

# CEPAL

## Review

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### CONTENTS

Social images of technological change, <i>E. Faletto</i> .	7
Attitudes to technical change, <i>C. Filgueira</i> .	17
International competitiveness and specialization, <i>O. Mandeng</i> .	25
Commodity exports and Latin American development, <i>J. M. Benavente</i> .	41
The role of the State in technological progress, <i>R. Mosquera</i> .	61
The polluter must pay, <i>R. Valenzuela</i> .	71
Macroeconomic policy coordination and integration, <i>A. Schwidrowski</i> .	83
Reconciling subregional and hemispheric integration, <i>J. A. Fuentes</i> .	99
The Latin American Labour Market, 1950-1990, <i>R. Infante</i> and <i>E. Klein</i> .	121
The economic and social significance of narcotics, <i>J. Giusti</i> .	137
Ideology and development: Brazil, 1930-1964, <i>R. Bielschowsky</i> .	145
Guidelines for contributors to <i>CEPAL Review</i> .	168
ECLAC publications	169

## The economic and social significance of narcotics

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The production, trafficking and abuse of drugs has attained enormous magnitude all over the world. In Latin America, the problem has taken on very special implications, because that is the region where the countries which are the biggest producers of coca leaves, basic paste and cocaine are located.

The illegal nature of the narcotics industry gives it very special features: organized crime, violence and corruption are its natural components. The drug traffickers use their power to penetrate the structures of society, intervene in the decision-making systems, and control part of the national territory. They also use force, through paramilitary groups, in order to destabilize States and impose their own laws and values, violating human rights and endangering the continued existence of the democratic system.

Drugs affect the health of those who consume them, especially young people and children. The various options for combating drugs are discussed both at the level of the countries involved and at that of the region as a whole. On the international level, under the leadership of the United Nations, a policy is being worked out which is based on the principle of shared responsibility, respect for the sovereignty of States, elimination of the use of force, and non-intervention in the internal affairs of countries.

The attempt to find a solution to the drug problem through the eradication of coca plantations raises the question of whether such programmes are valid, in view of the high cost of replacing these crops with others which are much less profitable and the damage done to the ecosystem by the use of certain herbicides, burning of crops, and worms that eat the coca leaves. It is also a matter of concern that the process may take on the nature of a police operation of a repressive nature which could affect the relations between some countries, due to the danger of the "militarization" of the actions involved.

While acknowledging the relevance of such aspects, this article is devoted primarily to an analysis of the economic and social significance of the narcotics problem in Latin America and the Caribbean.<sup>1</sup>

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<sup>1</sup>For a more detailed analysis, see Giusti, 1991a and 1991b.

## I

### The economic significance

The main economic trends which affected the world in the 1980s, whose perverse combination resulted in the intensification of poverty, facilitated the boom in illicit drug trafficking in the region. Two of these tendencies were the rapid decline in the prices of unprocessed commodities such as minerals and agricultural products and the external debt accumulated by the developing countries (United Nations, 1990). This indebtedness, the drop in international prices, widespread poverty and drug trafficking are all interlinked and mutually reinforce each other. Any broad effort made to eliminate one of these problems must necessarily take account of the others.

The drug economy apes the structure of the transnational corporations and links together production, marketing and finance in an intricate network that rides roughshod over national frontiers and extends to all the continents. The clandestine, underground and parallel nature of the drug economy enormously complicates the analysis of its effects on the societies involved in the production, processing, trafficking and consumption of narcotics. It is very difficult to obtain exact figures, because the laundering of hot money from the illicit gains of this traffic is carried out through the legitimate banking system, taking advantage of the banking secrecy in force in some countries.

The enormous volume of money which enters the Latin American countries through the "drug industry" has an immediate and direct impact on their economic and financial structures. It is essential to take account of its presence in macroeconomic analysis and to incorporate the figures for the parallel economy in the official statistics, even though only approximate figures which do not reflect the real magnitude of the phenomenon may be available (Hardinghaus, 1989).

With regard to the three countries most deeply involved in this industry, there is general agreement that the disappearance of the drug industry would have negative effects for Peru and Bolivia. With regard to Colombia, opinions are divided: on the one hand, it is felt that the traffic in narcotics plays a crucial role in keeping the macroeconomic relations in balance (Kalmanovitz, 1990), while on the other hand it is asserted that the magnitude of

the phenomenon is not really so great and that the net income from it is relatively small as a proportion of GDP, while the flows of foreign exchange which effectively affect aggregate demand are still smaller (Gómez, 1990).

According to the highest estimates, the annual profits of the Colombian cocaine industry are calculated at US\$6 billion, of which half is believed to return to Colombia (Delpirou, 1988). Other estimates put the profits at between US\$4 billion and US\$6 billion per year, with US\$2 billion to US\$3 billion returning to the country (Bagley, 1988), or as little as US\$1.5 billion, with a return to Colombia of US\$750 000. A study by the University of Antioquia estimates that the entry of narco-dollars through the Banco de la República in 1987 was between US\$600 and US\$800 million (Arango Jaramillo, 1988). The lowest estimate, according to the available data, is US\$500 million (Campodónico, 1989, and Lora and Ocampo, 1987). If the figure was not less than US\$1 billion, then these profits would represent 18% of the total value of the country's legal exports in 1987 (US\$5.7 billion). The income of the Medellín Cartel alone from its exports of cocaine is calculated at US\$4 to US\$5 billion per year. In 1988, this income was higher than that from Colombia's exports of coffee, which totalled US\$1 620 million, and it almost equalled the total legal exports of the country, which came to some US\$5 340 million. In the case of Colombia, the injection of liquidity amounts to some US\$6.5 billion if a multiplier of 3.8 (slightly below that calculated for Peru and Bolivia) is used (Hardinghaus, 1989). If a multiplier of 4 to 5 is used, then it is calculated that the inflow of as little as US\$600 million will mobilize US\$2.4 billion to US\$3 billion of additional funds, in both the Bolivian and the Peruvian economy.

In Bolivia, exports of cocaine hydrochloride and coca paste amounted to over 175 000 kilogrammes in 1985, with a value on the United States market of over US\$5 470 million in that year, US\$6.9 billion in 1986 and some US\$7 billion in 1987. The gross income of the Bolivian traffickers is estimated at some US\$1.3 billion, which is a very significant amount when it is considered that the value of the legal exports of the country only came to US\$500 million in 1986. In that year, the value of Bolivia's most important legitimate export

product, natural gas, came to only US\$345 million (Hardinghaus, 1989). The hot money which returned to Bolivia in 1987 is estimated at some US\$600 million, whereas the value of legal exports in the same year was only US\$470 million. As an expert on the subject explains, "the fact that it was possible to carry out the austerity policy was due largely to the inflow of dollars from narcotics trafficking. Indeed, the new economic policy (NEP) authorized the issue of certificates of deposit payable to bearer in dollars and the opening of special accounts in dollars, precisely with the aim of recycling the narco-dollars" (Torres, 1989).

In Peru, exports of coca generate income of some US\$800 million, which is almost twice what the country receives for its legitimate exports of copper (US\$482 million in 1986). In 1987, the total value of Peru's legal exports came to US\$2 605 million (Hardinghaus, 1989). In Venezuela, according to reports by the government of that country, the economic impact of drugs was US\$2 billion, equal to 20% of the country's oil exports and one-third of the national budget. The same government indicates that drug trafficking in Venezuela has grown considerably faster in recent years because drug production and trafficking have been diverted from Colombia to Venezuela on account of the increased repressive measures applied in the former country and the liberal monetary and financial regime in effect in the latter (OAS/CICAD, 1988).

The return of the illicit funds produced by drug trafficking distorts the economy of the countries involved, since it encourages the creation of foreign exchange black markets, smuggling and price inflation in particular sectors. With the drop in the informal dollar, its value is now several points below that of the legal exchange certificates. Because of its size and its clandestine nature, the drug economy is always inflationary and tends to generate or aggravate pressures in this direction (Hardinghaus, 1989). Its influence is also felt on national saving and investment: in addition to making the necessary reinvestments for the maintenance of the narco-economy itself (in crops, laboratories, means of transport, etc.), the cartels also invest in insurance, real estate and other areas. The inflow of illicit money also has a direct and indirect influence on the gross domestic product: directly, through the exchange of drugs for money,

and indirectly, through the business and economic processes generated and through its influence (positive or negative) on the macroeconomy. In this respect, it is asserted that a phenomenon which is even more difficult to measure than the direct or indirect effects is the "global stimulating effect" that a flourishing sector (the drug industry) exerts in its general economic environment. The influence of the drug economy on the national product is greater in the poor countries that produce drugs than in the developed nations which consume them (Hardinghaus, 1989).

Finally, in this global analysis of the economic significance of narcotics it is necessary to highlight their relations with external indebtedness. In 1990, the total external debt of Latin America and the Caribbean came to US\$420 billion: more than any other region in the world. According to various estimates quoted by the United Nations, the United States market for illicit drugs is between US\$50 and US\$100 billion per year. The increasing external indebtedness and the lower income from exports led to imbalances in national budgets which gave rise to generalized extreme poverty in the countries of the region. At the same time, because of the reduction in public expenditure recommended by the international lending organizations, restrictions were imposed on the resources for combating drug trafficking, for services connected with the drug problem, and for programmes for the replacement of illegal plantations with other crops. This critical situation was compounded by the fact that the increased use of agricultural areas for illicit crops reduced the production of some foodstuffs and made it necessary to import them, thereby further weakening the monetary reserves. At the same time, the legal economy became more dependent on the foreign exchange generated by the drug economy.

If we look in particular at the external debt accumulated by the Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela), this amounted in 1987 to US\$78 943 million (García Pérez, 1989), which is very close to the US\$80 billion paid for cocaine by United States users in a single year.<sup>2</sup> Similarly, Latin America's annual income from drug exports may be calculated at a minimum of between US\$80 billion and US\$150

billion. In one year, Peru paid US\$757 million in interest on its external debt, which is very close to the US\$800 million it received for the production and illegal export of basic paste for cocaine. At the same time, the country has to spend US\$700 million per year on food imports (De Rementería, 1989).

A good idea of the magnitude of the drug economy is given by the fact that the estimated cost to the Bolivian economy of eradicating the entire surplus production of coca, purely in terms of the reduction in GDP and without taking into account any compensation measures, is US\$939 million, of which US\$490 million corresponds to direct loss of income and US\$449 million to indirect effects of the replacement on other sectors. In order to offset the loss of these US\$939 million, approximately US\$3.5 billion of capital would be needed, assuming a capital yield of 27% (Bolivia, Presidencia de la República, 1990). In Peru, the gross value of basic paste at the end of 1988 was equivalent to 98% of the total liquidity of banks and financial institutions and 188% of all national and foreign currency deposits; consequently, in that year the Central Bank lost control over a very significant part of the monetary supply (Asociación Peruana de Estudios e Investigación para la Paz (APEP), 1990).

As almost all sales of drugs are made for cash, the conversion of the profits into bank accounts and other easily handled assets is a big problem for traffickers. Most of the profits from illicit drug transactions are "laundered" through the banking system, which makes it difficult to identify them. The traffickers manage to induce the banks to cooperate, knowingly or unknowingly, by accepting deposits of illicit profits. These assets can be "laundered" later on by transferring them to other accounts or investing them in legitimate businesses or front organizations.

One of the biggest obstacles encountered by world efforts to halt the illicit practice of laundering narco-dollars is the banking secrecy still in effect in some countries in spite of the agreements reached within the United Nations and other international bodies to remove the confidential nature of these operations. For example, the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, signed in Vienna in 1988, calls for the withdrawal of banking secrecy

<sup>2</sup>According to figures from Johns Hopkins University.

in drug trafficking investigations, and a growing number of countries are complying with this through suitable laws. Another major step forward was taken in September 1989 by the Group of Seven, which groups together the most highly industrialized nations; this group agreed on that occasion to join forces to track down the profits obtained from illicit drug transactions which are laundered through the international banking system.

With regard to the laundering of money in the countries of the region, the study by the Peruvian Association for Peace Studies and Research (APEP) already referred to notes that although enormous ill-gotten gains connected with drugs remain in the hands of traffickers who launder the money in banks outside Latin America and the Caribbean, a very substantial part of the profits is laundered

within the countries of the region. With regard to the policy on deriving advantage from the funds arising from drug trafficking, various investigations quoted by the Peruvian Association for Peace Studies and Research coincide in stating that "there is some connivance by economic policy instruments (increased bank interest rates to promote saving, sale of external debt bonds, etc.) with the capital from drug trafficking".

Among the so-called "tax havens", mention is made of Panama, the Bahamas, Grand Cayman Island, Bermuda, and the Netherlands Antilles. Recent information indicates that traffickers are using new countries for laundering their money, taking advantage of legal mechanisms which facilitate such operations. Such abuses are causing governments to take more careful measures to avoid this kind of abuse of legal economic instruments.

## II

### The social significance

Over the last twenty years, the entry of the phenomenon of drug abuse into the structures of society of the countries of the region has disrupted social relations and changed styles of life and behaviour. The presence of drugs affects rural areas which have lived with the coca culture for thousands of years (such as peasant communities in Bolivia and Peru, in particular). It has also had a tremendous impact, however, in the big cities, where drug traffickers have set up a regime of terror and death, as in the big urban centres in Colombia. In other countries of the continent, the drug economy is present to a greater or lesser extent at all levels of society and in all age groups, which are all affected alike either through illicit drug trafficking networks, or as consumers, or because they are involved in the illegal laundering of narcotics through the banking systems.

Drug addiction and illicit trafficking are taking on alarming proportions, since they are increasingly affecting young people and school-age children. The depressed situation of great groups of persons in a state of indigence, to whom society does not give regular access to its goods and services, provides the "manpower" for the drug traffickers, who

involve these people in their activities and at the same time lure them into vice. Drugs began to proliferate more rapidly as from the 1970s, and there is now a greater variety of them of increasingly high quality and potency. Many drugs, however, are easily available and low priced because of their dangerous levels of impurity; bazuco and crack are examples of such narcotics which cause irreparable damage to the human organism. The cost in human lives, health costs, growing levels of criminality and loss of productivity continue to be vivid illustrations of the social significance of drug abuse. Moreover, the danger to health is further aggravated by the simultaneous consumption of more than one drug in combination with alcohol, which further complicates the difficult problems of detoxication and treatment. Another alarming aspect which has recently come to the fore is the association between the intravenous injection of drugs and the spread of AIDS.

In urban areas, the drug trade takes the form of "micro-traffic", so called because of the nature of its organization in small cells, its great mobility and its concentration by areas or neighbourhoods, covered by groups of a few persons, almost always

young people and children. The sale on the street of basic paste, reefers or bazuco, marihuana and shots of heroin attracts the innumerable unemployed from the poorest strata, who are only too ready to carry on this activity which is more profitable than other options, which in any case may not always be open to them. It is the impoverished social system with a crisis of values, ineffective systems of education, and public institutions which have lost much of their prestige and their capacity to exercise control which increases drug abuse in the cities, and in addition to constituting a means of income for the drug peddlers, this traffic becomes a psychological escape hatch for users.

The violence and criminality associated with drugs and their distribution do serious damage in neighbourhoods which are already wallowing in economic stagnation. There is less incentive to open honest neighbourhood businesses, school attendance is continually perturbed, the emergency services of the hospitals are overflowing with the victims of drug overdoses and shooting incidents, residents with steady jobs soon find reasons to move to other places, and the skills and ambitions that could be used for productive purposes are frittered away in the illusory pursuit of quick profits from drug trafficking (United Nations, 1990).

The coca-cocaine complex has undoubtedly had its greatest influence in rural areas of the Andean countries which produce coca: Bolivia, Peru, Colombia and Ecuador. Whether he likes it or not, the peasant growing coca leaves in distant Andean areas is part of a long and complex chain which ends in the streets of the countries that consume crack, with all the implications that this process may involve. In this respect, however, it is necessary to recognize the clear difference between the production and consumption of coca in Andean areas, on the one hand, which is based on cultural and natural elements and accompanied by magical and religious rituals, and the production and consumption of cocaine as a merchandise. Those who do not make this basic distinction imagine that the supply of cocaine can be controlled simply by reducing or eradicating the cultivation of coca leaves, ignoring the cultural aspects associated with coca in the Andean countries (Mirtenebaum, 1989).

The disruption of cultural values which are thousands of years old and of the basic structure of

society, together with the incorporation of peasants into a monetary economy, is accompanied by a radical change in the structure of production, with a strong tendency towards the cultivation of coca plants as the main crop, and a consequent shortage of foodstuffs.

The Valley of Alto Huallaga, in Peru, which is the region where there is the greatest production of coca in the entire world, is a typical example of the situation affecting areas involved in coca cultivation, and their incorporation into the illicit drug economy, with all its corrupting effects. This type of economic growth is anarchic and has no long-term future, but it will indeed leave indelible traces on the society which is suffering its impact. The villages in the valley have branches of banks, sophisticated communications services (fax, video, computers) and places of recreation (discotheques), as well as firms selling electrical appliances and automobiles. The villagers have gained access to the comforts of modern life, but their lifestyle is now at variance with their traditional cultural values, and it involves drug addiction and participation in the criminal structure of the drug trade. Yet at the same time, these communities lack the most elementary public services, such as schools, sewerage, drinking water, health services, paved streets and police protection, and they have no access to any kind of serious cultural activity (Bernales, 1989).

Although the drug economy has given the peasants jobs and better incomes, these immediate benefits are costing them dear: the cost of living in coca-growing areas has risen significantly, and payment in cash has taken the place of the traditional forms of small-scale barter and mutual support which were a source of stability and equity in indigenous communities. Foodstuffs such as potatoes and maize began to be in short supply as labour was absorbed by the cultivation of coca. In short, the economy based on self-sufficiency was replaced by a mercantiled and impersonal economy far removed from the community spirit of the peasant.

Another aspect of the social impact of drugs is the great attraction exerted by coca-growing regions on migratory flows, although this must also be seen as part of a larger problem affecting the rural areas of the Andean countries in general, characterized as they are by deterioration and pov-

erty (Reyes Posada, 1989). The big migratory flows to the high jungle areas of Peru and the eastern part of the Chapare region of Bolivia were due to the peasants' intention of planting coca or finding employment as casual workers in its harvesting, as a survival alternative. At all events the narcotics economy has absorbed large numbers of persons made jobless by the crises in the tin and copper industries (Comisión Andina de Juristas, 1990). Among the causes of these migrations, mention has been made of the international drug trade, together with the constant impoverishment of the peasant economy due to the low prices of alternative tropical crops (De Rementería, 1990).

The social repercussions of drugs are also to be seen in the employment structure, for the narcotics industry is an important employer of labour in Bolivia, Colombia and Peru, giving direct employment to between 600 000 and 1 500 000 persons, according to various estimates. Of these, some three-quarters are engaged in growing and harvesting coca leaves; almost a quarter are "stompers", who mix the leaves with crude chemical products such as kerosene, using their bare feet; several thousand work in the clandestine laboratories where the paste is turned into refined cocaine, and a thousand or so –including the multimillionaires who own the cartels– run the import and export activities and manage the finances. In addition, a much larger number of persons earn a living from drugs indirectly through the multiplier effect that these activities have on the local economies (United Nations, 1990).

The mining crisis in Bolivia and Peru was a heavy blow to the trade union movement; as the worker organizations were utterly disrupted when thousands of workers in the sector were thrown out of work. In Bolivia, the workers in the mines which were nationalized in 1952 and run thereafter by the Bolivian Mining Corporation (COMIBOL) originally came to 27 000, but now number only 6 000. In addition to this crisis, there was the problem of smuggling, which led to a large number of further sackings because of the impact of its unfair competition on local industries. The ex-miners and ex-industrial workers thus thrown out of work swelled the ranks of the reserve army of the traffickers, joining them as coca producers or as members of the network engaged in distributing and selling drugs. At the same time, the coca mafias –taking

advantage of the illicit nature of the drug industry– have trampled ruthlessly on workers' rights, particularly as regards wages (which are frequently paid in the form of *bazuco*), freedom of organization and collective negotiation, occupational safety and health, etc. The prevailing political and social instability also contributed to the breaking up of trade union organizations.

Another social effect of the drug trade has been the appearance of "narco-squires", especially in Colombia. The "nouveaux riches" created by illicit drug trafficking have consolidated their economic and political power by marrying off their sons with heiresses of the Colombian oligarchy, and their conversion in this way into new landowners has had obvious effects on the agricultural economy and the system of land tenure. Indeed, studies on the agrarian process begun by the drug traffickers coincide in describing this as a "counter-agrarian reform" which, in contrast with the aims of true reform programmes, has re-consolidated a structure of *latifundios* (Camacho Guizado, 1989).

If the annual inflow of money into Colombia from cocaine exports is estimated at between US\$300 million and US\$1 billion, then the investments in land purchases by the drug traffickers amount to between 8% and 23% of these totals. According to a study by Sarmiento (1990), at the end of 1988 the drug traffickers owned a million hectares of land. In that year, the total area of rural Colombia was 36 197 200 hectares, so that the drug traffickers' properties amounted to 2.8% of that total and 4.3% of the productive land. The intervention of the narcotics economy in landowning has had an impact on land tenure, since there has been an increase in outright land ownership (from 75% in 1960 to 88% in 1988), while there has been a decline in tenancy (from 9% to 3.2%) and sharecropping (from 14% to 5.6%) over the same period. Moreover, according to the same study, the area of influence of the drug traffickers has expanded through their participation in national agricultural production and in credits for commercial crops. The same thing has happened in stock-raising, through their participation in cattle slaughtering and credit. Among those who have not sold their land to them, the rich landowners are faced with higher production costs, partly because of the higher wages paid by the "narco-squires", while



the poor peasants are obliged to abandon their land or end up by selling it at a very low price, because of the situation of insecurity and violence to which they are subjected.

As well as gradually taking the place of the old landowning families, the "narco-squires" are imposing new rates of change and forms of operation: they are favouring selective rather than intensive cattle-raising, the cultivation of African oil palms, industrial shrimp raising, some traditional crops

such as rice and cotton, and the poultry industry. As a specialist in these matters notes, the drug traffickers "are taking up a double challenge: that of establishing their social domination, by legitimizing themselves as a elite which is reorganizing rural social relations, and that of modernizing agricultural production, thereby improving the living standards of rural workers and supplying domestic and external markets" (Reyes Posada, 1989).

### III

#### The role of ECLAC

In the face of the drug trafficking problem the United Nations has been building up an important body of doctrine and action, in which key elements are the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna, 1988) and the Policy Declaration and Global Programme of Action adopted by the General Assembly on 23 February 1990 at its Seventeenth Special Session.

These documents give action against the abuse and illicit trafficking of narcotics high priority for the international community, and they reassert the principle of shared responsibility. They emphasize that the United Nations must be the main centre for coordinating concerted action in line with the United Nations Charter and the principles of international law: especially respect for the principles of refraining from the threat or use of force in international relations; the sovereignty and territorial integrity of States; non-intervention in the domestic affairs of States; and the provisions of the international conventions on the fight against drugs. These instruments also emphasize that in that fight greater international cooperation is needed in order to increase rural development programmes and other economic development and technical assistance programmes designed to reduce the production and illicit trafficking of drugs by strengthening the economic, judicial and legal systems of the developing coun-

tries affected by the problem, including those used as areas of transit.

ECLAC has constantly shared the central concerns of the United Nations in respect of the drug problem and has carried out various kinds of activities in this field. At its twenty-third session (Caracas, May 1990), the Commission adopted resolution 515(XXIII) on activities of ECLAC in the fight against drug abuse. This resolution gives high priority to the search for solutions to the serious problems caused by the production, trafficking and consumption of drugs in the region, and urges member countries to strengthen their cooperation at the regional level in the fight against all forms of illicit drug trafficking and to develop policies for the substitution, reduction and/or elimination of narcotic crops and the prevention of drug consumption and abuse in accordance with the principles of the United Nations Charter, international law, and, in particular, respect for the sovereignty and territorial integrity of countries, for their respective laws, and for the principle of non-intervention in the internal affairs of countries.

In that resolution, the Executive Secretary of ECLAC is requested to study regional forms of implementation of the Global Programme of Action and the United Nations Decade against Drug Abuse, proclaimed by the General Assembly for the period between 1991 and 2000, and is recommended to intensify ECLAC's activities in this field, assigning particular importance in the design of future action to:

i) The study and formulation of measures to determine and remedy the economic impact of the production, illicit trafficking and consumption of drugs in the region;

ii) Consideration of any follow-up to the study currently being undertaken in the United Nations system under the terms of resolution 44/142 on drug trafficking and abuse;

iii) Support for national programmes of alternative development and interdiction and prevention of the production, transport, trafficking and consumption of drugs, through the preparation of

studies and policy guidelines and the organization of practical courses to back up community action in these fields, and

iv) The provision of assistance to member countries while so request in the study of national policies to strengthen community action to prevent and reduce the trafficking and consumption of illicit drugs and psychotropic substances, while also stimulating the establishment of national information and exchange networks among institutions dealing with this subject.

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