cargo. [redacted]

² Free trade zones known as smuggling havens that have an impact on the Colombian economy include the Colon FTZ in Panama, Maicao in La Guajira Department, and San Andres, an island in the Caribbean that was Colombia's first FTZ, facilitating smuggling markets known locally as “San Andresitos.”

³ The allure of low prices is powerful and puts contraband in direct competition with Colombia's legal imports, which averaged some \$12 billion per year from 1998 to 2000. [redacted]

The formal economy's dismal performance in recent years, which culminated at the end of the 1990s with Colombia's worst ever recession, accordingly has boosted the informal economy. The rise is seen dramatically in the labor market; official unemployment skyrocketed from 12 percent in 1997—and an average of some 10 percent during 1990-97—to 20 percent in 2000, forcing many people to eke out a living any way they can. According to a government estimate based on household surveys, 60 percent of those employed in June 2000 worked in the informal sector, as compared with 55 percent in 1998. [redacted]

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A poor business environment, the result of short-sighted government policies, also has played a major role in fueling the informal economy. As the cost of complying with regulations rises, the informal economy becomes more attractive relative to the benefits of staying in the formal economy. An array of regulations, profligate government spending—especially during Ernesto Samper's administration—and successive efforts to squeeze more taxes from a dwindling tax base put a stranglehold on the private sector and made Colombia one of the least competitive countries in the world in terms of investment and growth potential. [redacted]

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Government bond issuance to cover a large fiscal deficit—especially pronounced at the end of the 1990s—is crowding out private borrowing. [redacted] the government's imposition of a politically expedient and easy-to-collect financial transactions tax in November 1998 has been counterproductive. The widely disliked tax is causing increased tax evasion and financial distortions; checks are endorsed multiple times rather than cashed, for example. [redacted]

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The lack of clear, stable “rules of the game” discourages investment and adherence to regulations. Tax evasion by both individuals and firms is significant—some estimates say 40-percent evasion rates are common—and collection has hovered at about 11 percent of GDP, despite seven tax reforms in the last 10 years. [redacted]

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Table 2
Key Bureaucratic Obstacles in the Formal Economy [redacted]

[redacted] *Colombia reveals a host of impediments to efficient business operations. Many of these present not only a drag on businesses in the formal sector but also in total provide compelling evidence of the disincentives for informal enterprises to join the formal economy.* [redacted]

Complaint	Comment	Suggested Remedy
Excessive paperwork	Top concern of over half the respondents; Customs and Tax authority and Food Supervisory Agency most criticized.	Minimize regulatory changes when personnel in these agencies change; accept food registrations accepted by other countries; control final product rather than inputs.
Corruption and ineffective judicial system	Embezzlement the top mentioned item; discourages respect for the law; places law-abiding companies at a disadvantage.	Standardize punishments and upgrade enforcement; focus on debt collection mechanisms and intellectual property protection.
Poor infrastructure	Poor road systems and inadequate ports place onerous transportation costs.	Improve Cali-Buenaventura road; revise or drop the minimum rate system.
Credit problems	Credit is scarce and expensive.	Enhance government incentives to private investors and banks.
Labor force rigidity	Excessive costs involved in dismissals mean workers with seniority have little incentive to be productive; high payroll taxes discourage new job creation.	Make working hours more flexible; drop obligation to pay fixed salary; drop requirement to pay triple time for Sunday work—especially in textiles.
Physical security problems	Distribution trucks attacked and goods resold at lower prices, often in poor condition; constant roadblocks and strikes.	Revive regional railroads.

The burgeoning public sector has been a catalyst for inefficiency and corruption, the cost of which local analysts estimate at some 3 percent of GDP per year. Despite Colombia's "apertura," or opening to trade and investment in the early 1990s, the public sector has grown from 29 percent of GDP in the 1980s to 34 percent in 1999, leading to extra redtape and increased opportunities for bribes. Revealing the poor productivity of government spending, [redacted] the average rate of return on private capital for 1950-95 was 12 percent, as compared with 1 percent for public capital. [redacted]

[redacted] attributes Colombia's large informal economy to the dominance of self-interest over public good and an inability to solve problems collectively. Reflecting the propensity to bend the rules, Colombia consistently ranks as one of the most corrupt countries in the

world, [redacted]

Impact. The informal economy has numerous positive characteristics, as Peruvian economist Hernando de Soto emphasized in his groundbreaking book, *The Other Path*, in 1986. It is a welcome "shock absorber" during recession and an outlet for persons and firms that lack the will or capacity to compete in the formal economy. It provides a venue for individualism and a way around the thicket of government regulations. [redacted]

On the other hand, the informal economy provides little in the way of labor standards, property rights, or contract enforcement—legitimate economic actors would prefer access to these benefits, were the cost of

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Table 3
Underground Economy Clouds Balance of Payments [redacted]

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By changing trade and investment patterns, the underground economy has a range of impacts on Colombia's official balance of payments. The effects peaked during the early 1990s, a period of high drug-related inflows. In 2000—with repatriation of drug proceeds flat, the formal economy struggling, and the government cracking down on contraband—the effects were less pronounced. [redacted]

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Account	2000 Balance* (Billion US \$)	Comment
Exports	13.0	Official data underestimate actual export revenue because drug exports are not recorded. Currency appreciation caused by drug revenue inflows decreases legal exports (they are less competitive).
Imports	10.8	Official data underestimate actual imports because purchases of contraband are not recorded. Currency appreciation caused by large drug revenue inflows increases legal imports (they are more affordable).
Trade	2.2	The net effect of unrecorded exports and imports is uncertain. Currency appreciation caused by large dollar drug revenue inflows reduces the official trade and current account balance.
Capital	0.9	Traffickers make substantial portfolio and direct investments in Colombia or overseas, depending on the state of the economy, law enforcement, and other factors. Some investments are recorded but not linked directly to traffickers—the Cayman Islands are a leading source of foreign direct investment—while many are off the books.
Reserves	9.0	Large dollar drug revenue flows may offset or worsen a deficit in the official current account, leading to a rise or fall in foreign exchange reserves and thus complicating the government's ability to conduct exchange rate and monetary policy.

[redacted]

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participation in the formal economy not so high. It also undermines the formal economy by:

- Inhibiting the local production of goods, such as tobacco and textiles, and, for products that Colombia does not produce, driving legitimate importers out of business. In both cases, smuggling lowers legitimate employment. [redacted]

[redacted]

- Depriving the government of significant tariff, income, and value-added tax revenue, thereby feeding a vicious cycle of higher deficits, harsher austerity measures, and flight from the formal economy.
- Distorting official economic statistics. Because unemployment, income, and other data may not

be reliable or accurately reflect the true situation, government economic policies may be misguided.

[redacted]

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The Drug Economy: Booming but No Redeeming Features

The drug economy, which began in the early 1970s with marijuana production and trafficking and exploded with cocaine processing and trafficking in the 1980s, continues to grow and mutate:⁴

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- The 1990s witnessed dramatically increased cultivation of both coca and opium poppy, the raw materials for cocaine and heroin, respectively—much of the coca surge reflects a shift in cultivation away from

⁴ Coca, marijuana, and similar substances have been present throughout Colombia's history—albeit much less pervasive than in Peru and Bolivia—but the export-oriented drug economy has existed only for the last 30 years or so. [redacted]

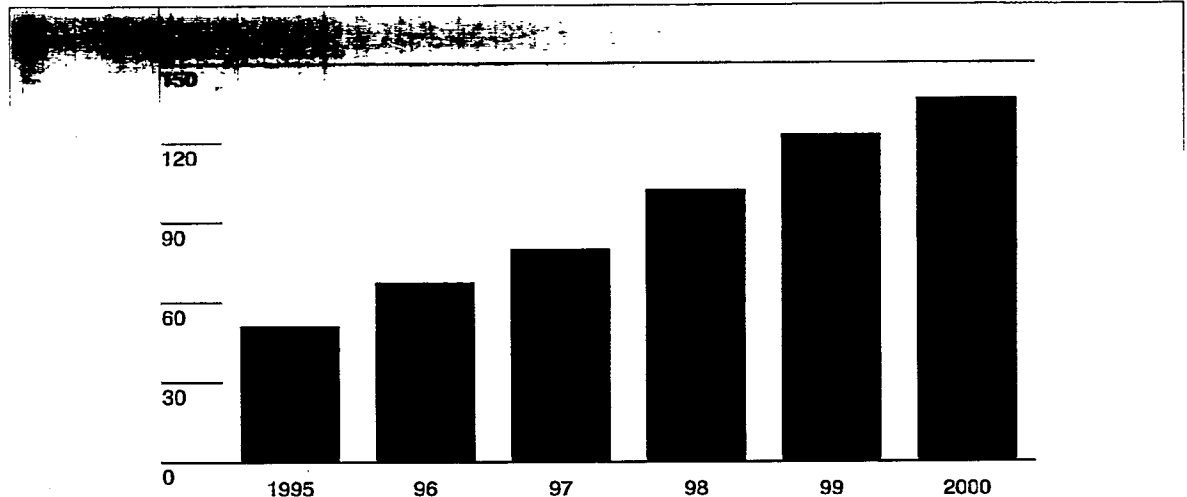
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Figure 2
Colombia: Coca Cultivation Exploding [redacted]

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Source: CIA.

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[redacted]

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Peru and Bolivia. At the same time, the BMPE evolved into a progressively larger and more sophisticated mechanism for changing drug profits from US dollars into Colombian pesos.

whom it was confiscated. Tax amnesties have permitted traffickers to legitimize their ill-gotten wealth, while encouraging future tax evasion. [redacted]

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- The demise of the large Medellín and Cali cartels of the 1980s and 1990s led to more numerous, less vertically integrated trafficking organizations. Colombia's armed groups have increased their ties to the industry, in part to fill the big cartels' vacuum. Some of the smaller "boutique" cartels are run by savvy, US-educated Colombian businessmen, [redacted]

The cocaine industry has exhibited particular dynamism, far outpacing the formal economy, with coca cultivation increasing from 50,900 hectares in 1995 to 136,200 hectares in 2000, [redacted]—about 3 percent of Colombia's 4 million hectares devoted to crops. [redacted]

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[redacted] illicit crops in 1999 represented about 9 percent of Colombia's farming GDP and about 1.3 percent of the country's total GDP.

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[redacted] efforts to measure the value of illicit crops, while not condoning the activity, reflect that institution's acknowledgement of the drug economy as an important part of the nation's economy. Along with the rise in cultivation of illicit crops, Colombia has continued to process and traffic most of the region's cocaine; the latter activities are where almost all of the

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The government has undertaken some policies that are neutral, if not friendly, toward the illegal narcotics industry. [redacted] In the 1980s, the Central Bank's exchange rate policies facilitated the conversion of drug dollars into pesos. The courts have a poor record on completing asset forfeiture cases, sometimes returning seized property to traffickers from

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drug economy's value added lies. The Colombian Government is not attempting to include either element in formal GDP, acknowledging the inherent difficulty in doing so and the opprobrium attached to the enormous amount of money involved. [redacted]

Potential cocaine HCl production in Colombia—depending on variables such as crop yields and processing ratios—increased from 230 metric tons in 1995 to 580 metric tons in 2000. [redacted] traffickers could net some \$4 billion per year—almost 5 percent of GDP—from wholesaling cocaine and heroin, although only half this amount may be repatriated to Colombia [redacted]

Various studies estimate that the relative amount of repatriated drug revenue has fallen from peaks in the late 1980s and has remained fairly constant in recent years:

- A government study in September concluded that net revenue from overseas sale of cocaine shipped from Colombia was roughly 3 percent of GDP.⁵ The study estimated that the gross revenue from plying this cocaine on the streets of the United States and other consumer countries was about \$46 billion, indicating that only a small fraction of the industry's earnings return to Colombia—the lion's share goes to wholesalers and retailers abroad, whose markup at successive parts of the distribution chain is substantial.
- Reasons for reduced drug export earnings include the government crackdown on contraband and other forms of money laundering and reduced investment opportunities in Colombia because of the formal economy's dismal performance in recent years. [redacted]

Impact. Like the informal economy, the drug economy has some positive aspects. It creates jobs and a wide net of support businesses throughout the country. The drug economy, especially during the boom years

⁵ Colombia's leading legal export is oil, which from 1998 to 2000 earned an average of \$3.5 billion, or some 30 percent of total legal export revenue. [redacted]

of the late 1980s and early 1990s, has had a significant influence on the national economy: (b)(3)

- Repatriated drug profits allowed traffickers to amass substantial investments, particularly construction projects in Medellín and Cali, and holdings of rural property—traffickers own some 3 percent of the national territory. [redacted] They probably have not infiltrated large legitimate conglomerates, [redacted] but do own and control productive enterprises throughout the country, especially in areas where the drug industry is concentrated. (b)(1) (b)(3) (b)(1) (b)(3)

- Large drug money inflows boosted Colombia's foreign exchange reserves and kindled an appreciation of the peso in the early 1990s. This was a double-edged sword, however, as the strong peso contributed to a deterioration in the country's trade balance. Reduced inflows toward the end of the decade fueled a collapse in construction and real estate—in the last three years real estate prices have dropped up to 70 percent—and worsened the peso's plunge during the global financial crisis. [redacted] (b)(1) (b)(3) (b)(1) (b)(3)

On balance, the drug economy has had a negative impact on the formal economy—in contrast to what some researchers once maintained—because of the crushing weight of its perverse effects. These include rampant corruption and violence, the distortion of local markets, the weakening of institutions, and the tearing of the country's social fabric:

- Drug money has corrupted members of the country's political, judicial, and economic elite; it has been a key factor behind Colombia's dubious distinction as one of the most violent countries in the world, with a per capita murder rate eight times that of the United States. [redacted] the country's economy has performed worse in the cocaine era than it did in previous years. (b)(3) (b)(1)
- In places where the drug industry is concentrated, it skews local prices, wages, and investment. In coca

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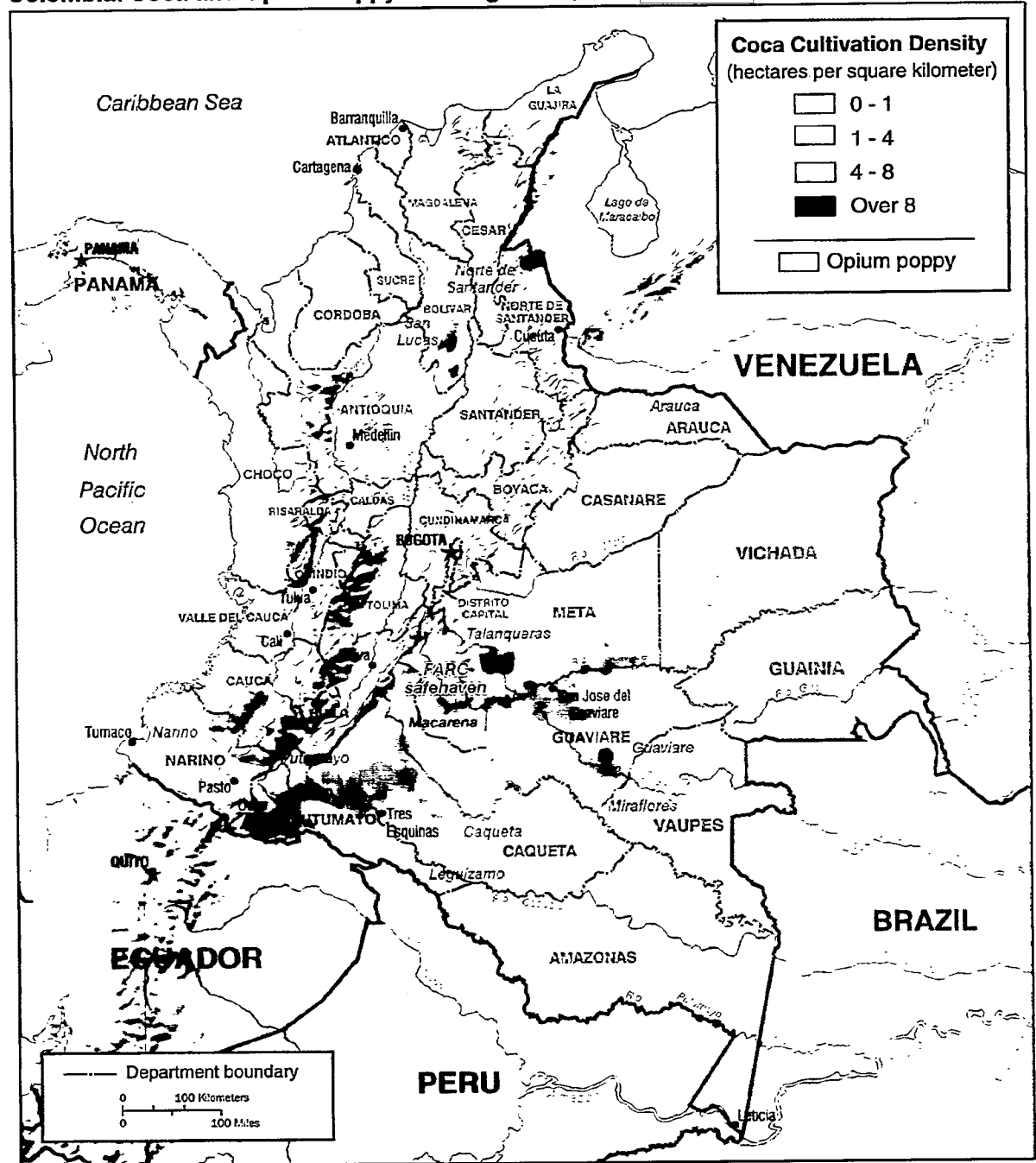
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Figure 3
Colombia: Coca and Opium Poppy Growing Areas, 2000

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boom towns, wages are high but prices are exorbitant—\$0.50 for one egg, for example—and migrant workers often squander their pay. Cocaine base is used for barter, and some locals rely on traffickers for credit. The drug industry drives out legitimate business; some rural areas have lost self-sufficiency in food production, and [redacted] in Putumayo Department said that 80 percent of his town's economy depends on coca cultivation. [redacted]

The need to repatriate drug profits has given a strong impetus to the contraband industry, which is a highly effective means of money laundering. [redacted] at least half of incoming laundered narcotics revenue enters Colombia in the form of contraband goods. The need to invest drug profits has undermined critical agricultural reform efforts because traffickers have little interest in making productive use of their agricultural land holdings. [redacted]

The Insurgent Economy: Rising Menace

The newest and most sinister component of the underground economy, the insurgent economy has in some ways matched the rise of the drug trade. Indeed, the FARC's rise in territorial influence and numbers—from 900 combatants at the start of the 1980s to 9,000-12,000 today—parallels its increasing involvement in narcotics. Until the late 1990s, the FARC's involvement in the cocaine industry was largely limited to taxing illicit crop cultivation, drug processing, and airstrip use. However, [redacted] some FARC leaders and fronts are assuming a more prominent role in cocaine production and trafficking to augment the group's income:

- [redacted]

The FARC may earn at least \$150 million annually—about half their total income—from drug-related activities, but such estimates are rough [redacted]

The FARC and the second leading insurgent group, the ELN, are expanding their nondrug revenue sources as well. [redacted] the FARC may earn an additional \$150 million annually from extortion, cattle rustling, financial crimes such as bank robbery, and kidnapping.⁶

- The extortion rackets focus on the mining, oil, commercial, agricultural, and transportation sectors as well as multinational corporations. In 2000 the FARC announced a so-called peace tax that legalized, in insurgent eyes, the extortion of wealthy individuals and firms. Calculation of FARC revenue is complicated by the group's tendency to extort services in kind, not cash.

- The guerrillas often steal rather than extort, with highway tollbooths and rural banks being frequent targets. The insurgents themselves do not use the formal banking system as much as traffickers and tend to spend the bulk of their revenue in their areas of influence. [redacted] many of the organized groups involved in Colombia's counterfeiting industry, the world's leading supplier of fake US currency, originate from areas controlled by insurgents.

- The booming kidnapping industry, for which the insurgents bear most of the responsibility, has set successive records in recent years—topping 3,700 victims in 2000, three times the number of victims in 1995 [redacted]

As the insurgents have progressively increased their revenue, so have they increased their economic influence in various parts of the country. Despite widespread rejection of guerrilla tactics and abuses,

⁶ Even rough estimates suggest that the FARC's revenue—perhaps some \$300 million per year—may rival that of some of Colombia's leading corporations. The other illegal armed groups garner significant sums as well. [redacted] the ELN may earn about \$150 million per year, mostly from kidnapping and extortion; the AUC may earn about \$80 million per year, mostly from the drug trade and voluntary contributions. [redacted]

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Table 4
The Economics of Geography: Insurgents' Influence Greatest Where Population, Production Least

Colombia's three largest cities—Bogotá, Medellín, and Cali—and their surrounding departments (the equivalent of US states) account for about half of the country's population and production; 19 of the other 32 departments account for most of the remainder. Ten departments in the guerrilla-infested south and east are vast yet sparsely populated areas that generate little legitimate, recorded economic activity.

Area	Share of Colombia's . . .		
	Population	GDP	Land
	<i>Percent</i>		
Bogotá, Medellín, Cali, and surrounding departments	43	58	10
Nineteen departments in north and west	52	37	33
Ten departments in south and east	5	5	57

Colombian society has not mobilized against the illegal armed groups. Indeed, the lack of effective response has contributed to the insurgents' economic, political, and military ascent. The Pastrana administration has been particularly reluctant to antagonize the FARC because of concern that making serious demands on FARC behavior would cause the group to break off the already slow-moving peace process.

Impact. The insurgent economy brings some short-term benefits to local communities—for example, from guerrilla subsidies in the form of salaries, clinics, and road building—but it primarily benefits the insurgents and their war efforts. As compared with some drug traffickers, who often make benign or even productive investments in luxury goods, real estate, and commercial establishments, the insurgents spend

a considerable portion of their proceeds on weapons and war material.

Nevertheless, the insurgent economy has an even more disproportionate and pernicious impact than does the drug economy. Predatory and parasitic actions directly weaken the formal economy by raising costs and reducing profits, which are progressively more damaging in a globalized world—Colombia is steadily losing ground to its emerging market peers that are not wracked by high levels of violence. The insurgents' increasing kidnappings, extortion, and terrorist attacks on infrastructure have become one of the largest obstacles to sustained economic growth in Colombia.

Bogotá says that the economic cost of the insurgency—including loss of life, property damage from sabotage, and reduced production and investment—is 3 to 4 percent of GDP per year. The deteriorating security situation was a major factor in Colombia's losing its investment-grade rating in 1999, and some US firms have considered leaving the country.

Attacks on multinationals have caused those companies significant losses, reducing royalties used to fund health, education, and infrastructure projects. A rash of bombings of the Caño Limón-Coveñas oil pipeline between July and September 2000 forced a US oil firm to cancel some export shipments, which cost Colombia more than \$120 million in lost revenue. Insurgents attacked the pipeline a record 98 times in 2000.

Rising physical and economic insecurity has helped fuel an exodus of middle- and upper-class Colombians, many of whom have relocated to the United States from 1996 to 2000, more than 1 million people—out of a total population of some 40 million—left the country; almost 300,000 departed last year alone.

The insurgent economy is becoming an alternative for poor Colombians as the formal economy weakens—a vicious cycle that bolsters insurgent rhetoric about the failings of the “neoliberal” economic

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model. [redacted] insurgents make loans to small and medium-sized businesses that cannot get credit in the formal economy because banks are struggling with weak balance sheets, high taxes, and burdensome regulations. Indeed, local financial institutions complain that they must compete in a socialist framework, while the insurgents operate without bureaucratic constraints:

- Creditor rights are poorly defined for formal-economy banks, which even have to subsidize government programs designed to help debtors. In contrast, insurgents' enforcement power is unlimited. The insurgents can exploit their loan portfolio through extortion of debtors or outright expropriation.
- Guerrilla investments in the legal economy, such as banks and stores, facilitate money laundering while creating intelligence and support networks.

[redacted] the FARC is also using its loan business as a recruitment tool. [redacted] the FARC is intentionally overpaying for supplies to cultivate a following among the local population and gain economic influence in the border areas of Panama and Ecuador. [redacted]

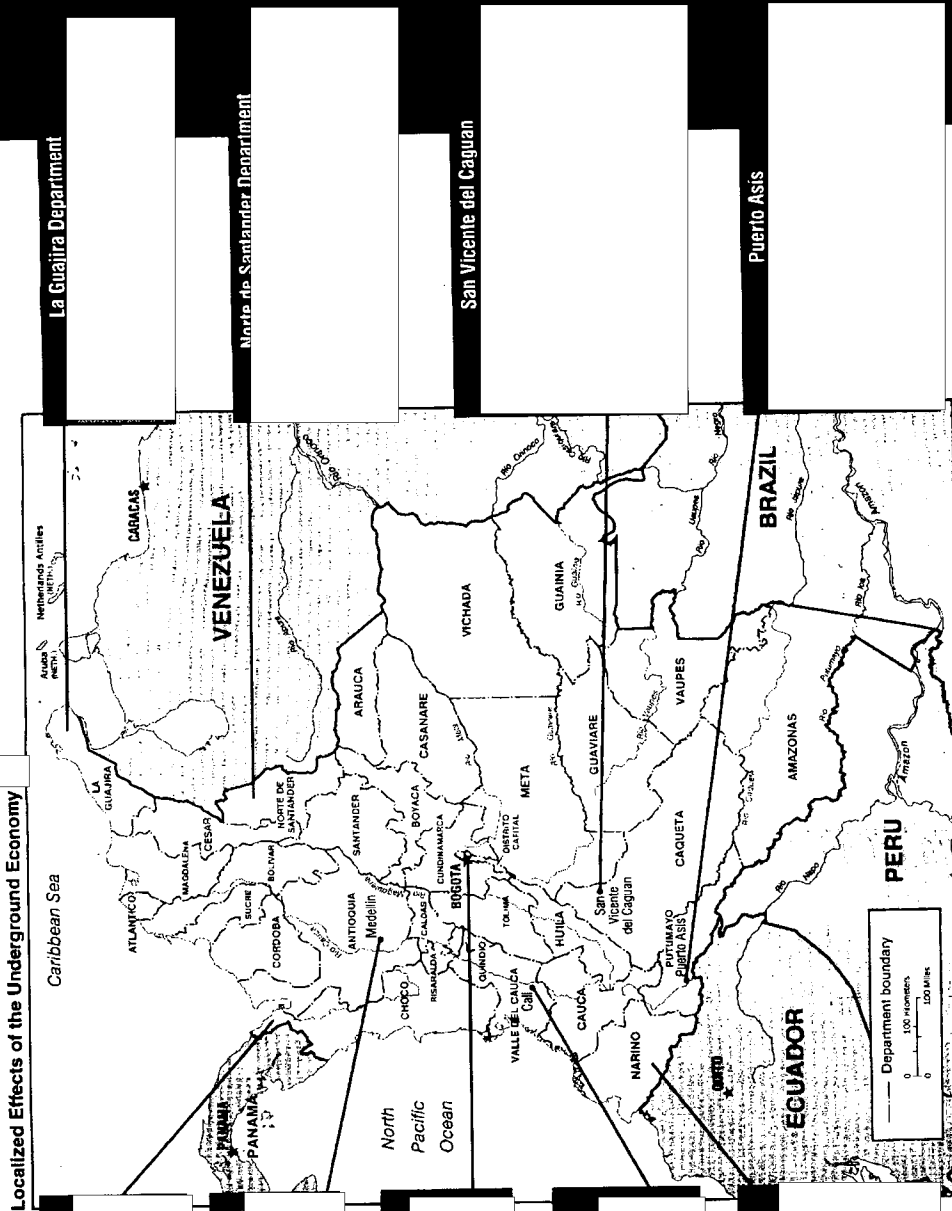
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Rolling Back the Underground Economy Demands Comprehensive Solution [redacted]

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Reversing the underground economy requires a variety of solutions, ranging from steps that boost the formal economy to steps that directly attack the informal, drug, and insurgent economies. Moreover, these solutions must be integrated because of the overlapping, and mutually reinforcing, nature of the underground

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Urabá Region

La Guajira Department

Medellin

Bogotá

Cali

Nariño Department

North Pacific Ocean

Caribbean Sea

Medellin

North of Santander Department

Bogotá

Bogotá

San Vicente del Caguán

Cali

Puerto Asis

Nariño Department

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economy's components. Bogotá has made some piecemeal progress in recent years but must do more. [redacted]

Growing the Formal Economy

Government steps in 1999 helped to get the economy back on track—GDP growth in 2000 was a modest 3 percent—but experts argue that sustained high growth requires additional groundwork:

- The government needs to keep reducing its fiscal deficit through a broader tax base, lower tax rates, and more efficient spending—not necessarily less revenue and spending, but better use of both. Key tax and spending reforms have been delayed or watered down, impeding Bogotá's push to meet a deficit target this year of 2.8 percent of GDP.
- Bogotá in 1999 and 2000 worked to reduce interest rates, make the exchange rate competitive, and keep inflation low. [redacted] lack of progress on fiscal adjustment could undo these gains.
- [redacted] Colombia needs to modernize its relatively inflexible and costly labor laws, a move that could boost legitimate employment. The Pastrana administration has moved glacially on labor reform, one of the most controversial issues on its agenda. [redacted]

Bogotá also needs to make Colombia more business friendly, without forfeiting its responsibility for prudent supervision and regulation. [redacted] a gamut of steps, including legalizing domestic dollar deposits, abolishing the usury cap on lending, fostering a deeper mortgage market to revive the real estate sector, modernizing default procedures, improving protection of physical and intellectual property rights, and increasing public investment in education and infrastructure:

- Though recognizing flaws in Colombia's investment climate, Bogotá has had little success in cutting redtape or reassuring investors. Similarly, its response to industry calls for modern regulation and technical and financial assistance has been of limited effectiveness.

- Some measures may have downsides; for example, cutting taxes on capital inflows may encourage investment but help traffickers. [redacted]

Combating Contraband and Corruption

The Pastrana administration, recognizing the adverse impact of contraband and its role in the drug economy, has pressed multinational firms in the United States and Europe to deal only with authorized importers. While prosecutions still lag, Bogotá has implemented an advertising campaign to inform consumers about the costs of contraband—to persuade them to purchase legitimate goods—and has cracked down on the Maicao free trade zone. These steps appear to be paying off, as contraband fell to \$1.0-\$1.5 billion last year and smuggling's share of some goods has plunged, according to the government:

- Officials acknowledge that the recent recession and reduced repatriation of drug profits may explain some of the drop.
- [redacted] smuggling must be tackled in tandem with the BMPE, the source of funds used in many contraband transactions, which requires a regional approach. [redacted]

Bogotá has likewise taken a strong stand against corruption. The administration in 1998 invited Transparency International to initiate "integrity pacts" for companies bidding on government contracts to reduce public-sector corruption. The problem is endemic, however. [redacted] the government must become more trustworthy in the eyes of the public, reduce its own waste and graft, and restore the rule of law throughout Colombia to diminish corruption substantially. [redacted]

Promoting Alternative Development

Alternative development is critical to providing a livelihood for the coca and poppy growers and harvesters. Plan Colombia endorses this concept, but Bogotá—strapped for cash and distracted by the peace process—needs to intensify its efforts, which are progressing slowly in Putumayo:

- Because illicit crops will always be far more profitable than licit crops, alternative development

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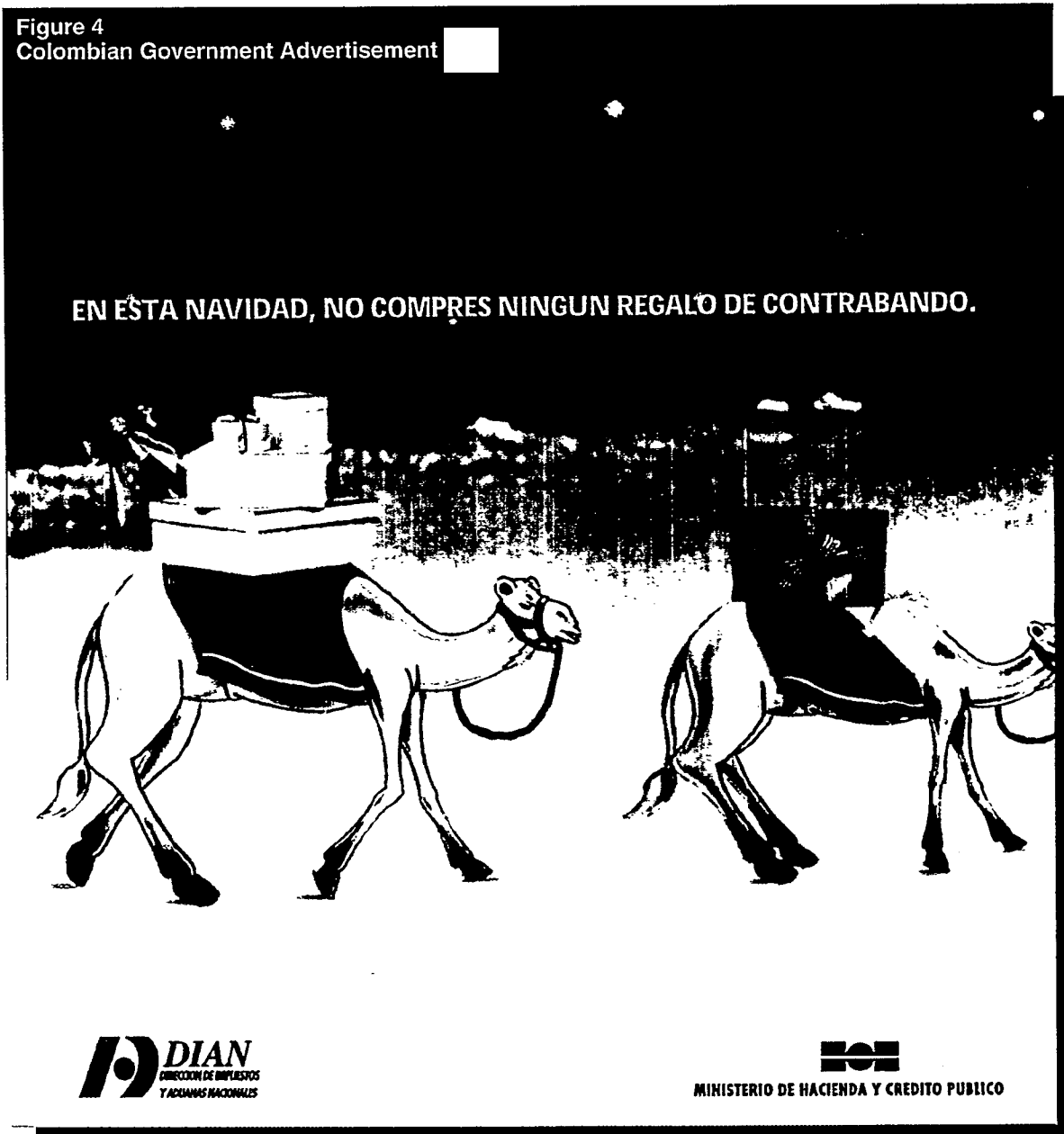
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Figure 4
Colombian Government Advertisement

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As part of its campaign to discourage people from supporting black market trade, this advertisement—placed in a national news magazine by the Finance Ministry and Tax and Customs authorities—urges them not to buy any gifts of contraband this Christmas. The implicit message, repeated in other advertisements, is that such purchases, while cost saving for the individual, are damaging to the economy and nation as a whole.

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demands physical security. Government presence—both to protect those engaged in alternative development and to ensure that they do not revert to illegal crops—is essential.

- Alternatives should develop the entire production chain—growers of legitimate crops need harvesters at affordable wages, means to move products, and a viable market. Some growers are in areas that are not economically viable for any legal crops or industries; they should be relocated to work in other agricultural or manufacturing endeavors.
- Experts note that the government could make productive use of land seized from traffickers but acknowledge that finding buyers is difficult because of the physical and legal risks they would face. [redacted]

Hitting the Insurgents in the Pocketbook

The most intractable part of the underground economy, the insurgent economy, can be addressed by growing the formal economy—which would undermine guerrilla rhetoric about unemployment and the lack of social justice—and tackling the informal and drug economies. [redacted] Bogotá has a range of options for directly attacking the problem:

- The government should intensify efforts to track insurgent finances; the FARC conducts a wide range of financial activities not only in Colombia but also abroad, for example, in Venezuela and Mexico. [redacted] one way to phase down the competing insurgent financial systems is for Bogotá to use multiyear amnesties and technical assistance to create rural and small enterprise banks.
- The Pastrana administration must work—at the negotiating table or on the battlefield—to reduce kidnappings, extortion, and attacks on infrastructure. This would simultaneously reduce insurgent revenue and raise investor confidence.
- Guerrilla desertions increased modestly last year, challenging the government's paltry reinsertion program. Bogotá needs to bolster its efforts to mainstream former combatants; in the event of a full peace agreement, an estimated 12,000 to 18,000 insurgent fighters—many unskilled, poorly educated, and accustomed to violence—would need to be absorbed by the economy. [redacted]

Alternative Development in Colombia: A Reality Check [redacted]

In December 1999, [redacted] in Puerto Asís asserted that targeted annual investment in Putumayo of \$6 million for three years—with proper implementation and international financial controls—would wipe out the department's coca crop. In reality, the process of phasing the region out of coca production and into alternative crops is proceeding slowly, and officials are cautious about projecting success. Insufficient security and inadequate roads are the major obstacles:

- Physical security underpins efficiency in rural enterprises. People working in the agricultural sector were the second-largest group of kidnap victims in 2000, [redacted] 277 were abducted last year.
- Roads are essential to success because high transportation costs for traditional crops are one of the reasons local growers turned to coca in the first place. Fragile soil and heavy rains complicate both road building and maintenance and agricultural pursuits. [redacted]

Contrary to expectations, income for the lowest links in the coca production chain is rather meager—making alternative crops attractive if marketing and delivery systems can be constructed and maintained. Some current estimates place peasant income at \$150 per kilogram of cocaine base after paying for chemicals and other products. Potential substitute agricultural crops—such as rubber, palm oil, heart of palm, rice, and plantains—net significantly less, but phasing out the coca economy would reduce the cost of living in these areas. [redacted]

Integrated regional development is more palatable in Colombia than simple crop substitution. The governor of Putumayo, for example, wants an alternative development plan including rural electrification, crop substitution, petroleum investment, and construction of roads and bridges linking the area to both neighboring Ecuador and the rest of Colombia. Plans also are needed to provide sufficient laborers at harvest time; this has been a difficulty faced by earlier alternative development efforts. [redacted]

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Reaching Out

Even with all these steps, Colombia will need assistance from international and regional governments to combat its underground economy. Besides drug demand reduction in consumer countries, local officials stress that US trade and investment preferences would foster legitimate employment:

- Industries benefiting from the Andean Trade Preferences Act—which expires in 2001—have provided alternatives for manual laborers who might otherwise have migrated to illegal crops. Local exporters say that a more level playing field with Mexico, which received a major advantage because of NAFTA, would generate 85,000 jobs in the non-traditional sector; the government claims that lower US tariffs are needed to preserve some 170,000 jobs in Colombia's textile industry.
- Bogotá says that a trade accord and a bilateral investment treaty with the United States would force Colombian businesses to become more competitive and would increase local and foreign investment. [redacted]

Bogotá also can tackle the underground economy by improving government capacity and will continue to look for technical assistance from the United States, other developed countries, and international financial institutions. This could include help with programs to combat corruption, modernize tax and customs authorities, and strengthen the government's supervisory and regulatory agencies. [redacted]

Neighboring countries have a key role in undoing the policies and underground activities that fuel the underground economy in Colombia:

- More vigilant border controls could reduce the thriving trade in contraband, drugs, precursor chemicals, and weapons. Both Ecuador and Venezuela, whose governments heavily subsidize gasoline, supply Colombia's black market in gasoline.
- Foreign exchange brokers in Venezuela and free trade zones in Panama and Aruba invigorate the BMPE. Last year, a group comprising the United States, Panama, Aruba, and Venezuela began working on a

multilateral approach to reduce money laundering through the BMPE. [redacted]

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Outlook: Underground Economy Will Spread, Resist Quick Fixes [redacted]

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Near-term steps feasible in the remainder of Pastrana's term, which ends in August 2002, could begin to arrest the growth of Colombia's underground economy. Programs under Plan Colombia, the administration's strategy for peace, prosperity, and strengthening of the state, will help. [redacted]

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Bogotá is unlikely to reverse the underground economy in the next two to five years, however, because it is too deeply entrenched and requires substantial commitments to comprehensive, long-term solutions. Without far-reaching innovations and policy reforms, a sweeping peace agreement, and a dramatic improvement in the overall security situation [redacted] stress that Colombia—having escaped the fate of the rest of the region in the 1980s—may be entering its own lost decade:

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- A noted Colombian economist calculated last year that the country requires sustained GDP growth greater than 4 percent per year to begin sufficient job creation to reduce the size of the underground economy, but most private analysts forecast that such an economic expansion is unlikely in the next few years.⁷ A strong recovery in credit expansion to the private sector appears unlikely, as government crowding out of the private sector will keep funding scarce, while troubled public banks will remain a drain on government finances.

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- Distortions in the use of cash—caused in part by the financial transactions tax—are forecast to continue in the medium term, diverting financial activity into

⁷ Colombia's GDP grew at an average annual rate of 4.7 percent during 1950-94; average annual growth dropped to 1.6 percent during 1995-2000. Private analysts forecast that growth in 2001 and 2002 will range from 2.5 to 4 percent. [redacted]

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parallel systems such as barter, the peso-dollar black market, contraband, and the drug economy.

- The ascendancy of the parallel guerrilla economic and financial system, as the established one teeters, reinforces a gloomy outlook. [redacted]

Government attempts to crack down on one aspect of the underground economy, such as the recent campaign against contraband, have been modest successes but may alter behavior and increase other illicit activities. For example, insurgents may offset successful counter-drug efforts with increased kidnappings. Steps to reduce the underground economy by diminishing transactions costs are more likely to work, especially in a time of strong economic growth. Setting aside the "pull" effect of drawing more Colombians into the official economy, there are strong cultural and institutional factors that mitigate against a "push" factor:

- With a weak judicial system and gap between de jure and de facto rules and behaviors—where wealth and property are illegitimate in many places—it will take years of concerted public effort to change mores and encourage less tax avoidance and actions to protect personal wealth at the expense of the overall economy.
- The illegal economy is large relative to many economic variables and has a disproportionately big impact on the economic and political system of the country. While the economy has proved that it can perform well without a drug economy, it is unclear whether this deeply embedded symbiotic organism can be expelled. [redacted]

Implications: Undermining Economic Stability and Institutional Capacity [redacted]

As long as the underground economy remains a drag on the formal economy, Colombia is unlikely to regain its

former place as one of the more vibrant economies in Latin America. The circular nature of the problem—which is both a cause and a symptom of the nation's troubles—will complicate the task of strengthening institutions and enhancing government presence. Indeed, an uncontrolled underground economy will preclude a resurgence in private investment, causing Colombia to fall further behind other emerging markets in terms of employment generation, poverty alleviation, and income equality. Bogotá will be deprived of political and economic tools needed to tackle entrenched social ills and rebuild society:

- The corrosive nature of the drug economy will hinder the government's developing efforts to root out corruption and strengthen institutions, especially the judiciary.
- By altering markets and reducing economic diversity, the drug industry will obstruct the unfolding social development campaign by Bogotá and the international community. The formal economy's vulnerability to drug-related investment inflows and outflows may undermine the government's ability to maintain low inflation and a stable exchange rate. (C NF)

The growing underground economy also will contribute to instability along the border with neighboring countries—especially Ecuador, Panama, and Venezuela—as trafficker and insurgent activity fuels corruption and violence in these areas. These nations will expect ongoing consultations with the United States on Plan Colombia and its implications in the region; [redacted] Colombia's counterfeit-industry will continue to cause problems for already-dollarized Ecuador and Panama, as well as El Salvador and other Central American countries considering dollarization. [redacted]

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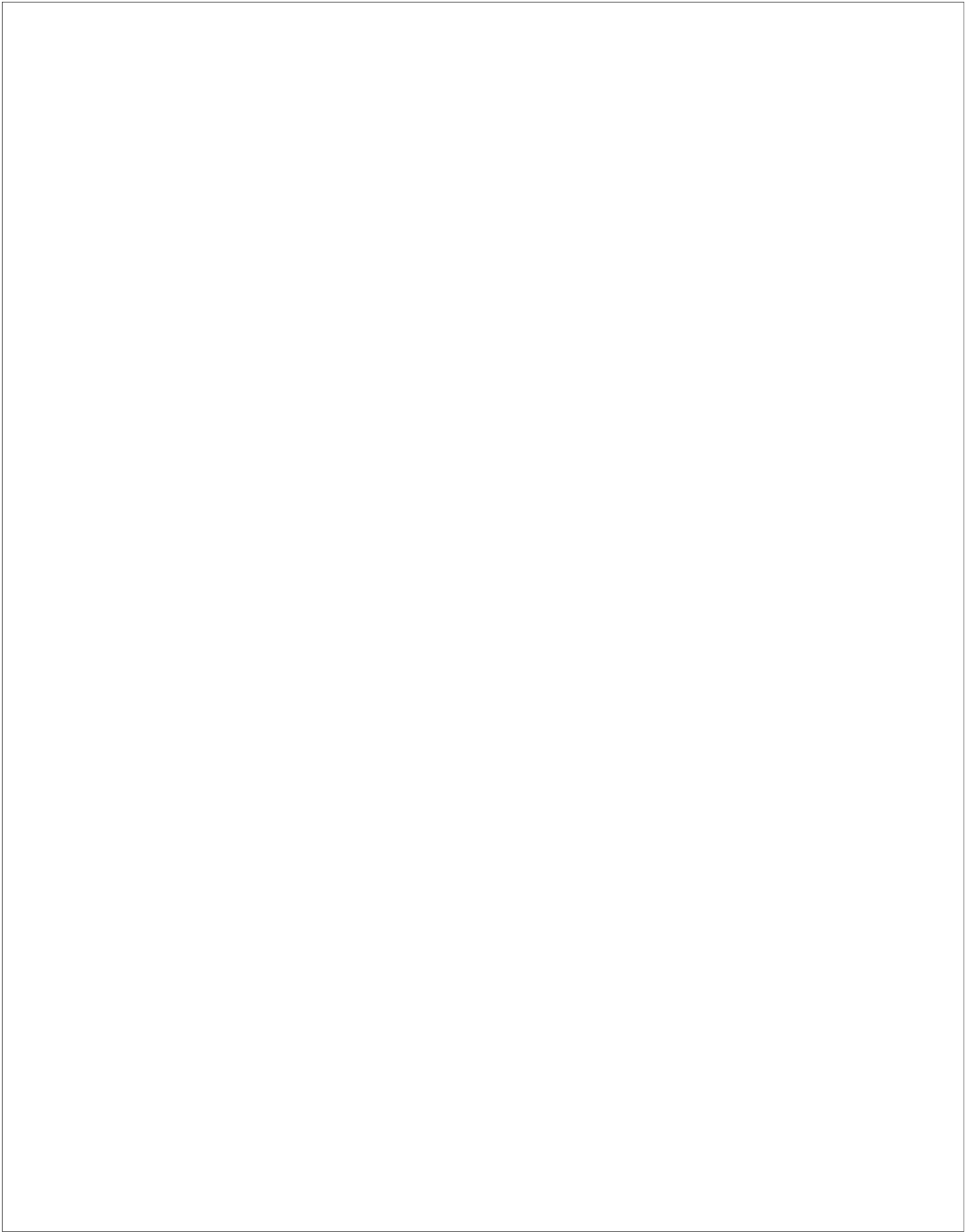
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Reversing the underground economy will require patience, as its complexity will initially defy even the most prudent of policies. For example, progress on trade liberalization—such as the reenergized Free Trade Area of the Americas—will have mixed impacts on the underground economy in Colombia and other Latin nations:

- Job creation in some industries will lift people out of the underground economy directly—such as former smugglers—or indirectly, via economic growth. Liberalization may spur governments to undertake long-delayed reforms, thus attacking the root causes of the illicit activity. An increase in overall trade and legitimate economic activity may give governments more resources for social development.
- On the other hand, larger trade and financial flows—also facilitated by reducing bureaucracy—may provide greater cover for underground activities such as hiding drugs and money. Lower tariffs, if not offset by increased trade, may result in a higher government fiscal deficit, weakening the formal economy and sparking underground activities.

- Moreover, some smugglers—faced with losing business to legal imports—may turn toward more truly illicit contraband, such as drugs, weapons, and counterfeit merchandise. The destruction of jobs in industries that could only compete in a closed economy may push some workers into the underground economy.

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Appendix B

Estimating the Size of Colombia's Drug Economy [redacted]

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Bogotá's eradication and interdiction efforts have done little to constrict Colombia's thriving drug economy. Street prices for finished cocaine have remained stable over the last few years, and coca cultivation in Colombia has soared. Potential coca leaf production in 2000 was enough to produce 580 metric tons of pure cocaine; Colombian traffickers also had access to some 40 to 60 tons of Peruvian cocaine base. [redacted]

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Major Players [redacted]

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The size and structure of trafficking groups in Colombia have changed since the dismantling of the major cartels in the mid-1990s. Smaller, less powerful *trafficking groups* have emerged who use independent contractors to produce and transport the cocaine to market. How much of the process is contracted out depends largely on two factors—cost and risk. A core group can avoid startup costs and risk of law enforcement disruption by using outside groups for cultivation, transportation, processing, and money laundering. Some groups seek outside investors to finance drug loads, promising 300-percent return on investment. [redacted]

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Many *coca growers* are small farmers who once relied on licit cash crops such as plantains, yucca, coffee, and corn but who have turned to coca for greater profit. The number and size of peasant-owned farms—most cultivating less than three hectares of coca to avoid being targeted by spray operations—may have increased in the late 1990s, [redacted]

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[redacted] Moreover, many growers both sell leaf and process it into cocaine base. [redacted]

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The farms are often worked by itinerant *coca pickers*. The pickers are not usually recruited but arrive voluntarily from Colombia's cities, attracted by the relatively high wages. At least two pickers are needed per hectare to bring in the crop, [redacted] suggesting that there may be roughly 100,000 pickers in Caquetá and Putumayo Departments. There are most likely equal numbers of itinerant coca pickers and permanent coca growers and their family members. [redacted]

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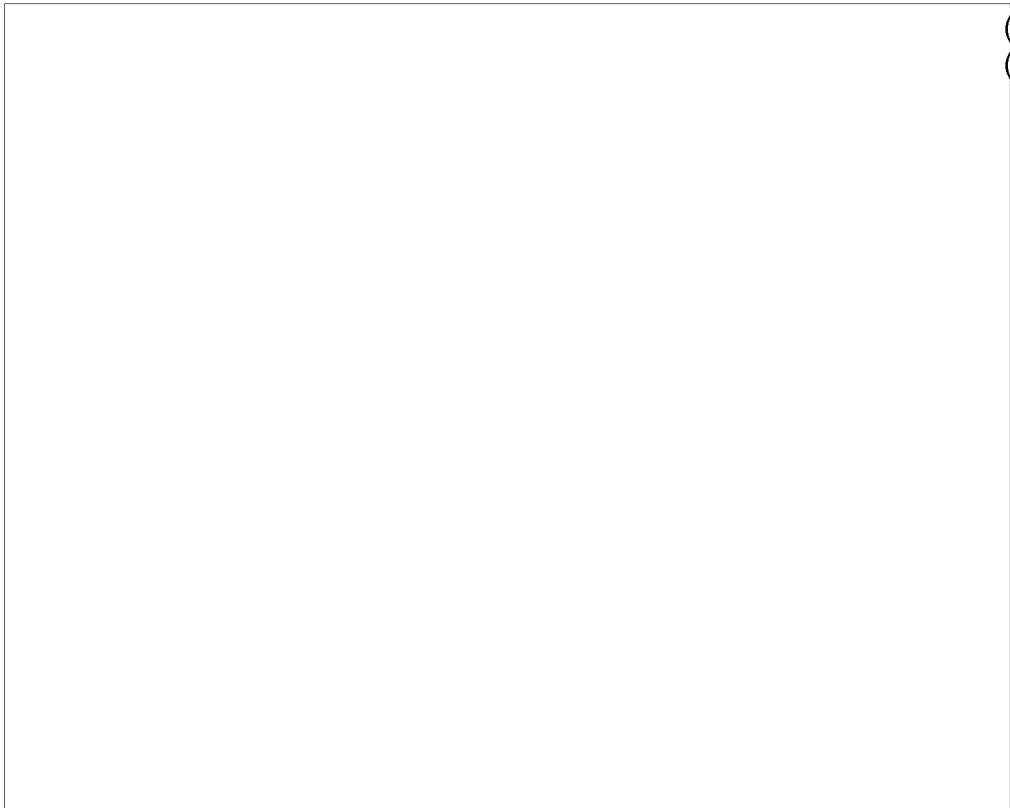
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It is difficult to estimate the precise extent of *insurgent* and *paramilitary* involvement in the drug industry. Guerrilla and paramilitary influence over coca cultivation, cocaine base and cocaine HCl lab processing, and cocaine transshipment vary greatly from zone to zone. Many small and medium-sized farms are taxed by these groups but are not otherwise supervised. Some FARC members are involved in growing and processing, particularly in the coca-growing regions of Putumayo and Caquetá.

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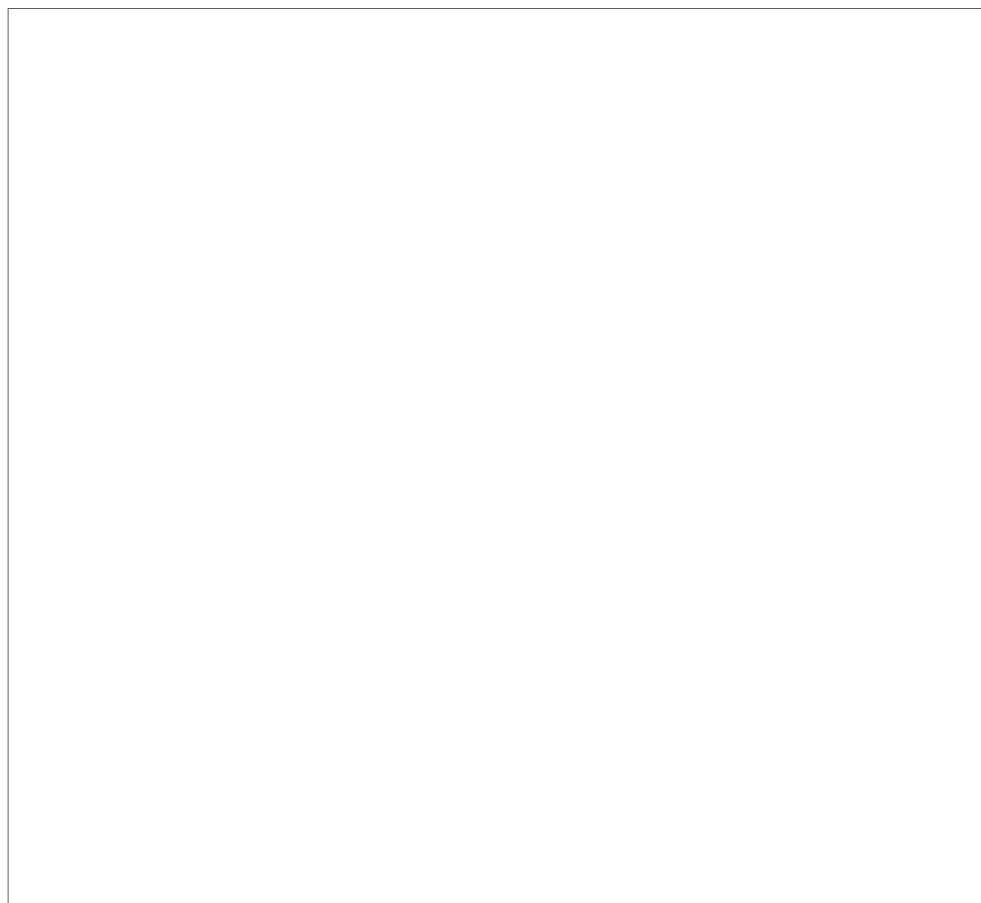


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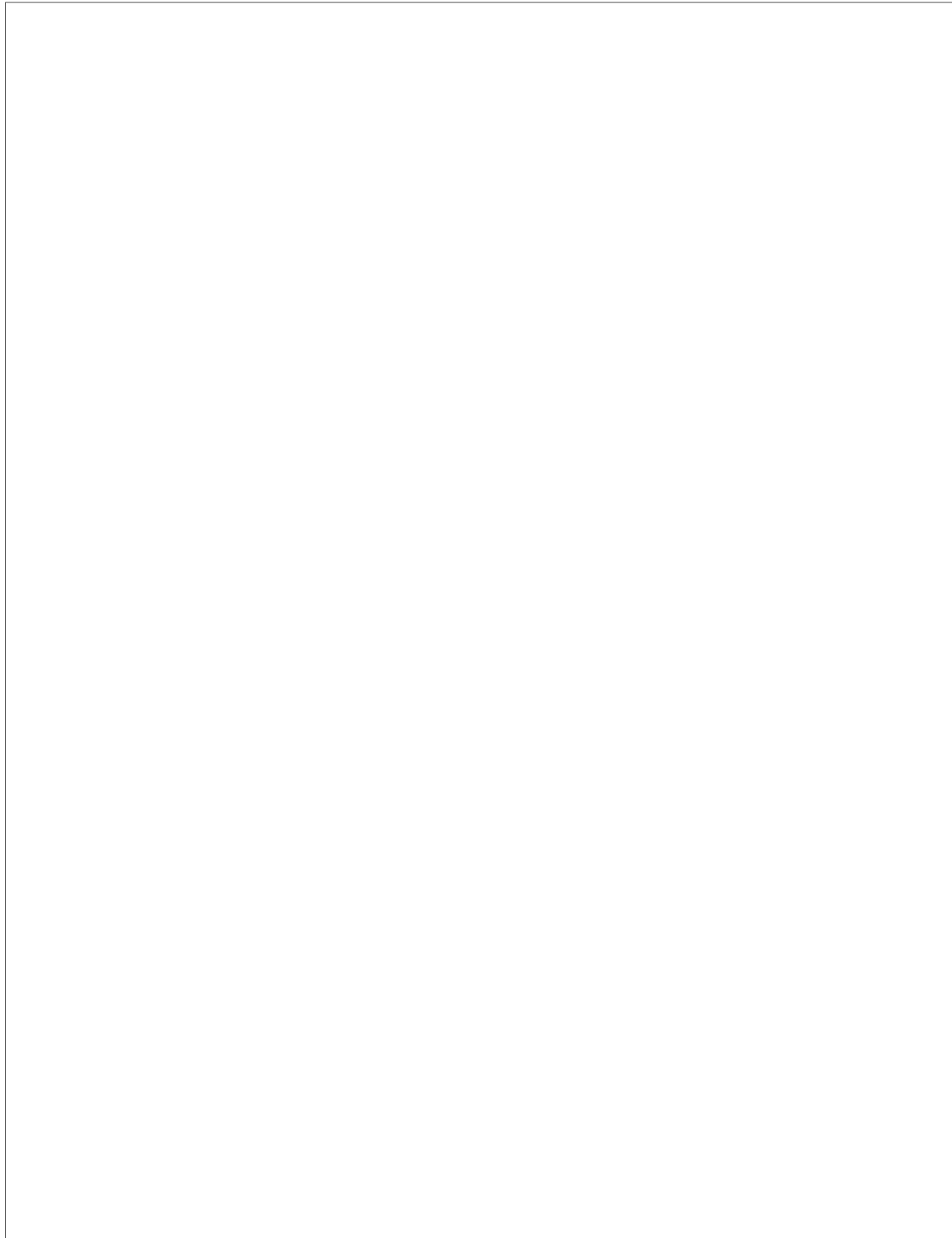
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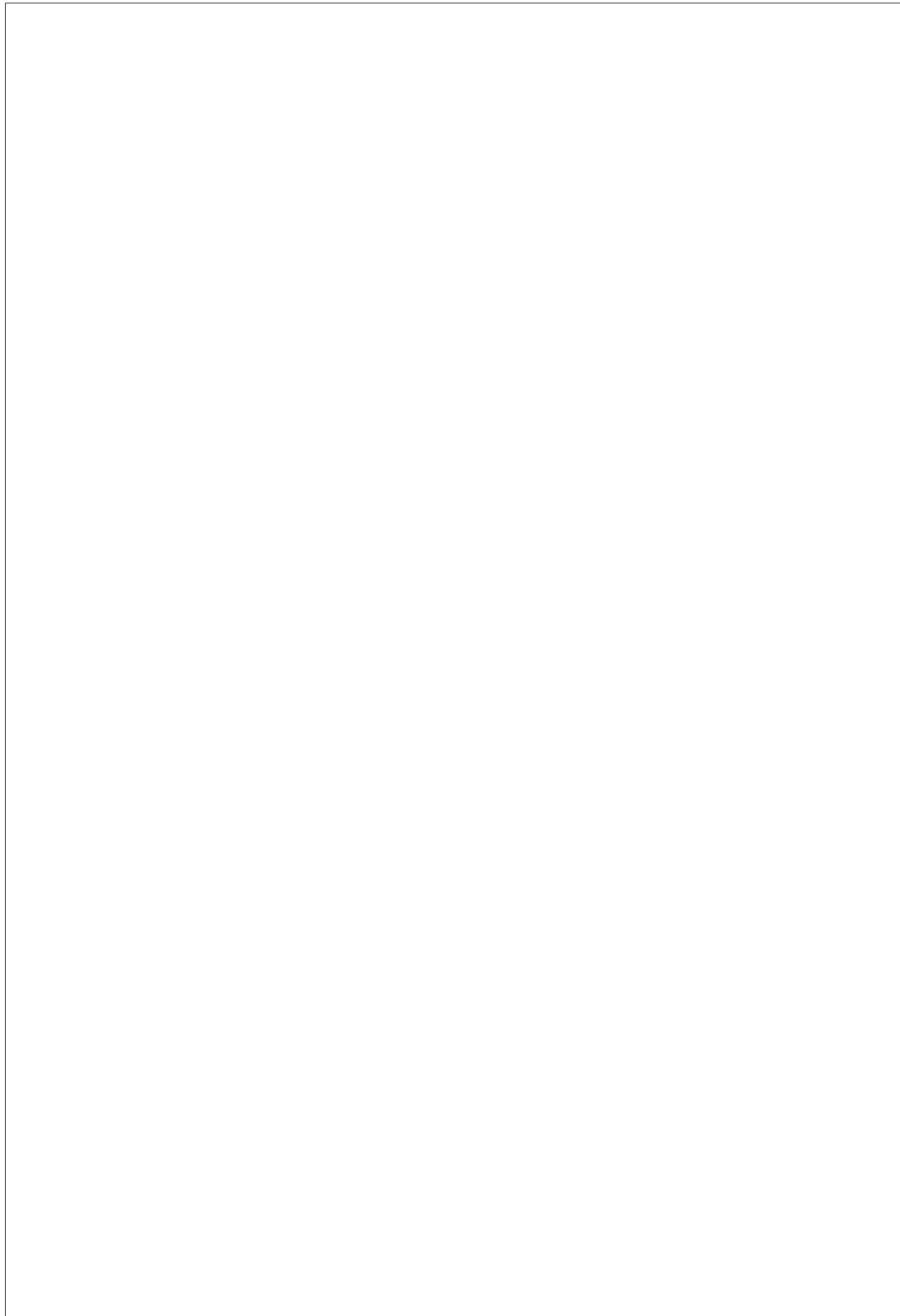
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Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

[redacted]

(b)(3)

OTI [redacted]

(20 March 2001)

(b)(3)

APLA [redacted]

(20 March 2001)

(b)(3)

External Distribution: (continued)

[Large redacted area]

(b)(3)

~~SECRET~~ [redacted]

(b)(3)

~~SECRET~~ [redacted]

(b)(3)

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

[redacted]

(b)(3)

OTI/

[redacted]

(20 March 2001)

(b)(3)

APLA/

[redacted]

(20 March 2001)

(b)(3)

External Distribution: (continued)

(b)(3)

[Large redacted area]

USAID

OSD

~~SECRET~~ [redacted]

(b)(3)

~~SECRET~~ [redacted]

(b)(3)

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

[redacted]

(b)(3)

OTI [redacted]

(20 March 2001)

(b)(3)

APLA [redacted]

(20 March 2001)

(b)(3)

External Distribution: (continued)

[redacted]

(b)(3)

NAVAL WAR COLLEGE

ONI

DIA

JCS

[redacted]

(b)(3)

~~SECRET~~ [redacted]

(b)(3)

~~SECRET~~ [redacted]

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity
[redacted]

OTL [redacted] (20 March 2001)

APLA [redacted] (20 March 2001)

External Distribution: (continued)

NSA

USUN

TREASURY

DOE

COMMERCE

US COAST GUARD

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity
[redacted]

~~SECRET~~ [redacted]

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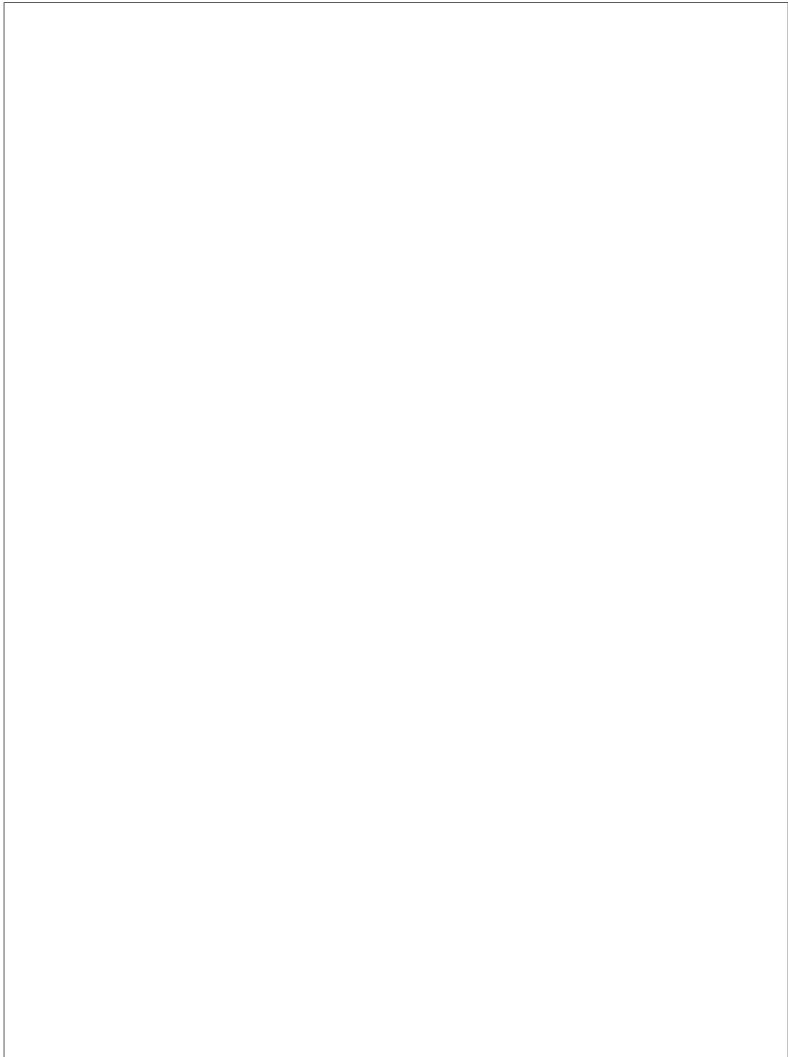
OTI
APLA



(20 March 2001)
(20 March 2001)

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(b)(3)

External Distribution: (continued)



(b)(3)

US CUSTOMS

JUSTICE

FBI

DEA

EXIMBANK

FEDERAL RESERVE SYSTEM



(b)(3)

~~SECRET~~



(b)(3)

~~SECRET~~ [redacted]

(b)(3)

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

[redacted]

(b)(3)

OTL [redacted] (20 March 2001)

(b)(3)

APLA [redacted] (20 March 2001)

(b)(3)

Internal Distribution:

DCI

(b)(3)

NIC

OCA

DDI

OMA

APLA

CNC

~~SECRET~~ [redacted]

(b)(3)

~~SECRET~~

[Redacted]

(b)(3)

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

[Redacted]

(b)(3)

OTI

[Redacted]

(20 March 2001)

(b)(3)

APLA

[Redacted]

(20 March 2001)

(b)(3)

Internal Distribution: (continued)

OTI

[Large Redacted Area]

(b)(3)

OREA

NESAF

OSS

NPC

DDO

DCI REP

[Redacted]

(b)(3)

[Large Redacted Area]

(b)(3)

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[Redacted]

(b)(3)

~~SECRET~~ [redacted]

(b)(3)

Subject: Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

[redacted]

(b)(3)

OT [redacted]

(20 March 2001)

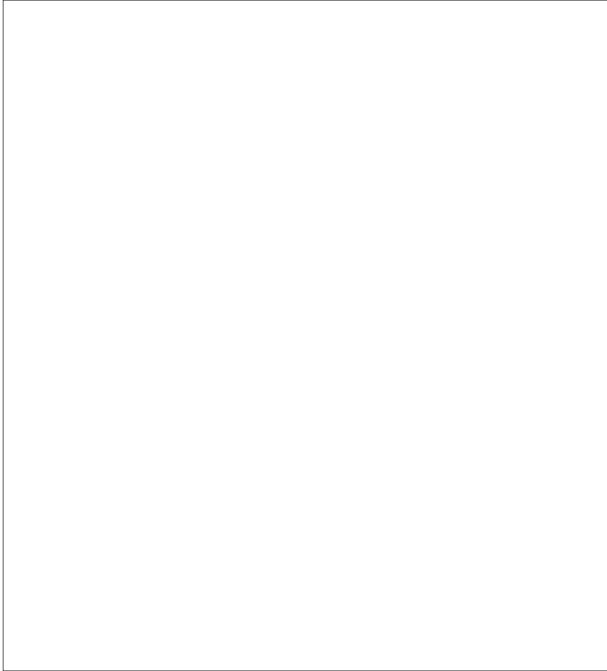
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APLA/ [redacted]

(20 March 2001)

(b)(3)

(b)(3)



~~SECRET~~ [redacted]

(b)(3)