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# Human Security and Crime in Latin America: The political Capital and Political Impact of Criminal Groups and Belligerents Involved in Illicit Economies

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**WESTERN HEMISPHERE  
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*The views expressed in this research paper are those of the author and do not necessarily reflect the official policy or position of the US Government, Department of Defense, US Southern Command or Florida International University.*



## EXECUTIVE SUMMARY

Organized crime and illegal economies generate multiple threats to states and societies. But although the negative effects of high levels of pervasive street and organized crime on human security are clear, the relationships between human security, crime, illicit economies, and law enforcement are highly complex. By sponsoring illicit economies in areas of state weakness where legal economic opportunities and public goods are seriously lacking, both belligerent and criminal groups frequently enhance some elements of human security of the marginalized populations who depend on illicit economies for basic livelihoods.

Even criminal groups without a political ideology often have an important political impact on the lives of communities and on their allegiance to the State. Criminal groups also have political agendas. Both belligerent and criminal groups can develop political capital through their sponsorship of illicit economies. The extent of their political capital is dependent on several factors.

Efforts to defeat belligerent groups by decreasing their financial flows through the suppression of an illicit economy are rarely effective. Such measures, in turn, increase the political capital of anti-State groups.

The effectiveness of anti-money laundering measures (AML) also remains low and is often highly contingent on specific vulnerabilities of the target. The design of AML measures has other effects, such as on the size of a country's informal economy.

Multifaceted anti-crime strategies that combine law enforcement approaches with targeted socio-economic policies and efforts to improve public goods provision,

including access to justice, are likely to be more effective in suppressing crime than tough nailed-fist approaches. For anti-crime policies to be effective, they often require a substantial, but politically-difficult concentration of resources in target areas. In the absence of effective law enforcement capacity, legalization and decriminalization policies of illicit economies are unlikely on their own to substantially reduce levels of criminality or to eliminate organized crime.

Effective police reform, for several decades largely elusive in Latin America, is one of the most urgently needed policy reforms in the region. Such efforts need to be coupled with fundamental judicial and correctional systems reforms. Yet, regional approaches cannot obliterate the so-called balloon effect. If demand persists, even under intense law enforcement pressures, illicit economies will relocate to areas of weakest law enforcement, but they will not be eliminated.

## INTRODUCTION

Organized crime and illegal economies generate multiple threats to States and societies. They often threaten public safety, and at times, even national security. Extensive illicit economies can compromise the political systems by increasing corruption and penetration by criminal entities, undermine the legal economies, and eviscerate their judicial and law enforcement capacity.

Yet, although the negative effects of high levels of pervasive street and organized crime on human security are clear, the relationships between human security, crime, illicit economies, and law enforcement are highly complex. Human security includes not only physical safety from violence and crime, but also economic safety from critical poverty, social marginalization, and fundamental delivery of elemental social and public goods, such as infrastructure, education, health care, and justice. Latin American governments have been chronically struggling to provide all these public goods in both the rural and urban areas.

Multifaceted institutional weaknesses are at the core of why the relationship between illegality, crime, and human security is so complex. By sponsoring illicit economies in areas of state weakness where legal economic opportunities and public goods are seriously lacking, both belligerent and criminal groups frequently enhance some elements of human security of those marginalized populations who depend on illicit economies for basic livelihoods, even while compromising other aspects of their human security. At the same time, simplistic law enforcement measures can and frequently do further degrade human security. These pernicious dynamics become especially severe in the context of violent conflict.

Thus, even criminal groups without a political ideology often have an important political impact on the lives of communities and on their allegiance to the State. They also often have political agendas, even without having an ideology. Consequently, discussions of whether a group is a criminal group or a political one or whether belligerents are motivated by profit, ideology, or grievances are frequently overstated in their significance for devising policy responses.

In cases of State weakness and under provision of public goods, increased action by law enforcement agencies to suppress intense organized crime and illicit economies rarely is a sufficient response. Effective State response requires that the state address all the complex reasons why populations turn to illegality, including law enforcement deficiencies and physical insecurity, economic poverty, and social marginalization. Such efforts entail ensuring that peoples and communities will obey laws and increasing the likelihood that illegal behavior and corruption will be punished. Similarly, it is important to create a social, economic, and political environment in which the laws are consistent with the needs of the people; therefore, they can be seen as legitimate and can be internalized.

This paper provides an overview of the dynamics of the crime-insecurity nexus and its complex impacts on State security and human security. It also outlines elements of a multifaceted response derived from an analytical approach. Finally, it sketches key developments in U.S. policy pertaining to counternarcotics and anti-crime policies in Latin America during the Obama Administration and outlines implementation challenges.

## THE THREATS FROM ILLICIT ECONOMIES AND THE DYNAMICS OF THE CRIME-INSECURITY NEXUS

Extensive criminality and illicit economies generate multiple threats to States and societies. They corrupt the **political system**, by providing an avenue for criminal organizations to enter the political space, **undermining democratic processes**. Political entrepreneurs, who enjoy the financial and political resources generated by their connections to illicit economies, frequently experience great success in politics. They are able to secure official positions of power as well as wield influence from behind the scenes. The problem perpetuates itself as successful politicians bankrolled with illicit money make it more difficult for other actors to resist participating in the illicit economy, leading to endemic corruption at both the local and national levels. Guatemala, El Salvador, and Haiti are cases in point.

Large illicit economies dominated by powerful traffickers also have **pernicious effects on a country's law enforcement and judicial systems**. As the illicit economy grows, the investigative capacity of the law enforcement and judicial systems diminishes. Impunity for criminal activity increases, undermining the credibility and deterrence effects of law enforcement, the judicial system, and government authority. Powerful traffickers frequently turn to violent means to discourage prosecution, killing or bribing prosecutors, judges, and witnesses. Colombia in the late 1980s and Mexico today are powerful reminders of the corruption and paralysis of law enforcement as a result of extensive criminal networks and the devastating effects of high levels of violent criminality on the judicial system. The profound collapse and penetration by criminal entities of Guatemala's judicial system led the country to embrace a special U.N. body, the International Commission Against

Impunity in Guatemala (CIGIG), to help its judiciary combat organized crime and state corruption.

The intense criminality experienced in the region is, however, only exacerbating the preexisting poor quality of rule of law in Latin America. Judicial systems across Latin America have been traditionally deficient: Justice is rarely equally available to all, is often painful slow, and convictions for violent crimes are infrequent. Powerful elites frequently enjoy a great deal of impunity, even as many former military dictators have been brought to justice.

Illicit economies also have **large and complex economic effects**. Drug cultivation and processing, for example, generate employment for the poor rural populations and can even facilitate upward mobility. They can have powerful microeconomic spillover effects by boosting overall economic activity. But a burgeoning drug economy also contributes to inflation and can harm legitimate, export-oriented, import-substituting industries as well as tourism. It encourages real estate speculation and undermines currency stability. It also displaces legitimate production. Since the drug economy is more profitable than legal production, requires less security and infrastructure, and imposes smaller sunk and transaction costs, the local population is frequently uninterested in, or unable to, participate in other (legal) kinds of economic activity. The presence of a large-scale illicit economy can thus lead to a form of the so-called Dutch disease where a boom in an isolated sector of the economy causes or is accompanied by stagnation in other core sectors since it gives rise to appreciation of land and labor costs. In Mexico, for example, the drug violence has not only undermined human security and public safety, but also

decreased tourism in violence affected areas, even as U.S. firms continue to invest there.<sup>1</sup>

Most importantly, burgeoning and unconstrained drug production and other illicit economies and organized crime have **profound negative consequences not only for local stability, security, and public safety. They often impact national security.**

There are at least two distinct conceptual frameworks for analyzing the nexus of illicit economies, criminality, and violent conflict. The different conceptualizations of the phenomenon by these two analytical frameworks also lead to different policy prescriptions.

***Analytical Approach I: Belligerents Involved in Illicit Economies Become Mere Criminals and Criminals do not have Political Objectives***

Informed by both various strands of academic literature, such as works on narcoterrorism, the “greed” literature on civil wars, works on the crime-terror nexus, and “*guerre revolutionnaire*” and “the cost-benefit analysis of counterinsurgency”, the conventional view of the nexus between illicit economies and military conflict holds that belligerent groups derive large financial profits from illegal activities.<sup>2</sup> These profits fund increases in the military

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<sup>1</sup> Randal C. Archibold, “Despite Violence, U.S. Firms Expand in Mexico,” *New York Times*, July 10, 2011.

<sup>2</sup> For government analyses exemplifying this view, see, for example, Rand Beers, Assistant Secretary for International Narcotics and Law Enforcement Affairs, “Narco-Terror: The Worldwide Connection Between Drugs and Terrorism,” Testimony before the U.S. Senate Judiciary Committee, Subcommittee on Technology, Terrorism, and Government Information, March 13, 2002; <http://judiciary.senate.gov/hearing.cfm?id=196>; and Robert Charles, “U.S. Policy and Colombia,” Testimony before the House Committee on Government Reform, June 17, 2004,

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<http://reform.house.gov/UploadedFiles/State%20-%20Charles%20Testimony.pdf>. For academic narcoterrorism works, see, for example, Rachel Ehrenfeld, *How Terrorism Is Financed and How to Stop It* (Chicago: Bonus Books, 2005); Douglas J. Davids, *Narco-terrorism* (Ardley: Transnational Publishers, 2002); James Adams, *The Financing of Terror* (London: New English Library, 1986); Grant Wardlaw, "Linkages between the Illegal Drugs Traffic and Terrorism," *Conflict Quarterly*, VIII (3), Summer 1988: 5-26; and Stefan Leader and David Wienczek, "Drug Money: The Fuel for Global Terrorism," *Jane's Intelligence Review*, February 2000: 49-54. See also, Rollie Lal, "South Asian Organized Crime and Terrorist Networks," *Orbis*, 49 (2), Spring 2005: 293-304; Chris Dishman, "Terrorism, Crime, and Transformation," *Studies in Conflict and Terrorism*, 42 (1), 2001: 43-58; and Tamara Makarenko, "The Crime-Terror Continuum: Tracing the Interplay Between Transnational Crime and Terrorism," *Global Crime*, 1 (1), 2004: 129-145; and Svante Cornell, "Crime Without Borders," *Axess Magazine* No. 6, 2004: 18-21, [http://www.silkroadstudies.org/pub/0408Axess\\_EN.htm](http://www.silkroadstudies.org/pub/0408Axess_EN.htm), downloaded January 8, 2005.

The "greed versus grievance" scholars see economic motives – greed or loot-seeking – as the driver (or at minimum essential enabler) of civil wars; political grievances are no longer seen as the critical factor. For key works in "greed versus grievance," see, Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil Wars," October 21, 2001, [http://econ.worldbank.org/files/12205\\_greedgrievance\\_23oct.pdf](http://econ.worldbank.org/files/12205_greedgrievance_23oct.pdf), downloaded April 16, 2003; Mats Berdal and David Keen, "Violence and Economic Agendas in Civil Wars: Some Policy Implications," *Millennium: Journal of International Studies*, 26 (3), 1997: 795-818; Mats Berdal and David Malone eds., *Greed and Grievance: Economic Agendas in Civil War* (Boulder: Lynne Rienner, 2000); David Keen, *The Economic Functions of Violence in Civil Wars*, Adelphi Paper No. 320 (Oxford: IISS/Oxford University Press, 1998);

The "guerre revolutionnaire" and "the cost-benefit analysis of counterinsurgency emerged in the 1970s as a direct reaction to both the new guerrilla warfare manuals coming out, especially those of Mao, and to the failure of the previous French doctrine, oil stain or *tache d'huile*, in Indochina. Key theorists such as Georges Bonnet and Roger Trinquier created a counterinsurgency doctrine that sought to exploit the vulnerability of the initial phases of the insurgency and essentially resolved the contradiction between focusing on the physical resources of the belligerents and winning the hearts and minds in favor of destroying the belligerents' physical resources. See, Georges Bonnet, *Les guerres insurrectionnelles et révolutionnaires* (Paris: Payot, 1958), and Roger



capabilities of terrorists, warlords, and insurgents. They correspondingly decrease the relative power of government forces. Consequently, governments should focus on eliminating the belligerents' physical resources by eliminating the illicit economies on which they rely. For example, former president of Colombia Álvaro Uribe has argued: "If Colombia would not have drugs, it would not have terrorists."<sup>3</sup> Or as World Bank official stated with reference to Colombia, "If we destroy the coca, there won't be any more war in Colombia."<sup>4</sup>

This conventional view is based on five key premises: 1) Belligerents make money from illicit economies. 2) The destruction of the illicit economy is both necessary and optimal for defeating the belligerents because it will critically reduce their resources. 3) The belligerents who participate in the illicit economy should no longer be treated as different from the criminals who also participate in the illicit economy. 4) Belligerents who participate in illicit

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Trinquier, *Modern Warfare* (London: Pall Mall Press, 1964). Although not explicitly endorsing repression en masse, some American theorists of counterinsurgency also rejected the "hearts and minds" approach described below and focused on cutting off the provision of material supplies by the population to the insurgents. Charles Wolf, a leading author of what came to be known as the coercion theory or cost-benefit analysis of counterinsurgency, for example, argued that popular support was not essential for insurgents in developing countries, but rather the acquisition of material supplies by the insurgents from the population. See, Charles Wolf Jr., *Insurgency and Counterinsurgency: New Myths and Old Realities*, RAND Document, No. P-3132-1 (Santa Monica: RAND, 1965): 5.

<sup>3</sup> From a speech to the Organization of American States Permanent Council, Washington, DC, March 25, 2004, cited in International Crisis Group, *War and Drugs in Colombia*, Latin America Report No. 11, January 27, 2005: 9,

[http://www.crisisgroup.org/library/documents/latin\\_america/11\\_war\\_and\\_drugs\\_in\\_colombia.pdf](http://www.crisisgroup.org/library/documents/latin_america/11_war_and_drugs_in_colombia.pdf), downloaded February 10, 2005.

<sup>4</sup> Interviews with an official of the World Bank, Washington, DC, Summer 2003.

economies, such as the drug trade, lose political goals. 5) Criminals do not have political objectives.

### ***Analytical Approach II: The Political Capital of Illicit Economies***

The second analytical approach argues that belligerent groups obtain far more than simply increased physical resources from their participation in illicit economies. Informed by various academic critiques of the war on drugs, the hearts-and-minds view of counterinsurgency, “legitimacy” school of counterterrorism, and various criminological studies,<sup>5</sup> this approach has been most fully

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<sup>5</sup> Various critiques of the war on drugs, see, for example, Peter Reuter “The Limits of Drug Control,” *Foreign Service Journal*, 79 (1), January 2002: 18-23; Robert MacCoun and Peter Reuter, *Drug War Heresies* (Cambridge: Cambridge University Press, 2001); Eva Bertram, Morris Blachman, Kenneth Sharpe, and Peter Andreas, *Drug War Politics: The Price of Denial* (Berkeley: University of California Press, 1996); Ethan Nadelmann, “Drug Prohibition in the United States: Costs, Consequences, and Alternatives,” *Science*, (245), September 1989: 939-47 and Ethan Nadelmann, “Commonsense drug policy,” *Foreign Affairs*, 77 (1), January-February 1998: 111-26; and Ted Galen Carpenter, *Bad Neighbor Policy* (New York: Palgrave Macmillan, 2003), and C. Peter Rydell and Susan S. Everingham, *Controlling Cocaine: Supply Versus Demand Programs* (Santa Monica: RAND, 1994); Rensselaer W. Lee III., *The White Labyrinth* (New Brunswick: Transaction Publishers, 1989) Cynthia McClintock, “The War on Drugs: The Peruvian Case,” *Journal of Interamerican Studies and World Affairs*, 30 (2 and 3), Summer/ Fall 1988: 127-142; Richard Clutterbuck, *Drugs, Crime, and Corruption* (New York: New York University Press, 1995); Edgardo Buscaglia and William Ratliff, *War and Lack of Governance in Colombia: Narcos, Guerrillas, and U.S. Policy* (Stanford: Hoover Institution on War, Revolution, and Peace, 2001); Francisco Gutiérrez Sanín, “Criminal Rebels? A Discussion of Civil War and Criminality from the Colombian Experience,” *Politics and Society*, 32 (2), June 2004: 257-285; Coletta A. Youngers and Eileen Rosin, eds., *Drugs and Democracy in Latin America* (Boulder: Lynne Rienner, 2005).

The political capital of illicit economies builds upon the intellectual foundation of the hearts and minds approach to counterinsurgency. The many primarily British and American theorists of

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this school of counterinsurgency placed their emphasis on the political aspect of the insurgent struggle – gaining *legitimacy* in the eyes of the population and depriving the government of its legitimacy -- and the consequent need on the part of the government to make the political effort, the legitimacy game, a similarly key aspect of counterinsurgency. The answer the HAM theorists proposed was to prevent the insurgents from winning the legitimacy game by supplying the population with the needed goods, restoring the government’s capacity to provide them with basic services, improving standards of living, and reducing government abuse, brutality, and corruption. See, for example, Robert Thompson, *Defeating Communist Insurgency* (London: Chatto and Windus, 1966) and Robert Thompson, *Revolutionary War in World Strategy, 1945-1969* (London: Secker & Warburg, 1970); Frank Kitson, *Low Intensity Operations* (London: Faber & Faber, 1971); John S. Pustay, *Counterinsurgency Warfare* (New York: Free Press, 1965); David Galula, *Counterinsurgency Warfare: Theory and Practice* (New York: Praeger, 1964); John J. McCuen, *The Art of Revolutionary Warfare* (London: Faber and Faber, 1966). For recent work in this vein, see John Nagl, *Learning to Eat Soup with a Knife: Counterinsurgency Lessons from Malaya and Vietnam* (Chicago: University of Chicago Press, 2005) and David Kilcullen, *The Accidental Guerrilla: Fighting Small Wars in the Midst of a Big One* (Oxford: Oxford University Press, 2009). My work has also been informed by the studies of peasant rebellions, including James C. Scott, *The Moral Economy Peasant* (New Haven: Yale University, 1976) and Eric Wolf, *Peasant Wars of the Twentieth Century* (New York, Harper & Row, 1969); Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965); Samuel L. Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam* (Berkeley: University of California Press, 1979); Mark Lichbach, “What Makes Rational Peasants Revolutionary? Dilemma, Paradox, and Irony in Peasant Collective Action,” *World Politics*, 46 (2), April 1994: 383-418; Theda Skocpol, “What Makes Peasants Revolutionary?” *Comparative Politics*, 14 (3), April 1982: 351-75; Timothy Wickham-Crowley, *Exploring Revolution: Essays on Latin American Insurgency and Revolutionary Theory* (Armonk: M.E. Sharpe, 1991); and T. David Mason and Dale A. Krane, “The Political Economy of Death Squads: Toward a Theory of the Impact of State-Sanctioned Terror,” *International Studies Quarterly*, 33 (2), 1989: 175-98.

For key works in the “legitimacy” school of terrorism, see, for example, Conor Cruise O’Brien, “Terrorism under Democratic Conditions,” in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan

articulated by the author in *Shooting Up: Counterinsurgency and the War on Drugs*.<sup>6</sup> It argues that illicit economies provide an opportunity for belligerent groups to increase their power along multiple dimensions, not merely in terms of physical resources, but also by generating support from local populations.<sup>7</sup> Indeed, as the first view emphasizes, with large financial profits from illicit economies, belligerent groups do improve their fighting capabilities by increasing their physical resources, hiring greater numbers of better paid combatants, providing them with better weapons, and simplifying their logistical and procurement chains.

Crucially and frequently neglected in policy considerations, however, is the fact that **large populations in Latin America in areas with minimal state presence, great poverty, and social and political marginalization are dependent on illicit economies, including the drug trade, for economic survival and the satisfaction of other socio-economic needs.** For many, participation in informal economies, if not outright illegal ones, is the only way to satisfy their basic livelihood needs and obtain any chance of social advancement, even as they continue to exist in a trap of insecurity, criminality, and marginalization. The more the State is absent or deficient in the provision of public goods – starting with public safety and suppression of street crime and including the provision of dispute-resolution mechanisms and access to justice, enforcement of contracts, and the provision of socio-economic public goods, such as infrastructure, access to health care, education, and legal employment – the more communities are susceptible to

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University Press, 1983): 91-104, and Richard E. Rubenstein, “The Noncauses of Modern Terrorism,” in Charles W. Kegley, Jr., ed. *International Terrorism: Characteristics, Causes, and Controls* (New York: St. Martin’s 1990): 130.

<sup>6</sup> Vanda Felbab-Brown, *Shooting Up: Counterinsurgency and the War on Drugs*, Washington, DC: Brookings Press, 2009.

<sup>7</sup> Ibid.

becoming dependent on and supporters of criminal entities and belligerent actors who sponsor the drug trade and other illegal economies.

Such **belligerents derive significant political capital** – legitimacy with and support from local populations - **from their sponsorship of the drug and other illicit economies**, in addition to obtaining **large financial profits**. They do so by protecting the local population's reliable (and frequently sole source of) livelihood from the efforts of the government to repress the illicit economy. They also derive political capital by protecting the farmers (or in the case of other illicit commodities, the producers) from brutal and unreliable traffickers (bargaining with traffickers for better prices on behalf of the farmers), by mobilizing the revenues from the illicit economies to provide otherwise absent social services such as clinics and infrastructure, as well as other public goods, and by being able to claim nationalist credit if a foreign power threatens the local illicit economy. In short, sponsorship of illicit economies allows non-state armed groups to function as security providers and economic and political regulators. They are thus able to transform themselves from mere violent actors to actors that take on proto-state functions.

Although the political capital such belligerents obtain is frequently thin, it is nonetheless sufficient to motivate the local population to withhold intelligence on the belligerent group from the government if the government attempts to suppress the illicit economy. Accurate and actionable human intelligence is vital for success in counterterrorist and counterinsurgency efforts as well as law enforcement efforts against crime groups. Although, as the evolution of the counterinsurgency campaigns in Colombia and Afghanistan during the 2000s show, human intelligence still critically facilitates counterinsurgency and anti-crime operations.

Four factors determine the range of political capital that belligerent groups obtain from sponsoring the illicit economy: the state of the overall economy; the character of the illicit economy; the presence (or absence) of thuggish traffickers; and the government response to the illicit economy.

1. The state of the overall economy – poor or rich - determines the availability of alternative sources of income and the number of people in a region who depend on the illicit economy for their basic livelihood.
2. The character of the illicit economy – labor-intensive or not – determines the extent to which the illicit economy provides employment for the local population. The cultivation of illicit crops, such as of coca in Colombia or Peru, is very labor-intensive and provides employment to hundreds of thousands in a particular country. On the other hand, production of methamphetamines, such as that controlled by *La Familia Michoacana* (one of Mexico's drug trafficking organizations [DTO]), is not labor-intensive and provides livelihoods to fewer people.
3. The presence of thuggish traffickers influences the extent to which the local population needs the protection of the belligerents against the traffickers.
4. The government responses to the illicit economy (which can range from suppression to laissez-faire to rural development) determine the extent to which the population depends on the belligerents to preserve and regulate the illicit economy.

In a nutshell, supporting the illicit economy will generate the most political capital for belligerents when the State of the overall economy is poor, the illicit economy is labor-intensive, thuggish traffickers are active in the illicit economy, and the government has adopted a harsh strategy,

such as eradication, especially in the absence of legal livelihoods and opportunities.

This does not mean that sponsorship of *non-labor-intensive*<sup>8</sup> illicit economies brings the anti-government belligerents or armed groups no political capital. If a non-labor-intensive illicit economy, such as drug smuggling in Sinaloa, Mexico, generates strong positive spillover effects for the overall economy by boosting demands for durables, nondurables, and services that would otherwise be absent, and hence indirectly providing livelihoods to and improved economic well-being of poor populations, it too can be a source of important political capital. In Sinaloa, for example, the drug trade is estimated to account for 20 percent of the state's Gross Domestic Product (GDP), and for some of Mexico's southern states, the number might be higher.<sup>9</sup> Consequently, the political capital of the sponsors of the drug trade there, such as the Sinaloa cartel, is hardly negligible. Moreover, Mexico's DTOs also derive important political capital from their sponsorship and control of an increasing range of informal economies in Mexico.<sup>10</sup> Similarly, the ability to provide better social services and public goods than the state has allowed Brazil's drug gangs to dominate many of Brazil's poor urban areas, such as in Rio de Janeiro (at least until the adoption of a government policy to pacify the *favelas* as Rio's slums are known). Criminal groups and belligerents can even provide socio-economic services, such as health clinics and trash disposal.

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<sup>8</sup> For details on these concepts, see *ibid.*, Chapter 2.

<sup>9</sup> Guillermo Ibara in Manuel Roig-Franzia, "Mexico's Drug Trafficking Organizations Take Barbarous Turn: Targeting Bystanders," *Washington Post*, July 30, 2008, p. A9.

<sup>10</sup> Vanda Felbab-Brown, "The Violent Drug Market in Mexico and Lessons from Colombia," Foreign Policy at Brookings, Policy Paper No. 12, March 2009; available from [www.brookings.edu/~media/Files/rc/papers/2009/03\\_mexico\\_drug\\_market\\_felbabbrown/03\\_mexico\\_drug\\_market\\_felbabbrown.pdf](http://www.brookings.edu/~media/Files/rc/papers/2009/03_mexico_drug_market_felbabbrown/03_mexico_drug_market_felbabbrown.pdf).

In addition, both criminal entities and belligerent groups often provide security. Although they are the source of insecurity and crime in the first place, they often regulate the level of violence and suppress street crime, such as robberies, thefts, kidnapping, and even homicides. Street crime in Latin America is very intensive, exhibiting one of the highest rates in the world. Thus, criminal groups that provide public order gain support from the community, in addition to facilitating their own illegal business since illicit economies too benefits from reduced transaction costs and increased predictability.

Indeed, in many parts of Latin America, public safety has become increasingly privatized: with upper and middle classes relying on a combination of official law enforcement and legal and illegal private security entities, while marginalized segments rely on organized-crime groups to establish order on the street. Organized-crime groups and belligerent actors, such as the *Primero Comando da Capital* in Sao Paulo's shantytowns, also provide dispute resolution mechanisms and even set up unofficial courts and enforce contracts.<sup>11</sup> The extent to which they provide these public goods varies, of course, but it often takes place regardless of whether the non-State entities are politically-motivated actors or criminal enterprises. The more they provide such public goods, the more they become de facto proto-State governing entities.

Moreover, unlike their ideologies, which rarely motivate the wider population to support the belligerents, sponsorship of

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<sup>11</sup> See, for example, Enrique Desmond Arias and Corrine Davis Rodrigues, "The Myth of Personal Security: Criminal Gangs, Dispute Resolution, and Identity in Rio de Janeiro's Favelas," *Latin American Politics*, 48(4) 2006: 53-81; and Ben Pengalese, "The Bastard Child of the Dictatorship: The Comando Vermelho and the Birth of 'Narco-Culture' in Rio de Janeiro," *Luso-Brazilian Review*, 45(1): 118-145.



illicit economies allows belligerent groups to deliver in real time concrete material improvements to the lives of marginalized populations. Their ability to deliver material benefits helps to preserve the belligerents' and criminal groups' political capital especially when ideology wanes, the brutality of the belligerents and criminal groups alienates the wider population, and other sources of support evaporate.

This ability also explains why even criminal groups without ideology can garner strong political capital. This effect is especially strong when the criminal groups also provide otherwise-absent order and minimal security. By being able to outcompete with the State in provision of governance, organized criminal groups can pose significant threats to the States in areas of weak or limited government presence. Consequently, the significance of whether a group's nature is criminal or political and whether belligerents are motivated by profit, ideology, or grievances are frequently overstated when devising policy responses.

## **POLICY RESPONSES AND CONSIDERATIONS**

For *Analytical Approach I*, the dominant policy prescription for dealing with the nexus of illicit economies and conflict is the **suppression of the illicit economy**, such as through the eradication of illicit crops. (Although other means, such as alternative livelihoods programs, can be a part of the strategy to suppress the illicit economy, eradication tends to be by far the most dominant tool in this school of thought.) This approach also argues for **treating belligerents** participating in illicit economies **as criminals**. That implies, for example, **deemphasizing political and social solutions to conflict**, such as negotiations or attempting to address their stated grievances.

*Analytical Approach II* does not emphasize the suppression of illicit economies for ending violent conflict; rather, it warns against the dangers of prematurely resorting to forced suppression of labor-intensive illicit economies and thus increasing the political capital of belligerent groups and even criminal entities. Instead, it argues for a sequenced and far more multifaceted approach. Among its key policy implications findings are:

**In cases where the State is weak and failing to delivery public goods, increased action by law enforcement agencies to suppress organized crime rarely is a sufficient response.** Approaches such as *mano dura* (hard line) policies, saturation of areas with law enforcement officers, especially if they are corrupt and inadequately trained, or the application of highly repressive measures rarely tend to be effective in suppressing organized crime and often only attack the symptoms of the social crisis, rather than its underlying conditions.

**Policies that focus on degrading the belligerents' physical resources by attempting to destroy the illicit economy are frequently ineffective with respect to the objective of drying up the belligerents' resources.** In the case of labor-intensive illicit economies where there are no legal economic alternatives in place, such policies are especially counterproductive with respect to securing intelligence and weaning the population away from the terrorists and insurgents.

Eradication of illicit crops has dubious effects on the financial profits of belligerents. Even when carried out effectively, it might not inflict serious, if any, financial losses upon the belligerents since partial suppression of part of the illicit economy might actually increase the international market price for the illicit commodity. Given

continuing demand for the commodity, the final revenues might be even greater.

Moreover, the extent of the financial losses of the belligerents also depends on the ability of the belligerents, traffickers, and farmers to store drugs, replant after eradication, increase the number of plants per acre, shift production to areas that are not subject to eradication, or use high-yield, high-resistance crops. Belligerents also have the opportunity to switch to other kinds of illicit economies such as synthetic drugs. Yet although the desired impact of eradication - to substantially curtail belligerents' financial resources - is far from certain and is likely to take place only under the most favorable circumstances, eradication will definitely increase the political capital of the belligerents since the local population will all the more strongly support the belligerents and will no longer provide the government with intelligence.

Policies to interdict drug shipments or measures to counter money laundering, while not antagonizing the local populations from the government, are extraordinarily difficult to carry out effectively. Most belligerent groups maintain diversified revenue portfolios. Attempts to turn off their income are highly demanding of intelligence and are resource-intensive. Colombia provides one example where drug interdiction efforts in particular areas registered important tactical success against the FARC and reduced its income. But such interdiction successes dependent on the military's ability to pin the FARC down in particular areas and prevent the FARC's *frentes* operating in coca areas from interacting with drug traffickers and *frentes* in non-coca areas. Indeed, it was the overall improvement in Colombia's military and its counterinsurgency policy, that was the critical reason for the vast improvements in security in the country and the success against the FARC.

**Counterinsurgency or anti-organized crime policies that focus on directly defeating the belligerents and protecting the population tend to be more effective than policies that seek to do so indirectly by suppressing illicit economies as a way to defeat belligerents.** Efforts to limit the belligerents' resources are better served by a focus on mechanisms that do not harm the wider population directly, even though such discriminate efforts are difficult to undertake effectively because of their resource intensiveness.

In sum, counternarcotics policies have to be weighed very carefully, with a clear eye as to their impact on counterinsurgency and counterterrorism. Seemingly quick fixes, such as blanket eradication in the absence of alternative livelihoods, will only strengthen the insurgency and compromise state-building, and ultimately the counternarcotics efforts themselves.

**Effectiveness in suppressing illicit economies is critically predicated on security. Without constant and intensive State presence and security, neither the suppression of illicit economies nor alternative livelihoods programs have been effective.**

It is also important to note that **some alternative illicit economies, and new smuggling methods to which belligerents are pushed as result of suppression efforts against the original illicit economy, can have far more dangerous repercussions for State security and public safety than did the original illicit economy.** Such alternative sources of financing could involve, for example, obtaining radioactive materials for resale on the black market. If true, reported efforts by the FARC to acquire uranium for resale in order to offset the temporary fall in its revenues as a result of eradication during early phases of Plan Colombia before coca cultivation there temporarily

rebounded, provide an example of how unintended policy effects in this field can be even more pernicious than the problem they are attempting to address.<sup>12</sup> The FARC's switch to semisubmersibles for transportation of drugs is another worrisome example of unintended consequences of a policy, this time of intensified air and maritime interdiction. The more widespread such transportation technologies are among non-state belligerent actors, the greater the likelihood that global terrorist groups will attempt to exploit them for attacks against the U.S. homeland or assets.

**Similarly, in the absence of a reduction of global demand for narcotics, suppression of a narcotics economy in one locale will only displace production to a different locale where threats to local, regional, and global security interests may be even greater.** Considerations of such second and third-degree effects need to be built into policy.

An appropriate response would be a multifaceted State-building effort that seeks to strengthen the bonds between the State and marginalized communities dependent on or vulnerable to participation in the drug trade for reasons of economic survival and physical insecurity. The goal of supply-side measures in counternarcotics efforts would be not simply to narrowly suppress the symptoms of illegality and State-weakness, such as illicit crops or smuggling, but more broadly and fundamentally to reduce the threat that the drug trade poses to human security, the State, and overall public safety.

**Effective State response to intense organized crime and illicit economies usually requires addressing all the complex reasons why populations turn to illegality, including law enforcement deficiencies and physical**

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<sup>12</sup> Sybilla Brodzinsky, "FARC Acquired Uranium, Says Colombia," *Christian Science Monitor*, March 28, 2008.

**insecurity, economic poverty, and social marginalization.**

Such efforts entail ensuring that peoples and communities obey laws and that illegal behavior and corruption will be punished. An equally important component is creating a social, economic, and political environment in which the laws are consistent with the needs of the people and therefore, they are seen as legitimate and are internalized.

In the case of efforts to combat illicit crop cultivation and the drug trade, one aspect of such a multifaceted approach that seeks to strengthen the bonds between the State and society and weaken the bonds between marginalized populations and criminal and armed actors would be *the proper sequencing of eradication and the development of economic alternatives*. Policies that emphasize eradication of illicit crops, including forced eradication, above rural development or that condition alternative livelihoods assistance programs on prior eradication of illicit crops, such as Colombia's so-called zero-coca policies, have rarely been effective.<sup>13</sup> Such sequencing and emphasis has also been at odds with the lessons learned from the most successful rural development effort in the context of illicit crop cultivation, Thailand.<sup>14</sup> Indeed, Thailand offers the only example where rural development succeeded in eliminating illicit crop cultivation on a country-wide level (even while drug trafficking and drug production of methamphetamines continue).

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<sup>13</sup> See, for example, Vanda Felbab-Brown, "Coca and Insecurity in Colombia, Narino," *Brookings Institution Foreign Policy Trip Reports* No. 21, February 22, 2011; and Vanda Felbab-Brown et al, *Assessment of the Implementation of the United States Government's Support for Plan Colombia's Illicit Crop Reductions Components*, USAID, April 17, 2009, [pdf.usaid.gov/pdf\\_docs/PDACN233.pdf](http://pdf.usaid.gov/pdf_docs/PDACN233.pdf).

<sup>14</sup> See, for example, Ronald D. Renard, *Opium Reduction in Thailand, 1970-2000: A Thirty-Year Journey* (Bangkok: UNDCP Silkworm Books, 2001) and Pierre-Arnaud Chouvy, *Opium: Uncovering the Politics of Poppy* (London: I.B. Taurus, 2009): 63-93.

Effective rural development does require not only proper sequencing of security, alternative livelihoods development, but also a *well-funded, long-lasting, and comprehensive approach* that does not center merely on searching for a replacement crop. Alternative development efforts need to address all the structural drivers of why communities participate in illegal economies -- such as poor access to legal markets, deficiencies in infrastructure and irrigation systems, no access to legal microcredit, and the lack of value-added chains.

**But the economic approaches to reducing illegality and crime should not be limited only to rural areas: there is great need for such programs in urban areas afflicted by extensive and pervasive illegality where communities are vulnerable to capture by organized crime**, such as in Mexico or Brazil. Often the single most difficult problem is the creation of jobs in the legal economy, at times requiring overall GDP growth. But GDP growth is often not sufficient to generate jobs and lift people out of poverty as long the structural political-economic arrangements stimulate capital-intensive growth, but not job creation – a common feature in Latin America, and one that only increases inequality.

It is important that **social interventions are designed as comprehensive rural development or comprehensive urban planning efforts, not simply limited social handouts or economic buyoffs**. The latter approaches have failed – whether they were conducted in Medellín as a part of the demobilization process of the former paramilitaries (many of whom have returned as *bandas criminales*)<sup>15</sup> or in Rio de Janeiro's *favelas*.<sup>16</sup>

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<sup>15</sup> See, for example, Vanda Felbab-Brown, “Reducing Urban Violence: Lessons from Medellín, Colombia,” *Brookings Institution Foreign Policy Trip Reports* No. 20, February 14, 2011,

The handout and buyoff shortcuts paradoxically can even strengthen criminal and belligerent entities. Such buyoff approach can set up difficult-to-break perverse social equilibria where criminal entities continue to control marginalized segments of society while striking a let-live bargain with the State, under which criminal actors even control territories and limit State access.

**Effectiveness of law enforcement efforts to combat organized crime is enhanced if interdiction policies are designed to diminish the coercive and corruption power of criminal organizations, rather than merely and predominantly to stop illicit flows.** The former objective may mandate different targeting strategies and intelligence analysis. Predominant focus on the latter objective often weeds out the least capacious criminal groups, giving rise to a vertical integration of the crime industry and “leaner and meaner” criminal groups.

An effective multifaceted response by the State also entails other components:

- Addressing street crime to restore communities’ associational capacity and give a boost to legal economies;
- Providing access to dispute resolution and justice mechanisms – Colombia’s *casas de justicia* are one example;
- Encouraging protection of human rights, reconciliation, and nonviolent approaches;

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[http://www.brookings.edu/opinions/2011/0214\\_colombia\\_crime\\_felbabb\\_rown.aspx](http://www.brookings.edu/opinions/2011/0214_colombia_crime_felbabb_rown.aspx).

<sup>16</sup> Enrique Desmond Arias, “Trouble en Route: Drug Trafficking and Clientalism in Rio de Janeiro Shantytowns,” *Qualitative Sociology*, 29:4 (2006): 427–45.



- Improving access to effective education as well as health care – a form of investment in human capital;
- Insulating informal economies from takeover by the state and limiting the capacity of criminal groups to become polycrime franchises;
- And creating public spaces free of violence and repression so that civil society can recreate its associational capacity and social capital.

**Boosting the capacity of communities to resist coercion and cooptation by criminal enterprises, however, does not mean that the State can rely on communities themselves to tackle crime**, especially violent organized crime. In fact, there is a great deal of danger in the State attempting to mobilize civil society to take on crime prematurely while still incapable of assuring protection of the community and its leaders. Without the State's ability to back up communities and protect them from retaliatory violence, the population will not provide intelligence to the State. Moreover, unless the needed backup is provided when criminal and belligerent groups retaliate harshly against the community, the community can all the more sour on the State. It will then be very hard for the State to mobilize civil society the second time around and restore trust in its capacity and commitment.

Whether as a result of organized criminal groups' warfare or as a side-effect of crime suppression policies, intense violence quickly eviscerates associational and organizational capacity and the social action potential of communities. Even if the drug traffickers or *maras* (gangs) are killing each other, intense violence on the streets hollows out the communities. Success hinges on the State's ability to bring violence down: without a reduction in violence, socio-economic interventions do not have a chance to take off and even

institutional reforms become difficult to sustain as political support weakens.

## **THE OBAMA ADMINISTRATION'S POLICY TOWARD ILLICIT ECONOMIES AND ORGANIZED CRIME IN LATIN AMERICA**

The Obama Administration has unequivocally acknowledged joint responsibility for efforts to suppress the drug trade and the threats it poses to national states and local communities.<sup>17</sup> Even though U.S. funding for demand reduction measures has been increased only modestly, the Obama Administration has clearly committed itself to reducing the demand in the United States.<sup>18</sup> A robust and well-funded commitment to demand reduction not only reduces consumption, but also greatly facilitates the effectiveness of supply-side measures. As long as there is a strong demand for illicit narcotics, supply-side measures cannot be expected to stop supply and eliminate consumption.

The Obama Administration has also embraced a multifaceted approach to dealing with organized crime and illicit economies. Indeed, a focus on reinforcing the relationship between marginalized communities in Mexico's cities, such as Ciudad Juárez, and the State is now the fourth pillar of the new orientation of the Mérida Initiative, Beyond Merida. The other three pillars of the reoriented strategy include: moving away from high-value targeting of DTO capos to a more comprehensive interdiction effort that targets the entire

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<sup>17</sup> See, for example, Mark Landler, "Clinton Says U.S. Feeds Mexico Drug Trade," *New York Times*, March 25, 2009.

<sup>18</sup> See, for example, Gil Kerlikowske, Director of ONDCP, Testimony to the Subcommittee on National Security and Foreign Affairs, Oversight and Government Reform Committee, *Transnational Drug Enterprises (Part II): U.S. Government Perspectives on the Threat to Global Stability and U.S. National Security*, March 3, 2010.

drug organization and giving newly trained police forces the primary street security function once again while gradually putting the military in a background support function; building a secure, but smart U.S.-Mexico border that also facilitates trade; and building up Mexico's civilian capacity. The fourth pillar – focused on weaning the population away from the *drug traffickers* - seeks to build resilient communities in Mexico to prevent their takeover by Mexican crime organizations.<sup>19</sup>

Such U.S. policy meshes with the policy of the government of Mexico, which has also recognized the need to complement its law enforcement strategy with effective socio-economic programs to break the bonds of Mexico's poor and marginalized communities with the criminal groups. Through urban development initiatives such as *Todos Somos Juárez*, the Mexican government hopes to persuade Mexican citizens who are deeply dissatisfied with the violence that it can better provide them with public goods and social services than the drug traffickers can. The effort also aims to restore hope for underprivileged Mexicans – 20 percent of Mexicans live below the extreme poverty line and at least 40 percent of the Mexican economy is informal – that a better future and possibility of social progress lies ahead if they remain in the legal economy. Such bonds between the community and the State will in the end allow the State to prevail in weakening crime. But they are very hard to implement – especially given the structural deficiencies of Mexico's economy. Accordingly, President Felipe Calderón has unveiled a host of social programs oriented toward bringing jobs, education, and public spaces to Ciudad Juarez. How swiftly and effectively these programs will be implemented remains to be seen.

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<sup>19</sup> For details, see, Vanda Felbab-Brown, "Stemming the Violence in Mexico, but Breaking Up the Cartels," *The CIP Report*, 9(3), September 2010: 5-7 and 21.

Such a multifaceted approach with emphasis on social policies as a way to mitigate crime is increasingly resonating in Latin America. Socio-economic programs, such as *Virada Social* in Sao Paulo or the socio-economic component of Rio's *favela's* pacification policy have been embraced by State governments in Brazil. In Colombia, President Juan Manuel Santos has initiated a range of socio-economic programs.<sup>20</sup> And the U.S. government, too, has emphasized social programs, including rural development and alternative livelihoods.<sup>21</sup>

The Obama Administration has also recognized the danger of the balloon effect in counternarcotics policies and the possibility that intensified law enforcement efforts in Mexico risk increasing drug shipment flows and associated threats to the states and societies in Central America and the Caribbean. There is already evidence that the presence of Mexican DTOs has greatly increased in Central America, posing severe security and corruption threats to local governments. To mitigate the spillover effects, the Obama Administration has unveiled two new initiatives: the Central American Regional Security Initiative (CARSI) and the Caribbean Basin Security Initiative (CBSI).

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<sup>20</sup> See, for example, Vanda Felbab-Brown, "Colombia's Consolidation: Everything Coming up Orchids?" *Brookings Institution Foreign Policy Trip Reports* No. 24, March 8, 2011, [http://www.brookings.edu/opinions/2011/0308\\_colombia\\_felbabbrown.a\\_spx](http://www.brookings.edu/opinions/2011/0308_colombia_felbabbrown.a_spx).

<sup>21</sup> See, for example, Kerlikowske.

## CONTINUING CHALLENGES AND THE EFFECTS OF LOCAL INSTITUTIONAL AND CULTURAL SETTINGS ON POLICY EFFECTIVENESS

Despite the above-described evolution toward some joint understanding and approaches, some areas of divergence and contention and important implementation challenges persist.

### *Legalization and Decriminalization*

The Latin-American Commission on Drugs and Democracy, co-chaired by former presidents Fernando Henrique Cardoso, César Gaviria, and Ernesto Zedillo, called for a major rethinking of counternarcotics policies in Latin America and important changes to the international counternarcotics regime.<sup>22</sup> Among other issues, it called for a public health approach to drug use and at least some decriminalization beyond personal-use possession decriminalization already adopted in many Latin American countries. Former Mexican President Vicente Fox similarly called for the decriminalization and even legalization of cannabis in Mexico.<sup>23</sup> These positions, however, are hardly uniformly prevalent in Latin America. Mexican President Felipe Calderón, for example, has come out against such liberalization and legalization moves, as has at times the government of Colombia.

Substantial liberalization of counternarcotics policy also has been at odds with the position of the United States government. When the state of California was considering the legalization of cannabis production, sales, and consumption, the federal government repeatedly stated that it

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<sup>22</sup> Latin American Commission on Drugs and Democracy, *Drugs and Democracy: Towards a Paradigm Shift*. 2011. <http://www.drugsanddemocracy.org>.

<sup>23</sup> Nick Miroff and William Booth, "Mexico Wary as California Votes on Legalizing Marijuana," *Washington Post*, September 10, 2010.

opposed such a move. Nonetheless, California's law on medical marijuana de facto decriminalizes marijuana use: Users without a medical prescription face minimal consequences under law and law enforcement suppression of marijuana cultivation in the state tends to focus on large-scale cultivation by major drug trafficking organizations, such as Mexican drug trafficking groups operating in California.<sup>24</sup>

Moreover, it is important to recognize that effects of policy changes on drugs and crime are inherently difficult to predict. Advocates of cannabis legalization, for example, argue that such a policy would improve the quality of life of users, deprive drug trafficking organizations of critical resources, augment state resources, reduce drug-related violence, and free law enforcement to focus on other priority law enforcement areas. But whether such effects would indeed materialize would depend on a host of factors, including the State's capacity to prevent drug trafficking organizations from taxing legal production, the intensity of the resulting turf wars over other illegal and informal economies, and policy reverberations in other countries' drug markets.<sup>25</sup> Moreover, evidence from other issue areas, such as logging and the cigarette trade, shows that even economies around legal commodities can be pervaded by

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<sup>24</sup> For details on U.S. marijuana laws, their enforcement, and the possible effects of marijuana legalization in California, see Beau Kilmer, Jonathan Caulkins, Rosalie Pacula, Robert MacCoun, and Peter Reuter, *Altered State? Assessing How Marijuana Legalization in California Could Influence Marijuana Consumption and Public Budgets* RAND Drug Policy Research Center Occasional Paper, 2010, [www.rand.org/pubs/occasional\\_papers/2010/RAND\\_OP315.pdf](http://www.rand.org/pubs/occasional_papers/2010/RAND_OP315.pdf).

<sup>25</sup> See, for example, Vanda Felbab-Brown, "Why Legalization in Mexico is not a Panacea for Reducing Violence and Suppressing Organized Crime," The Brookings Institution, September 23, 2010; [http://www.brookings.edu/opinions/2010/0923\\_mexico\\_marijuana\\_legalization\\_felbabbrown.aspx](http://www.brookings.edu/opinions/2010/0923_mexico_marijuana_legalization_felbabbrown.aspx).

violence, organized crime, and corruption.<sup>26</sup> Evaluations of policy alternatives thus need to take cognizance of the limited knowledge of and weak predictive capacity about the effects of anti-crime and anti-narcotics policies.

In reviewing and comparing the anti-narcotics and anti-crime policies of different countries and devising response strategies it is also important to take into account the significance of context. Drug use patterns as well as counternarcotics policies frequently reflect specific institutional and cultural settings; and the transferability of models may be limited. Many harm reduction programs in the Netherlands, for example, are embedded in an institutional and social context of extensive social services where the majority of population has very good access to health care. Such policies may face difficulties if implemented in countries that lack sufficient social services.<sup>27</sup> Similarly, although proponents of decriminalization of personal use of illicit substances frequently do so on the basis that such a policy will reduce the burden on law enforcement and harms to users, whether such outcomes in fact take place also depend on context. In Brazil, for example, the evidence suggests that at least in some places, corrupt police used decriminalization of possession to threaten users with imprisonment by charging them with possession of greater than permitted amounts unless the users paid a bribe. Corrupt police units also used the law to solidify control of drug distribution networks in

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<sup>26</sup> For examples from the logging trade, see, for example, Vanda Felbab-Brown, "Not as Easy as Falling Off a Log: The Illegal Logging Trade in the Asia-Pacific Region and Possible Mitigation Strategies," Brookings Institution Working Paper No. 5, March 2011, [www.brookings.edu/...logging\\_felbabbrown/03\\_illegal\\_logging\\_felbabbr\\_own.pdf](http://www.brookings.edu/...logging_felbabbrown/03_illegal_logging_felbabbr_own.pdf).

<sup>27</sup> For details, see Robert MacCoun and Peter Reuter, *Drug War Heresies: Learning from Other Vices, Times, and Places* (Cambridge: Cambridge University Press, 2001).

Brazil. Neither was a desirable effect of the policy.<sup>28</sup> Although a one-shoe-fits-all policy approach particularly needs to be guarded against in the field of drug policy and anti-crime strategies, there is value in learning from the experience of other countries or regions in dealing with drugs, illicit economies, crime, and public health issues as long as proper weight is accorded to context.

### ***Demand Reduction***

The need for adopt strong demand reduction measures is no longer limited to Western countries, such as the United States or Western Europe. In fact, in many countries in Latin America, such as Brazil, Argentina, and Mexico (as well as outside of Latin America, such as in Afghanistan, Pakistan, Russia, and China) demand for illicit narcotics has greatly increased over the past twenty years.<sup>29</sup> In some of these countries, including in Latin America, the per capita consumption of illicit narcotics rivals and even surpasses that of the United States or Western European countries. However, prevention and treatment programs often tend to be lacking and assigned low policy priority.<sup>30</sup> At the same time, demand reduction programs often suffer from poor design and implementation not grounded in the best available scientific knowledge.

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<sup>28</sup> Alexei Barrionuevo, “Ecstasy Ensnarers Upper-Class Teenagers in Brazil,” *New York Times*, February 15, 2009.

<sup>29</sup> For details, see United Nations Office on Drugs and Crime (UNODC), *World Drug Report 2011* (New York: United Nations Publications 2011). See, also Clarissa Huguet and Ilona Szabó de Carvalho, “Violence in the Brazilian *favelas* and the Role of the Police,” *New Directions for Youth Development*, 119, Fall 2008: 93-109.

<sup>30</sup> See, for example, “Crack Hits Brazil Late, but Hard, and Despite Booming Economy, Funds for Fightback Are Scarce,” *Associated Press*, July 17, 2011.



### ***Balloon Effect***

Regional coordination and the sharing of best practices can mitigate the dangers of displacing illicit economies and organized crime to new locales. Nonetheless, in the absence of a significant reduction in demand, drug supply and transshipment will inevitably relocate somewhere. Thus, there is a limit to what regional efforts can accomplish. As long as there is weaker law enforcement and State-presence in one area than in others, the drug trade will relocate there.

Moreover, areas with very weak State and law enforcement capacity and high levels of corruption often have constrained capacity to constructively absorb external assistance. Worse yet, such assistance risks being perverted: in the context of weak State capacity and high corruption, there is a substantial chance that counternarcotics efforts to train anti-organized crime units will only end up training more effective and technologically-savvy drug traffickers. The best assistance in such cases may be to prioritize on strengthening the capacity to fight street crime, reduce corruption, and increase the effectiveness of the justice system. Once such assistance has been positively incorporated, it may be fruitful to focus on further anti-*organized* crime efforts, including through advanced-technology transfers and training specialized counternarcotics and anti-organized crime units.

### ***Concentration of Anti-Crime Resources***

A concentration of resources, both non-corrupt law enforcement forces and socio-economic programs to strengthen communities, often improves the chances that the State will succeed in such complex undertakings. However, it is often very hard politically to concentrate resources and tackle organized crime neighborhood- by- neighborhood and illegal economies municipality- by- municipality. In electoral democracies where governments have limited fiscal capacity

and constrained social spending budgets, government officials may find it especially hard to explain why a particular community provides comprehensive State social interventions and resources while other communities go lacking although they too are in acute need for law enforcement provision and social development. Both Mexico, such as in its *Todos Somos Juárez* program, and Colombia in the Consolidation Programs of the Santos administration to coordinate and integrate its counterinsurgency, counternarcotics, and social development efforts have been struggling with such geographical prioritizations. The desire of governments to be reelected often encourages spreading resources to secure more votes. But spreading resources over extensive areas – as much as they may be acutely in need of intervention – without achieving a necessary law enforcement and socio-economic development momentum in any place greatly augments the chances of failure.

### ***Police Reform***

Police reform efforts constitute a particular challenge in Latin America. In many countries, attempts at police reform efforts since the 1980s have not been effective. Law enforcement remains deeply eviscerated, deficient in combating street and organized crime, and corrupt.

Reforming police that were used as a repressive apparatus of an authoritarian State is considerably different from reforming police forces that are deeply penetrated by organized crime and corrupt, with the latter being particularly challenging. Chile provides an example of effective police reform of the former kind, Colombia of the latter.<sup>31</sup>

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<sup>31</sup> For details on various police reform efforts in Latin America and their varied effectiveness, see, for example, John Bailey and Lucía Dammert,

Police reform often requires a sustained commitment over a generation and a comprehensive design that include: building elite specialized anti-crime units, increasing the numbers of police and improving their training, changing the basis of promotion in police forces, designating the use of violence and deadly force by police as the last resort, and expanding police exchanges with local communities and expert groups – to name just a few components. Reducing corruption in the police forces and expanding their investigative capacity are imperative for increasing their effectiveness in combating organized crime and for improving relations with local communities. Nonetheless, both represent difficult components of police reform, especially during times of intense criminal violence when law enforcement tends to become overwhelmed or apathetic, and all the more susceptible to corruption.

### ***Judicial and Prison Reform***

Police reform is of limited effectiveness if the justice and corrections systems are lacking in capacity and/or riddled with corruption. Increased effectiveness of law enforcement is crucially correlated with increased prosecution capacity. In the absence of effective prosecutions, criminals sent to prisons and subsequently released become only more hardened and capable criminals. Poor correction systems often facilitate the formation of organized criminal groups: Rio de Janeiro's notorious *Comando Vermelho*, for example, originated in prisons.

Justice system reforms have experienced some remarkable improvements in Latin America. Colombia's justice system, for example, has become far more capacious than it was twenty years ago; and innovative policies, such as *Casas de*

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eds., *Public Security and Police Reform in the Americas* (Pittsburgh: University of Pittsburgh Press, 2005).

*Justicia*, have extended access to formal justice sectors to segments of Colombian society that previously were unable to avail themselves of formal dispute resolution mechanisms and redress of grievances. Other countries in Latin America, such as Mexico, have moved away from their traditional inquisitorial systems of justice and adopted accusatorial models to improve the speediness and effectiveness of their criminal prosecution and to reduce corruption. But implementation of such reforms continues to be a major challenge and the resulting outcomes tend to be very context-dependent. In Guatemala, the effectiveness of the UN-facilitation mechanism to boost the effectiveness of Guatemala's justice system, the International Commission against Impunity in Guatemala (CICIG), continues to be challenged by persisting penetration of justice sector institutions by organized crime and other corruption.

Thus, despite some promising developments, the capacity of justice system in Latin America continues to be lacking and large segments of Latin American populations do not have access to or confidence in formal justice systems. Like the justice-system sector, correction systems in Latin America also require urgent attention. Brazil has been experimenting with some policy changes for its prison setups, but their effectiveness has not yet been established. Undertaking effective reform in this sector tends to be very challenging, and greater attention and knowledge-based policy design is urgently needed.

### ***Illegal Arms Trade***

Facing intense crime-related violence, many Latin American countries have called for strong efforts to combat the illegal trade in small arms, much of which originate in the United States. U.S. gun laws are very permissive and encourage high prevalence of small arms in U.S. society. In turn, they facilitate gun smuggling.

The Obama Administration has recognized the joint responsibility for combating the illegal weapons trade and has undertaken a number of initiatives and measures, such as reducing illegal weapons flow southward from the United States. However, the permissiveness of U.S. gun regulations makes it difficult for even intensified law enforcement to greatly increase the percentage of weapons flows interdicted.<sup>32</sup> It also makes the burden of proof very onerous, complicating the chance for effective prosecution. Moreover, as in drug interdiction, the paradoxical effect of intensified interdiction is to significantly increase profits for gun smuggling, thus motivating new innovative smugglers to enter the illegal market. Furthermore, the illegal market in small arms is fully integrated globally and even if the United States was able to greatly reduce weapons flows, other suppliers, in the absence of worldwide controls on arms smuggling, would step in.

It is also important to note that violence in criminal markets is not predominantly driven by the prevalence of small arms, although its patterns undoubtedly are. Small arms are very prevalent in the U.S, yet violent crime rates tend to be far smaller in the United States than in many Latin American countries (though arguably, they might be even lower if the controls on small-arms possession were stronger). The same international drug trafficking organizations, such as Mexican groups, that do not shy away from quick resort to arms against rivals and against local enforcement units in Latin America act with a far greater restraint in the United States. Thus, the deterrent capacity and strength of law enforcement

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<sup>32</sup> Eric Olson, “Challenges and Opportunities for the U.S. and Mexico to Disrupt Firearms Trafficking to Mexico,” Testimony before Senate Committee on Foreign Relations, Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs, *A Shared Responsibility: Counternarcotics and Citizens’ Security in the Americas*, March 31, 2011.

(or the lack of it) and the effectiveness of the justice sector critically impacts violent behavior and crime-related violence more than weapons prevalence.

The deterrent effect of law enforcement and internal criminal market dynamics, such as the strategic calculus of criminal groups and their ability to establish a balance of power in their territories, tend to be more powerful determinants of strategic violence in criminal markets. Evidence suggests, however, that the prevalence of small arms importantly impacts the levels of unpremeditated violent crime and the escalation of street crime and domestic disputes into weapons crime. When Sao Paulo, for example, undertook weapons collections drives in its shantytowns after Brazil greatly tightened its weapons laws, the resort to violence in street disputes significantly declined.<sup>33</sup> However, strategic warfare among organized drug trafficking organizations in Sao Paulo, never as intense as in Rio de Janeiro's *favelas*, continued. At the same time, gun-smuggling became more vertically integrated in Sao Paulo and conducted by professional organized groups, while mom-and-pop-type enterprises were eliminated from the market.<sup>34</sup>

### ***Anti-Money laundering Measures***

Officials in both the United States and Latin America have keenly focused on using anti-money-laundering efforts (AML) to bankrupt DTOs. As drug-related violence in Mexico has escalated, for example, Mexico's President Felipe Calderón has repeatedly suggested that if the United States did more to stop money flows to Mexico--including bulk cash flows--Mexican DTOs would be significantly weakened. Mexico has been debating whether to toughen its

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<sup>33</sup> Author's interviews with conflict-reduction NGOs in Sao Paulo, Brazil, January 2010.

<sup>34</sup> Author's interviews with criminologists and anti-gun NGOs in Sao Paulo, January 2010.

AML measures, such as to limit transactions conducted with cash and ATM withdrawals and to increase bank due-diligence and reporting requirements.<sup>35</sup>

Historically, the United States has emphasized AML mechanisms in its counternarcotics, anti-crime, and counterterrorism approaches and insisted that many Latin American countries embrace stringent AML policies. The United States, for example, helped Colombia adopt an extensive anti-money-laundering regime in the 1990s that is widely regarded as a model of very comprehensive AML regulation. Similarly, during the 2000s, the United States emphasized counterterrorism objectives in its demand that Caribbean countries close down their off-shore financial havens and adopt the same due-diligence requirements as financial businesses located on U.S. territory, or else risk being prosecuted for violating U.S. anti-terrorism laws or be blacklisted by the United Nations and other international anti-money-laundering regimes. (Many of the island financial centers have objected that the supposed counterterrorism objective of the AML measures has been merely a cloak to level the playing field for U.S. business, with dubious effects on financial flows to terrorist groups.)<sup>36</sup>

However, the level of effectiveness of AML measures remains unclear, and is often highly contingent on specific susceptibilities of the target. Thus, there is a great variation

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<sup>35</sup> William Buckey and Gabriela Salazar Torres, “Mexico’s Proposed Anti-Money Laundering Law,” *Haynes and Boone’s Newsroom*, July 5, 2011, [http://www.haynesboone.com/mexican\\_anti-money\\_laundering\\_law/](http://www.haynesboone.com/mexican_anti-money_laundering_law/).

<sup>36</sup> For details on the U.S. promoted AML infrastructure and objections from other countries, see, for example, Bill Mauer, “From Anti-Money Laundering to ... What? Formal Sovereignty and Feudalism in Offshore Financial Centers,” in Anne Clunna and Harold Trinkunas, eds. *Un governed Spaces: Alternatives to State Authority in an Era of Softened Sovereignty* (Stanford: Stanford University Press, 2010): 215-232.

in the effectiveness of AML efforts to constrain dictators, bankrupt rogue regimes, such as North Korea and Iran, deprive terrorist groups of financing, and weaken criminal groups. For example, U.S. officials believe that U.S. efforts to deprive the al Qaeda terrorist organization of money, and stop especially its very visible financial flows from major companies in the Middle East and possibly from other semi-legal ventures, such as African diamond trade, have been highly effective.<sup>37</sup>

But such success appears to remain more of an exception than a standard outcome. Overall, efficacy rates of AML are rarely assumed to surpass 2-5 percent of laundered flows.<sup>38</sup> Money-launderers have a large menu of options at their disposal, such as cash smuggling, currency exchange bureaus, front companies, purchase of real estate, securities, trusts, casinos, and wire transfers to name a few.

In the case of Colombia, despite robustness of the regulatory regime, AML measures seemed to contribute little to reducing the attractiveness of the drug trade and other illegal ventures for drug trafficking organizations or to weaken the groups' operational capacity. Direct interdiction measures – such as arrests of key traffickers and DTO's middle layer – seemed to have a far more pronounced effect in weakening the drug trafficking groups and reducing their capacity to

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<sup>37</sup>Stuart Levey, "How We're Tying Up Terrorists' Cash," *Christian Science Monitor*, December 24, 2008, and Stuart Levey, "Loss of Moneyman Big Blow to al Qaeda," *Washington Post*, June 6, 2010. For al Qaeda's financing from the African gem trade, see Douglas Farah, *Blood from Stones* (New York: Broadway Books: 2004).

<sup>38</sup> See Peter Reuter and Edwin M. Truman, *Chasing Dirty Money* (Washington, DC: Institute for International Economics, 2004). See also, Peter Reuter, "Introduction" and "Conclusion" in Peter Reuter, ed., *Draining Development? The Sources, Consequences and Control of Flows of Illicit Funds from Developing Countries* (Washington, DC: World Bank, 2011), forthcoming.



corrupt and coerce. Although Colombia's banking system appears to have been cleaned up from intense penetration by drug money that characterized it in the 1980s, informal banking and money laundering systems emerged and have been used by criminal groups.<sup>39</sup> Penetration of illicit proceeds belonging to paramilitary groups and post-paramilitary *bandas criminales* into Colombia's political system and overall economy also appears to continue unabated.

AML measures, however, have other benefits than only the promise of reducing financial flows to belligerent actors. Intelligence developed by following the money can illuminate the extent of the target network and supplement other sources of intelligence, facilitating physical interdiction operations. Like Racketeer Influenced and Corrupt Organizations Act (RICO) laws, which establish culpability on the basis of merely belonging to a prohibited organization, AML legislation can facilitate prosecutions on the basis of the AML law itself when evidence is not available to prosecute criminals for predicate crimes.

However, stringent AML measures adopted without a careful consideration of the full scope of their impact can have undesirable side-effects. Apart from the alleged effect of putting businesses at a competitive disadvantage, they can in fact reinforce the informal economy in a country by pushing everyday legal transactions from the formal banking system into an informal one, along with illegal transactions. In Latin American countries, where the informal economy often

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<sup>39</sup> Francisco Thoumi and Marcela Anzola, "Illegal Capital Flows and Money Laundering in Colombia," in Peter Reuter, ed., *Draining Development? The Sources, Consequences and Control of Flows of Illicit Funds from Developing Countries* (Washington, DC: World Bank, 2011), forthcoming.

equals the size of the legal economy and where fiscal capacity of the state is very limited, such a reduction of the formal economy can be more detrimental overall to the State than the presence of illegal monies in the overall economy. AML measures thus need to be designed in ways to also reinforce and enlarge the formal economy.

## **CONCLUSIONS**

Efforts to strengthen the State in Latin America will facilitate what local governments can accomplish against organized crime. An indispensable component of State-strengthening capacity in Latin America is reforming the law-and-order apparatus and the justice sector so that it can provide public safety and rule of law for all of its citizens. But States in Latin America would be more effective in combating transnational organized crime if they also focused more on combating street crime. This would provide new opportunities for cooperation with the United States, where innovative local community-policing programs have been experiencing considerable success in recent years. The needed comprehensive law-enforcement and justice-sector reforms would involve expanding police presence and limiting police corruption, brutality, and abuse as well as more strongly emphasizing community policing.

The governments in Latin America are also likely to become more effective in combating crime if they intensify their focus on the socio-economic issues that underlie key aspects of criminality and informal and illegal economies in Latin America. Expanding economic and social opportunities for underprivileged marginalized populations can facilitate community cooperation against organized crime. If the manifestation of the State becomes benevolent by providing legal economic opportunities for social development and legitimate and reliable security and justice, many root causes

of transnational crime would be addressed, and belligerent and crime organizations delegitimized. Latin American citizens would become both far less interested in participating in illicit economies and far more willing to participate with the State in tackling transnational crime.

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