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Colombia: Seeking Prosperity through Peace

Laura E. Arme y, Nake M. Kamrany, Danielle N. Ramirez

The recent global transition to a more diffuse distribution of economic power points to a shift in the balance of global growth from rich to low- and middle-income economies. Colombia may be a prime example as its recent rapid per capita income growth of 10.2% on average since 1999 points to the potential for Colombia's convergence to the ranks of rich countries. However, Colombia's economic growth has been constrained by over 40 years of a costly and ineffective drug war policy that has failed. The illicit activity of drug production and trafficking grosses approximately \$10-\$20 billion a year; it does not enter into the GDP accounting. In addition, the FARC (Revolutionary Armed Forces of Colombia) has stifled Colombia's drive towards economic prosperity. Barring the social and political impasse, the economy would flourish.

Inequality in distribution of wealth, land, and income in Colombia, which is among the highest in the world, is at the forefront of ongoing conflict. The result appears to be in part an abandonment of legitimate market activity, and an entrenchment of violence that threatens to undermine future growth.

Drug trafficking dominates the Colombian black market economy; Cocaine is produced at \$1,500/kilo and is sold in American streets for as much as \$50,000/kilo. With so much profit to be made in drug trafficking, many government officials fall victim to temptation. This is part the reason why Plan Colombia has only provided the world with false hope. Colombians have rightfully lost faith in their government and crime goes largely unreported, which only provides more incentives and opportunities for criminals who have little fear of being caught.

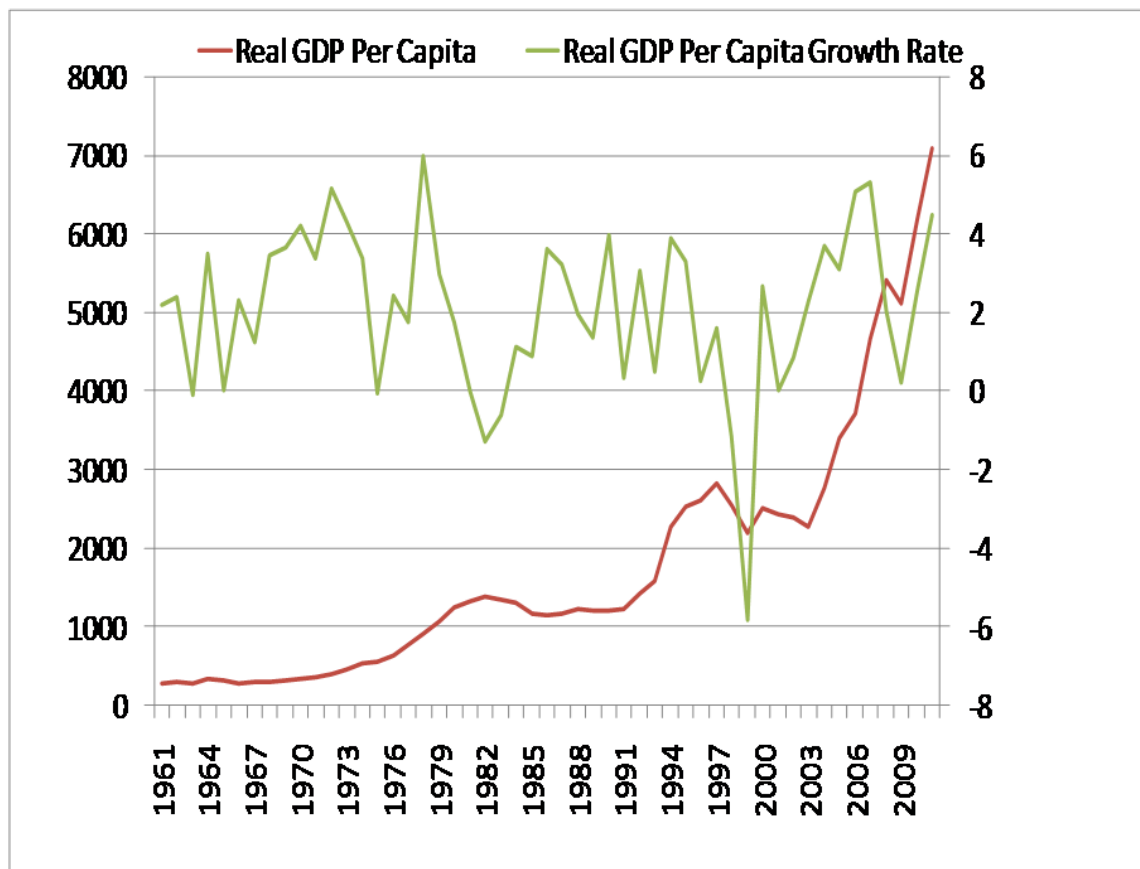
Moreover, the aid from Plan Colombia ends up targeting poor Colombian farmers, only strengthening the leftist guerilla groups and drug cartels that Plan Colombia is intended to uproot. The Colombian government has been at war with these organizations since 1966. Plan Colombia has instigated violence from the FARC because it focuses resources on aerial herbicide spraying to kill the coca plants that cocaine comes from. The herbicides are also killing the legal crops of the small Colombian farmers. Moreover, farmers complain that the herbicides damage their health and water. These farmers suffer unremunerated losses and resentment grows. They, in turn, support the leftist groups who protect them from the injustice of the government, and rely on these groups to bring drug crops to market through an inhospitable environment at high profits to the guerillas.

To combat this resentment, Colombia must address corruption and dramatic income and land inequality. Corruption has led to a loss of trust in the government amongst the Colombian population. Corruption must be rooted out of the government so that it can finally put an end to the drug problem and the violence and crimes that come with it through public trust. Taken together, addressing these problems, the Colombian government, with the help of international forces, must make it economically unappealing for the FARC's guerilla fighters to continue fighting in support of the FARC's leaders and their ideology. Economic incentives

and transition must be offered to these fighters that surpass the benefits they receive for fighting and help them become part of productive economic activity. No doubt the FARC's mission will become superfluous when Colombia's per capita income rises and distribution becomes more equitable. Indeed, the end of the FARC-Government conflict would also free many of Colombia's resources that would be put to better uses instead of being wasted on the exhausting civil war. Also, currently the FARC provides armed protection for the Colombian drug cartels that operate out of the land that the FARC controls. Without this strong demand for protection, the drug cartels would be automatically weakened. With the major drug cartels gone, peace could invade Colombia.

II - Colombia's Economic Prospects

Colombia, nestled in the northern part of South America, with 46 million people and a GDP of \$333.4 billion, is the fourth largest economy in the continent. Although Colombia's per capita GDP is well below the United States', following a crisis in 1999, a rapid increase can be seen starting around the year 2000.

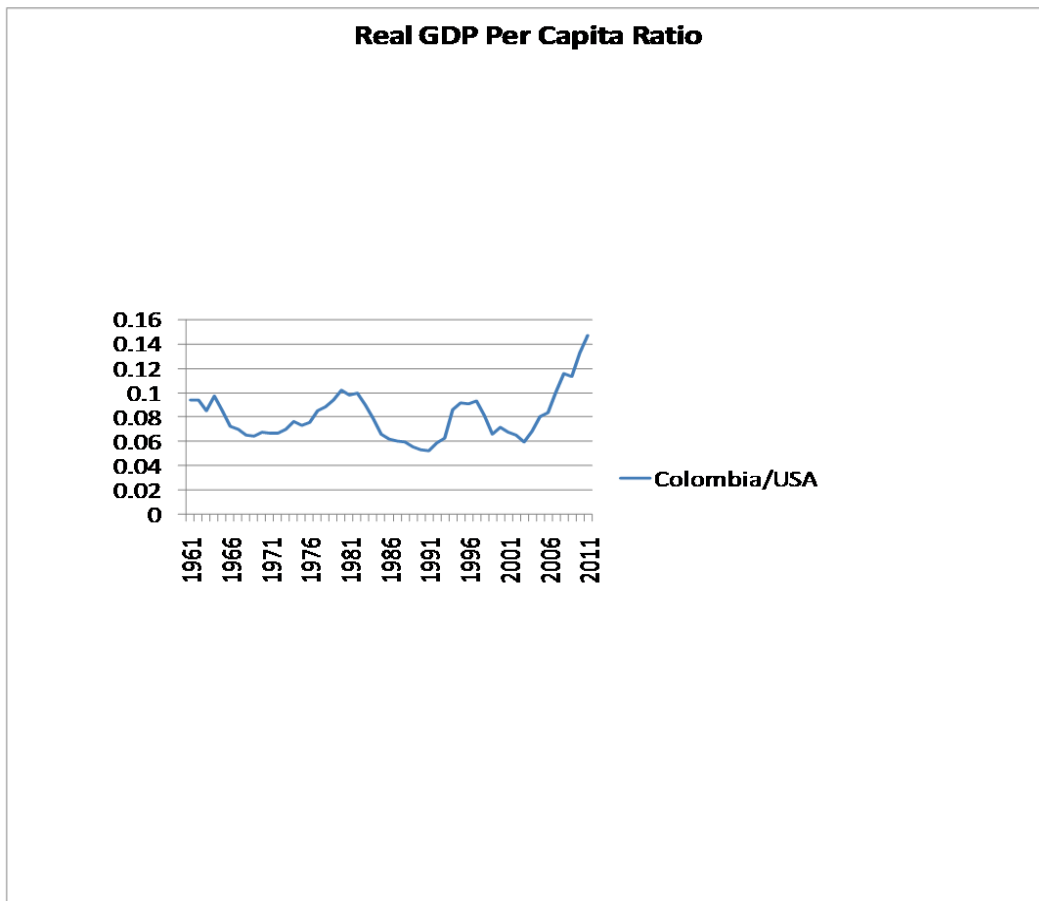
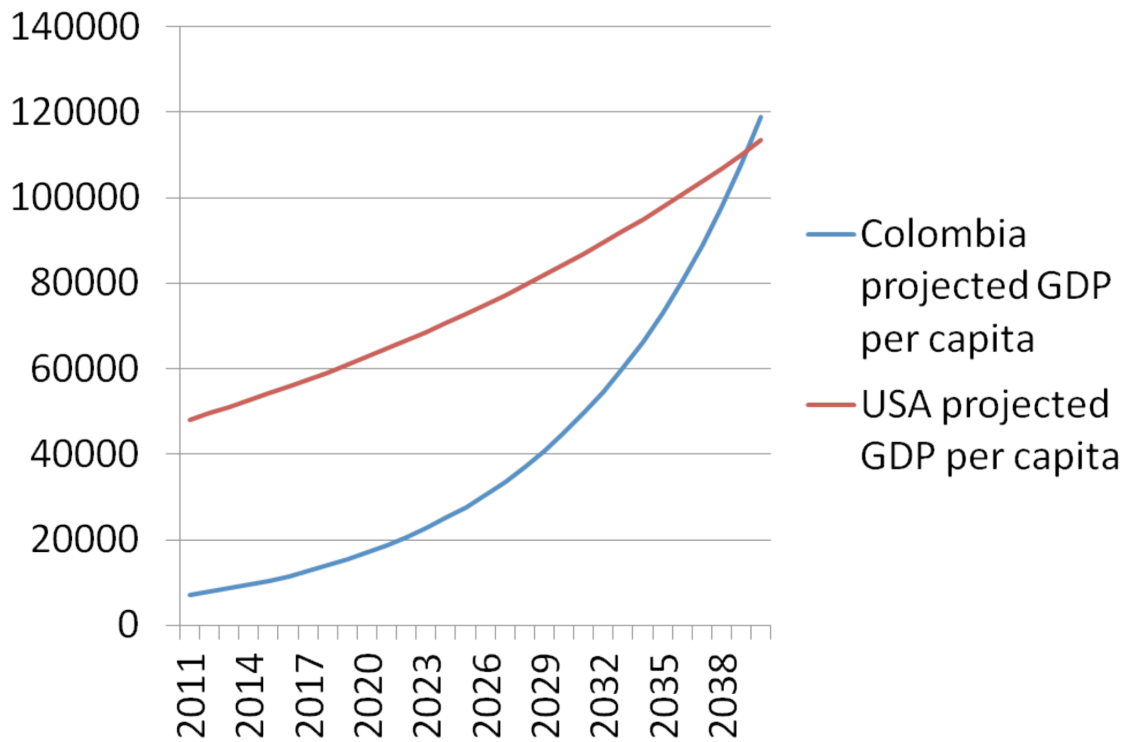


Despite economic shocks, Colombia has experienced solid growth since the 1980s, avoiding most of the implications of the debt crisis at that time which

negatively impacted the rest of Latin America. Notably, however that growth has been accompanied by an increase in volatility, and in the 1980s was reduced by reductions in total factor productivity. (Riascos & Vargas, 2011)

Considering recent increases in Colombia's GDP per capita at 10% per annum, there is great potential for economic convergence, and in fact, estimates point to a possible convergence of GDP per capita between Colombia and the United States in roughly 29 years, i.e. by the year 2040. Modeling Colombia's future growth through mean projection, ordinary least squares trends and evidence of unconditional income convergence is shown by looking at both quintile regression, all point to a similar time frame for economic convergence. Moreover, the presence of an S-shaped growth explains the observed rapid progression of per capita income convergence. This reconciles the current observations with the well-documented stylized hypothesis of twin peak distribution of income.

Over the past century the world has become increasingly globalized. With this, a trend of per capita GDP convergence can be observed between already developed and developing countries. Kamrany and Vassilev (2010) explain the drivers of economic conversion: "This converging process is mainly achieved through the successful transfer and implementation of technologies by developed countries to less-developed countries. Using developed countries such as the United States of America as a benchmark; the focus is on the development of the respective growth rate of the GDP per capita income of less developed countries." The phenomenon we observe in Colombia is consistent with this recent global transition from stagnant economic growth performance in the developing world to dynamic growth. It corresponds with a shift in the distribution of economic growth in favor of low and middle-income countries in the global economy such as China, India, Brazil, and Colombia among others.



Looking at Colombia's economic indicators, there are several positive trends that make convergence possible. Colombia is experiencing enhanced productivity and a shift from relatively low-value added industries to higher value-added industries. Colombia's annual growth rate of per capita productivity (income) of Colombia as well as its advances in technological growth, abundance of natural resources, control of fertility rate and educated labor force place it among the middle income countries which are poised to reach the ranks of the first world within the 21st century. The World Bank reports Colombia's capital formation (as a percent of GDP) as 23% in 2011 compared to the U.S.'s 15%. The value added of the industry sector, as a percentage of GDP, is relatively close for the two countries with Colombia at 38% and the U.S. at 20%. Problematically, the United States' value added of the services sector as a percentage of GDP is well over that of Colombia's with 79% and 55% in 2010 respectively. Colombia is more agricultural, 7% of its GDP comes from agriculture, compared to roughly 1% for the United States in 2011. Colombia's inflation was high but not overly problematic 7% in 2011 compared to the U.S.'s 2% in the same year. Colombia's external debt, while relevant to its economic prospects, is not overly pressing as the 51st most indebted nation in the world. ("World Development Indicators," n.d.)

Social indicators, indicate a generally positive environment for economic growth. Adult literacy in Colombia is at 93% compared with 99% in the United States. Life expectancy is 75 years in Colombia compared to 78.4 in the United States. Infant mortality is still problematically just over double that of the United States at 15.92 per 1000 in 2012, and birth rates remain slightly higher in Colombia at 17.23 per 1000 compared to the U.S.'s 13.70 per 1000. ("CIA World Factbook: Colombia," 2012))

Early Colombian development was largely driven by industrial policies that began in the 1950s. These policies included trade protection and tax exemptions. Significant growth, industrialization and modernization have taken place, but only after the debt crisis of the 1980s that was a result of these measures. (Meléndez & Perry, 2010)

In recent years, however, Colombia has experienced a renaissance in the deployment of modern technologies and systematic industrial policies. Ostensibly, Colombian leadership has promoted industrial and services upgrading. The agricultural sector used to be the biggest for Colombia but has since been surpassed by the services and industrial sectors. Currently the services sector makes up over half of GDP, whilst the industrial sector follows not too far behind with 37.6%. Other drivers of growth and prosperity include the rapid growth of trade and finance, a growing equity market, public finance, educational development and incentives to attract more trade and talent. ("World Development Indicators," n.d.)

International investment, as well as tourism, has greatly increased over the recent years, largely in part to the Santos administration's favorable commercial relations and crackdown on corruption and the drug war. Moreover, the country is currently awaiting the implementation of a free trade agreement with the United States. Colombia is also negotiating other free trade agreements with additional countries. (CIA The World Factbook)

However, Colombia seems caught in a web of violence, drug trade and corruption that may hamper its long run growth potential. Political indicators could be harbingers of slow growth ahead (Perotti, 1996). Political indicators show wide spread corruption and lawlessness, despite being Latin America's longest running republic. The World Bank's governance indicators for 2011 show some improvement since 2009, but the picture is not promising political stability scored -1.25, rule of law is at -.26, control of corruption at -.31, and accountability at -.15. ("Worldwide Governance Indicators," n.d.) Colombian welfare is distributed unequally across Colombia, and in regions like Montes de Maria, politicians use aid for development money for their own personal gain and eliminate companies that would bring actual development to the region. (Acemoglu & Robinson, 2012c) Thus corruption is a real impediment to development, especially in the poorest regions of Colombia.

Ongoing violence in Colombia undermines stability and economic growth. Several authors have attempted to understand the impact of violence on Growth in Colombia. Colombia has one of the world's highest homicide rates. Both (Cárdenas, 2007) and (Rubio, 1995) estimate that the high homicide rate in the 1980s and 1990s cost Colombia 2 percentage points per year in economic growth, plus an additional 0.7% of growth through reductions on aggregate investment. Cárdenas similarly finds that the "slow down" in total factor productivity Colombia experienced between 1980 and 2000 was largely driven by its growing homicide rate and inequality. Using a 3SLS approach to directly test the impact of conflict on growth, (Riascos & Vargas, 2011) estimates that the increase in the intensity of the Colombian conflict slowed GDP per capita growth by 0.3 percentage points per year on average in the 1990s. This impact is primarily through a reduction in total factor productivity growth and through a reduction in accumulation of capital. To deal with omitted variable bias, (Borrero, 2003) addresses department specific fixed effects. His results find similar reductions in growth from increases in homicides, kidnapping, and actions of illegal armed groups.

Recent authors have attempted to understand the channels by which violence impacts economic growth. Camacho and Rodriguez (2010) show that firms are more likely to exit markets when violence increases. (Rodríguez & Sánchez, 2012) also find that armed conflict exposure encourages children over age 11 to drop out of school early. (Adriana Camacho, 2008) even traces negative growth back to the negative impact on infant health from a mother's exposure to terrorism during pregnancy. (Vargas, 2012), on the other hand, does not find consistent impacts of violent incidents on growth.

Dramatic inequality also threatens Colombian development. With an income-Gini coefficient of 0.51 and land Gini of 0.86, Colombian inequality is amongst the highest in the world (Cárdenas, 2007). This is despite a trend in Latin America towards a growing middle class. A growing number of Latin Americans find their basic needs met, but feel they are lacking economic security: a growing lower middle class. Cárdenas estimates that at least 43% of all Latin Americans have changed classes between the late 1990s and the 2000s. Intergenerational mobility, however, has remained stagnant, with educational attainment remaining largely determined on the basis of parental education levels. (Cárdenas, 2007)

In his paper, "Fiscal Policy in Colombia: Tapping Its Potential for a More Equitable Society", (Moller, 2012) claims that the poor, in Colombia and other Latin American countries are largely left out of the benefits of development, feeding the cycle of violence and stalling growth. The middle class has been the primary beneficiary of social security transfers, and has been allowed to avoid paying taxes by opting out of government services. A 2010 LAPOP survey demonstrates that the majority of Colombians believe that the government should address inequality, and 42% are willing to pay higher taxes for this to be a reality. (Moller, 2012) explains that the tax base is far too small - less than 2% of Colombians "actually declare income and pay personal income taxes", because of the extremely high threshold. Individuals have to earn three times the average household income per person before being liable to income taxes in Colombia, and then tax exemptions are available. He goes on to explain that "Income tax exemptions raise the Gini coefficient by 0.7 percentage point and cost the treasury close to 1 percent of GDP in revenue forgone". Furthermore, "independent low-income workers are penalized as they are taxed presumptively at the source, without the right to reimbursements through the filing of annual income declarations". The current administration has begun implementing policies in order to address inequality.

Despite the upward mobility trend, intergenerational mobility, a better proxy for inequality of opportunity, remains stagnant. Educational achievement and attainment remain strongly dependent upon parental education levels. Despite the recent growth in pro-poor programs, the middle class has benefited disproportionately from social security transfers and is increasingly opting out from government services. Central to the region's prospects of continued progress will be its ability to harness the new middle class into a new, more inclusive social contract, where the better-off pay their fair share of taxes, and demand improved public services. (Moller, 2012)

Colombia's economic convergence with the United States is in fact possible if the country could resolve some of its major issues. Here we have developed the cost of inequality, corruption, and violence to Colombia's growth. In the next sections we look at the history of ongoing violence in Colombia, the drug trade, and possible ways out of a viscous cycle of illegal activity and violence that hampers Colombian prosperity.

III A history of violence

Colombia's history has been riddled with political division, unstable central government, and civil war. Colombia's struggles with common identity are rooted in some of these political divisions. Unfortunately, the vacuum they create, is a perfect environment within which the drug business has taken hold.

Founded in 1848, Colombia was the first constitutional government in South America, and its Liberal and Conservative parties are two of the oldest surviving political parties in Latin America. A civil war ensued in 1863 leading to the creation of "United States of Colombia" lasting only 23 years until the country finally became the Republic of Colombia. (Meléndez & Perry, 2010) These "United States of Colombia" developed as self sufficient units because of the vast geographic

differences and separations. In fact, “geographical heterogeneity may account for the breaking of Ecuador and Venezuela from the Gran Colombia a few years after independence.” (F. Thoumi, 2010a)

Unsurprisingly, internal divisions only continued to fester between the bipartisan political forces, once Colombia transitioned into a Republic, occasionally igniting very bloody civil wars. The most significant civil war, the Thousand Days' War (1899–1902), ultimately led to the cessation of Panama from Colombia in 1903 with help from the United States. Two decades later, in 1921, the U.S. constructed the Panama Canal and paid Colombia \$25,000,000 for compensation and recognition of Panama under the terms of the Thomson-Urrutia Treaty. (Hudson & Library of Congress. Federal Research Division, 2010)

During the late 1940s and early 1950s Colombia was engulfed in the more famous bloody conflict known as *La Violencia* ("The Violence"). The civil war, centered around tensions between the two leading political parties, erupted after the assassination of the Liberal presidential candidate, Jorge Eliécer Gaitán, on April 9th 1948. The riots, known as El Bogotazo, began in the nation's capital, Bogotá, and quickly spread throughout the country claiming the lives of almost 200,000 Colombians. The violence subsided during the decade of 1953 - 1964 when Gustavo Rojas deposed the President in a coup d'état and negotiated with the Guerrillas. During this time, the military junta of General Gabriel París Gordillo established law and order. (Hudson & Library of Congress. Federal Research Division, 2010)

Jostling for power subsided when Rojas himself was deposed and the Colombian Conservative Party and Colombian Liberal Party agreed to jointly govern the country through a coalition called the "National Front". Under the deal, the presidency would alternate between conservatives and liberals every 4 years for the following 16 years. The National Front ended "La Violencia", and subsequent administrations attempted to institute far-reaching social and economic reforms. However, the political and social discord and contradictions between each successive Liberal and Conservative administration made it impossible to reach agreement. (Hudson & Library of Congress. Federal Research Division, 2010)

In addition, discord with the compromise led to the emergence of leftist guerrilla groups such as the FARC, ELN and M-19 who continued to fight the government. The Revolutionary Armed Forces of Colombia (the People's Army), infamously known as the FARC, is the largest Marxist-Leninist guerilla organization and has been at war with the Colombian government since 1966. These groups base their continued fight in the rampant inequality within Colombia. FARC funding comes primarily through ransom kidnappings and taxing the drug trade out of the South Colombian region where it operates. ("Profiles," 2012) Just like the FARC, the ELN (National Liberation Army of Colombia) also fights for equality being advocates for a Communist ideology and Liberation Theory. It is the lesser known of the two Communist fighting groups but still has a sizable army of about 5,000 guerillas ("Profiles," 2012)

M-19, on the other hand, is an urban rebel group that resides primarily in Colombia's major cities. Some of M-19's founders were actually part of the FARC but broke off in order to expand past the rural areas and have a greater impact towards their cause. However, their cause was identical to that of the FARC and ELN, to fight

for the poor and overthrow the greed that plagued the government. ("Colombia: Information on the Former Guerrilla Group M-19,," 2003)

During the late 1970s, powerful and violent drug cartels emerged, most notoriously the Medellín Cartel under Pablo Escobar and the Cali Cartel. These drug cartels, in particular, have had extensive political, economic and social influence throughout Colombia. The "8000 case", the biggest political scandal of the 1990s, is infamous for revealing the extent of the cartel's political influence extended. During these proceedings, Colombia ultimately investigated the role of drug money in electing Ernesto Samper president in 1994. ("Ernesto Samper Pizano," 2013) These cartels have also financed and influenced different illegal armed groups across the political spectrum. (Hudson & Library of Congress. Federal Research Division, 2010)

The first group of Autodefensas (far-right paramilitary group) was formally promoted by the Governor of the Department of Antioquia, Alvaro Uribe, who became President sixteen years later. A coalition of drug dealers and landlords formed alliances to fight the leftist guerrillas through the creation of paramilitary groups. One such group is the United Self Defense Forces of Colombia (AUC). "This right-wing umbrella group was formed in 1997 by drug-traffickers and landowners to combat rebel kidnappings and extortion." ("Profiles," 2012) The AUC funds itself through business investors and landowners who are negatively affected by the guerilla groups, as well as through the drug trade. While initially a sanctioned counterpoint to the guerillas, the militias began to look much like the guerilla groups they were fighting. In an attempt to carry out justice and keep the peace, the Colombian government has extradited thousands of militia members to the United States to face drug charges, however, many of the most prominent and violent members have escaped any form of punishment entirely leading to much criticism of both the government and the paramilitary groups alike. ("Profiles," 2012) In 2005, the Colombian government offered the Paramilitaries a kind of truce, The Defense and Peace Law offered the paramilitary groups an opportunity to disarm and confess in exchange for sentences of a maximum of 8 years for their crimes and most paramilitary groups agreed. (Acemoglu & Robinson, 2012)

The new Colombian Constitution of 1991 included key provisions on political, human and gender rights. As further testament to the influence of the drug cartels, the new constitution initially prohibited the extradition of Colombian nationals. Because of ensuing controversy, the prohibition was repealed in 1996. (Hudson & Library of Congress. Federal Research Division, 2010) The cartels responded with terrorist attacks and mafia-style executions.

More practically, the 1991 Colombian Constitution increased checks and balances enhancing the role of Congress and the Constitutional Court, and reducing the power of the President. (Meléndez & Perry, 2010) Despite these reforms, the bloody internal conflict between guerrilla insurgent groups and paramilitary groups and effects of the drug trade continue to plague Colombia. President Andrés Pastrana and the FARC attempted to negotiate a solution to the conflict between 1999 and 2002. The government set up a "demilitarized" zone, governed by the FARC but repeated tensions led the Pastrana administration to conclude that the negotiations were ineffective. (Vargas, 2012)

With the dual goal of ending the armed conflict and promoting a strong anti-narcotic strategy, Pastrana began to implement Plan Colombia. Signed in 1999, Plan Colombia is an agreement with the United States in which U.S. military and monetary aid is given to Colombia to combat the drug cartels and the violence that comes with them. (Echeverry, 2004)

Supported by aid from the United States, President Álvaro Uribe's administration applied more military pressure on the FARC and other outlawed groups, leading to an overall improvement of security indicators. However, this improvement has been undermined by the Colombian Army's continued violations of human rights and also questionable statistics. (Hudson & Library of Congress. Federal Research Division, 2010)

President Alvaro Uribe's administration attempted to militarily defeat the insurgent groups. Security throughout Colombia improved under Uribe's watch, but at the potential cost of human rights violations and civilian casualties.

Reported kidnappings showed a steep decrease as did intentional homicides. The rate of reported abductions declined steadily for almost a decade until 2010, when 220 cases were reported between January and October. (*Human Rights Watch World Report 2011*, 2011) An overall reduction in violence has led to an increase of travel and tourism since 2002, however, the American State Department and the British Foreign Office still warn travelers from wandering into rural area where the FARC and cartels reside. (The Economist, 2006)

Colombia has experienced modest progress in the fight against insurgents. The FARC's commander in chief Alfonso Cano was killed by security forces in November 2011. He was replaced by Timoleón Jiménez, who assumed the duty of first commander just days after Cano's death. Jiménez is thought to reside in the mountain corridor covering the Department Norte and the Bolívar Department. ("Colombia," 2011) Following the demobilization of the prominent right-wing paramilitary group Autodefensas Unidas de Colombia the country has seen the rise of a number of neo-paramilitary groups that have been accused of widespread murder, drug trafficking and Land grabbing. ("Profiles," 2012)

The drug trade supports this ongoing violence, and in turn many support the rebel factions because of their dependence on the drug trade. The resulting chaos allows drug traffickers and corrupt local officials to maintain local political legitimacy.

IV - The web of the drug business

The illicit economy has evolved over time to meet the fiscal needs of competing players, and to adapt to changing counter narcotic and counter insurgent policies. The ongoing civil war enables the narco-economy at the same time as it provides financial fuel for it. In Colombia, the production and sale of drugs is equal to nearly 4% of GDP. (Echeverry, 2004) The war on drugs has entrenched the role of insurgent groups in the drug business. As Thoumi (2010) explains, most repressive anti-drug policies increase risks to low level producers and lower their returns, but have the unintended consequence that they increase the returns to the insurgents who are able to offer protection and facilitate the trade in drugs.

Prior to the 1990s the drug trade was largely limited to the Medellin and Cali Cartels. From the 1960s to the 1990s, the focus was primarily on processing and trafficking cocaine. The death of Medellin kingpin Pablo Escobar in 1993, along with the capture of much of the Cali inner-circle (Colombian president Ernesto Samper, elected in 1994, was revealed to have risen to power as a result of financial backing from the Cali, and therefore felt pressure to pursue the network to remove the black mark against himself and his country) begat the changes to the Colombian drug business in the mid 1990s ("Colombian Labyrinth," 2001). The networks became more dispersed and their leadership decentralized. These short run successes have led to the drug networks being much more difficult to track down, and make it challenging to target critical hubs and leadership.

Following the decentralization of the drug trade and the US strategy to interrupt the South American drug networks by disrupting the so called "airbridge" in the mid 1990s (policies included tearing up small landing strips and shooting down small planes whether or not they were involved in drug trafficking), which cut off the access of Colombian drug traffickers to the producers in Peru and Bolivia, Colombia became a prominent grower of Cocaine. Colombia also became the Western Hemisphere's leading heroine producer, producing a high quality lower cost heroine. ("Colombian Labyrinth," 2001)

Colombia's Cocaine growing continues to adapt to crop destruction tactics. In 2004, police discovered a new strain of cocaine plant, which drug traffickers reportedly spent over \$100 million developing, that produces a much higher yield (the plant is nearly 10 feet tall instead of normal 5 foot tall plants) and purer drug. It is also harder to kill and easier to grow in inhospitable regions. (McDermott, 2004) Along with protecting plants with molasses to make them harder to kill, these hardier strains account for how despite destroying nearly ½ the coca crop with aerial spraying, coca production has stayed constant. (Mejia & Restrepo, 2009)

The cost of the narco-economy can be measured across a variety of dimensions. In coca producing regions, (Angrist & Kugler, 2008) find that homicide and other violence is notably higher. These regions also tend to attract clashes between the government, which targets drug production, and insurgent groups who protect it and gain funding from it. This leads, however, to these coca growing regions becoming battle grounds with all of the civilian costs that that engenders in Colombia's ongoing civil war.(González & Smith, 2009)

Yet despite these kinds of costs, coca still plays an important role in giving the insurgents a foothold with local populations. (Angrist & Kugler, 2008) finds that unemployment is reduced in coca growing regions. Acemoglu and Robinson (2012b) elaborate that the drug lords and insurgents have created law and order in the parts of the country where drugs are produced, and that most of the producers were displaced from other parts of the country by the ongoing political violence. A striking example of post-government order occurs in the town of La Danta, Antioquia. Here the local militia kingpin enforces laws, engages in taxation including that of the drug lords, and invests in local community development. (Acemoglu & Robinson 2012b)

Insurgents further play a role in protecting the local populations from the abuses of drug traffickers as well as in helping drug traffickers get their goods to

markets. Local populations are thus ingratiated to the insurgents. Attempts at crop eradication only strengthen the bond between insurgents and local populations. (Felbab-Brown, 2010) Keefer and Loayza (Keefer & Loayza, 2010) reiterate that crop eradication has increased the productivity of remaining coca crops in the Andean region.

Political disparities and resentment towards the government help create the environment in which coca thrives. Thoumi (2010) explains that to have a competitive advantage in drug production a country needs to both be hospitable to growing drugs, but also to having a complex illegal system that exists within its borders. These kinds of countries must not only have a vacuum of power, but also a place where social norms allow evading legal authority. He goes on to explain how the web of violence grows with drugs - the Medellin cartel had close connections with law enforcement through helping establish a right wing militia to counter the left wing guerrillas.

Most policy solutions to the drug-violence-poverty web depend on a more lenient U.S. drug policy. (Krebs, Costelloe, & Jenks, 2003) use a theoretical model and simulations to argue that levels of interdiction would have to be too high to effectively curb drug trafficking or that drug use would have to be made legal to lower the benefits of smuggling. Becker, Grossman, and Murphy (Becker, Murphy, & Grossman, 2006) similarly argue that taxation of legal drugs might be a more effective and less costly way to reduce consumption. (Echeverry, 2004) finds that empirically the demand for drugs appears to be fairly price inelastic, and as a result the war on drugs has the primary impact of increasing prices not reducing consumption. Using similar simulations to the above authors, Mejia and Restrepo (Mejia & Restrepo, 2009) calculate that a three fold increase in US counter-narcotics funding would only reduce consumption in developed countries by 15%. More troublingly, Keefer and Loayza (Keefer & Loayza, 2010) observe that prices for cocaine and heroine have been dropping because of increased supply not decreased demand.

The irony of the illegality of drugs, is that it further impoverishes the farmers who produce it in addition to subjecting them to violence. Risk increases as a result of crop eradication that poor farmers, often not viewed as criminals within their own world view and community, are forced to endure. In addition, because the crops are illegal, the profits to the grower are much lower as the trafficking network requires greater compensation to get drugs to market. (Keefer & Loayza, 2010)

The narco-economy thus creates a kind of poverty trap whereby people become more dependent on it because of the policies that are meant to destroy it, and people become more tolerant of the traffickers and the insurgents because they depend on them for their livelihood. Violence perpetuates the drug trade, making people more dependent on durable crops such as coca, and it also provides the financial fuel for violence to continue. It flourishes because of weak institutions and in turn weakens them.

The challenges to Colombia's peace that stem from drugs are multi-fold. Certainly if the narco-economy were tamed, insurgents would find themselves politically and financially disadvantaged. But the policies currently underway to try to deal with the narco-economy only entrench it further.

V - Unraveling the problem

"I think we have to stop pretending to ourselves that all the violence, misery and dissension that afflicts Latin America is the result of a plot hatched thousands of kilometers away, as if we couldn't imagine any other destiny, for ourselves than being at the mercy of the global powers" Gabriel Garcia Marquez (Osorio, 1991)

We could argue in this section, that developed countries are to blame for Colombia's problems and that Plan Colombia, along with its failures, has entrenched the rebels and created greater divisions in Colombian society. We could argue that Colombia would be better off if America would change its drug policy. We could argue that Colombia would be better off if America would simply stop spending money on crop eradication. But America cannot untangle Colombia's problems. So we encourage, rather, forward movement on the part of Colombia and its allies to find a peaceful solution to its problems. We think this solution stems from making the whole of Colombian society part of the solution, including giving the FARC a stake in the outcome of Colombia. We also believe it rests in tapping into a common Colombian identity, intolerant of violations of law and violence against fellow Colombians.

Arguably, the drug trade continues in Colombia because of a lack of common identity across Colombia and feelings of distance from the authority and benefits of the central government. Francisco Thoumi (2010) argues that comparative advantages in drug production emerge in places where there are marginalized ethnic groups, a weak central state, and internal conflict. Groups who have good reasons to feel isolated from the state, often perform the bulk of illegal activity. Additionally, social norms must allow for the evasion of the law. That is, a broader segment of society is tolerant of undermining law and order. (F. E. Thoumi, 2007) This means that the problem of drugs is grounded in a problem of identity, and Colombia must struggle to realign the identity of its marginalized groups with its population as a whole and its legal structure.

Colombia's cultural leaders have charted a way forward towards that kind of common identity. Gabriel Garcia Marquez calls Colombians to identify with their pan-latin heritage: "to understand our current problems, we have to go back to the time before the Conquest. The borders that were drawn between the Latin American countries were only created to manipulate us, and still, whenever there's a need for it, the cry of nationalism goes up. Obviously, that only sets us against one another, stops us from seeing and feeling the problems that we have in common. Each country has its own special circumstances, but what really matters is our underlying common identity." (Osorio, 1991) Almost mournfully, Marquez, in the same interview, asks for Colombians not to fight over issues of "inequality, oppression, exploitation and neglect" but rather to answer such injustice with life. German Arciniegas, also considered a very prolific Colombian writer and intellectual, was an undying proponent of the potential for the success of Latin American culture. He answered a series of pamphlets by Giovanni Papini who argued, in 1947 that Latin America was a failure. He wrote: "America is a common project, of people, of

European immigrants, united with blacks and Indians, in the formation of what [Mexican philosopher] Vasconcelos called the 'cosmic man'." (Ambrus, 1997) Sadly, this voice feels all too lost in the midst of the Colombian conflict. We cannot overstate the importance of finding this kind of common ground in recreating an identity to build an environment that fosters peace.

The Peace Process

The Peace negotiations of the Pastrana Government between 1998 and 2002 were a dismal failure. The government granted the guerillas their own territory, which the guerillas in turn used as a safe haven for securing their grasp on the drug business and mounting future attacks. The Uribe government did its best to undo the "peace process" escalating the conflict and the policy of drug eradication, in an effort to make continued violence appear pointless. (Echeverry, 2004)

On November 4th, 2011 Alfonso Cano, the FARC's leader was killed opening up a new chapter in this conflict. His replacement Timoleon Jimenez is considered one of the "least visible of the rebel commanders" ("Colombia," 2011) and it was difficult to predict what his reign would mean for the vicious war that has lasted a half century. However, despite continued armed conflict, the FARC, under Timoleon Jimenez, agreed to participate in peace talks with the Colombian government; leading many to believe there might actually be hope for a brighter Colombian future.

There was much buzz and anticipation in the coming months for the peace talks that were scheduled to take begin on October 2012 in Norway. Unfortunately, despite all of the excitement and perhaps overly inflated hopes, the Colombian government and the rebel army could not agree on anything, not even to jointly participate in a temporary cease-fire. ("Colombian peace talks resume in Havana," 2013)

In order for the second round of peace talks taking place in Havana Cuba in early 2013 to be successful, the two groups will undoubtedly need to make tough concessions. Promisingly, the government argues for the FARC to legitimize itself and use the political system to fight for its cause. But the Colombian government has some hard choices as well. The FARC has had staying power because the Colombian government has failed take the FARC and their voice seriously, and has not adequately addressed many of the legitimate complaints that strengthen the FARC's cause. Without honoring the FARC's legitimacy, the hope that they would behave legitimately is unrealistic. Treating the FARC as a legitimate entity, despite its distasteful past, may help facilitate peace. Addressing the issues that enrage much of the population and give the FARC power, is even more important.

The FARC has legitimate issues they wish to address but it must also take its role in creating peace and prosperity seriously. The FARC's argument that "Land ownership issues" are at "the root of the problems" that Colombian peasants face is reasonable, and there are policy solutions to begin to ameliorate the inequality in land rights in Colombia. The FARC, for its part however, has refused to be a legitimate voice for the rights of Colombia's poor, arguing instead that they "want to denounce the crime of capitalism and neo-liberalism". ("Colombia Peace Talks

Launched,” 2012) This position, obviously, is not tenable, and keeps the FARC from being able to address the real issues it has aptly identified and fought a war over.

Effective Drug Policy

Clearly the counter-narcotics strategy of crop eradication has failed, but there are barriers to making a crop replacement strategy effective. Crop eradication policies play a role in entrenching insurgents. They potentially harm the environment more broadly along with the health of peasants, though evidence to this end is mostly circumstantial. More significantly, aerial spraying does not occur the proscribed distance above the ground, which leads to damage to water supplies and neighboring legal crops, making development more rather than less difficult. This points to an overall lack of coordination to date between aerial spraying, alternative development, and state-financed infrastructure development (Sherret, 2005). While we argue that continuing aerial spraying is expensive and harmful, a first step might point towards coordination of efforts.

There is mixed evidence on the effectiveness of crop replacement programs. Peru, through crop substitution and alternative employment programs, successfully replaced nearly 50% of its coca production (Mejia & Restrepo, 2009). Promising stories abound of communities in Colombia that have replaced coca production with licit production. (Ferrer, 2004) for a community that replaced coca with coffee in Colombia.) Unfortunately, efforts have stalled in Peru, and in Colombia, because although one region or project may succeed in replacing coca, other producers and regions step in to fill the void in production. (Mejia & Posada, 2010)

Many of the factors that make coca an attractive crop in certain regions create challenges in replacing it. (Reuter, 2010) enumerates the challenges of successful crop replacement programs: one must persuade farmers that the government will maintain its commitment long term. With political instability, it can be difficult to convince people that the government can provide protection and infrastructure to get more sensitive crops to market. In places where land is poor quality, it can be hard to find substitute crops. The U.S. has reduced its funding for crop replacement, relative to crop eradication, citing a lack of security, lack of follow through from the Colombian government and the difficulty in finding crops to grow in bad soil.

Perhaps, most persuasive is the idea that crop replacement works best where it is grounded in cultural norms and in a greater policy of development. In the story of the community that replaced coca with coffee, community leaders claimed it was a way to help “reinststate values”. Strikingly, projects to replace poppy crops in Afghanistan have been most successful when coupled with a push towards Islamic values. (Byrd, William, 2010)

There appears to be a glimmer of hope that the new peace process may lead to a commitment by both the Colombian government and the FARC towards crop replacement. President Santos has said that coming to terms on a policy for crop replacement will be part of the peace process. (Stringer, 2012)

Effective development could help ameliorate the grievances that drive the FARC. Making the FARC a stake holder in Colombia's future development could help them cease being an impediment to the process. Moreover, if Colombia's government and warring factions are all involved, there is a chance it might be part of an adequately total makeover that could move the economy in a better direction.

But if the peace process cannot work, if the two sides cannot be reasonable and come to an agreement, our argument, at the end of the day, is very simply one of crowding out. Eliminate the need for the FARC by addressing economic grievances and with a drug policy that decriminalizes growing Coca. The Colombian government must exploit the inroads it has to make its people better off, and to focus on development not winning a futile war on drugs. Colombia has experienced incredible amounts of economic growth, and this growth ultimately gives Colombia the potential to address unemployment, poverty, and shortages of food, medical care, and education. Colombia must work to combat the corruption and violence that diminish the impact of the benefits of this growth, and we hope that the Santos government will continue on its course to address massive inequality that also limits the benefits of growth. In so doing, we think Colombia can unravel the underlying causes of violence, and push itself forward.

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