

Poverty and Drug Wars: On U.S. Aid to Latin America

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Latin America is one of the areas with severest inequality in the world. It is also the largest supplier of illicit drugs to the United States. Drug problem is, to a large extent, related to prevalent poverty in the area as many civilians, militias, businesses and even governments are involved in drug trades induced, on one hand, by big benefits as well as poverty avoidance and, on the other, by big money infused by the U.S. in the name of foreign aid to counter drug traffic, the so-called “war on drugs”. The U.S. economic assistance, particularly through the USAID, is one of the most important aspects in U.S.-Latin American relations and, for a great part, is destined to eradicate poverty instances in the region. However, the U.S. money seemed not only unable to reduce the seriousness of poverty through such programs as alternative plantation but also stimulated a rise in local wars and violence which in some cases forced the U.S. government to cut down aid funding because of war-weariness.

Drug policies and strategies at all levels too often continue to be driven by ideological perspectives, or political convenience, and pay too little attention to the complexities of the drug market, drug use and drug addiction. Effective policymaking requires a clear articulation of the policy’s objectives. The 1961 UN Single Convention on Narcotic Drugs made it clear that the ultimate objective of the system was the improvement of the “health and welfare of mankind” (United Nations, 1961). This reminds us that drug policies were initially developed and implemented in the hope of achieving *outcomes* in terms of reduction in harms to individuals and society—less crime, better health, and more economic and social development. However, we have primarily been measuring our success in the war on Drugs by entirely different measures—those that report on *processes*, such as the number of arrests, the amount seized, or the harshness of punishment. These indicators may tell us how tough we are, but they do not tell us how successful we are in improving the “health and welfare of mankind.”

In this paper, we will first clarify the role of drug control in the U.S. foreign aid to Latin America and the recent changes in this trend. And then we review some literature on the effects of international aid on receiving countries’ development, especially the lack of effectiveness and its explanations. In the third section, we point out specific factors why the U.S. war on drugs through aid did not fare so well, especially in recent years. This leads to the fourth section where we ponder on the initiatives and development of decriminalization in Latin American region and elsewhere on trade and usage of drugs. And lastly there are some concluding remarks.

U.S. Aid and Drug Wars

One stated goal of U.S. foreign policy in Latin America and the Caribbean (LAC) is to help “**Combating the drug trade** and reducing violence that threatens econom-

ic growth and political stability by helping coca producers transition to legal crops in South America and creating safe urban spaces, supporting community policing, educating vulnerable youth and strengthening justice systems in Mexico, Central America and the Caribbean” (USAID, 2014, emphasis in original). A set of U.S. policies in LAC, under the rubric of the “War on Drugs” (WOD), describes a set of programs pursued by various U.S. administrations, beginning with the Nixon administration, aimed at reducing the use of illicit drugs in the United States. The hallmark of these policies is that increasingly supply disruption strategies have been favored over demand curtailment. However, the Obama administration seems to be receptive to a new approach, as indicated by the “drug czar” Gil Kerlikowske’s call for a change in domestic U.S. policy to what he refers as a “middle way” (Los Angeles Times, 2010). This can be seen from Table 1 that aid through narcotics control has reach a peak of \$225.7 million in 2007 before it dropped to just over \$1 million in 2012.

Table 1 Selected Items of U.S. Assistance to LAC (in constant dollars)

	Department of Defense Security Assistance	Development As- sistance	Narcotics Control
1974			20,826,178
1975			56,552,855
1976			36,171,019
1977			14,155,247
1978			333,468
1979			31,819
1980			66,921
1981			216,460
1982			933,758
1983			628,757
1984			1,782,769
1985			3,397,417
1986			4,787,082
1987			11,762,104
1988			18,047,792
1989			1,587,729
1990			1,325,294
1991			1,061,484
1992			1,930,818
1993			1,176,141
1994			1,531,493
1995			1,267,167
1996			1,901,621

1997	1,709,169		3,085,784
1998	660,826		3,594,161
1999	2,927,423	31,422,023	1,628,511
2000	13,309,872	28,999,305	24,493,663
2001	15,221,881	29,540,658	15,801,463
2002	10,390,080	50,515,562	6,345,022
2003	7,069,833	34,728,392	17,525,332
2004	19,225,192	30,981,882	7,973,957
2005	8,001,514	29,264,258	64,659
2006	11,317,912	37,335,973	293,779
2007	234,037	27,740,362	225,699,645
2008	270,935	24,944,097	47,175,990
2009	50,633,216	32,831,481	694,571
2010	1,709,169	27,094,978	2,101,218
2011	660,826	50,251,772	-22,186
2012	2,927,423	47,477,938	1,351,227

Source: USAID, Foreign Assistance: Excel Workbook

(http://gbk.eads.usaidallnet.gov/data/files/us_foreign_assistance.xlsx).

Latin America's Andean region, Mexico and the Caribbean have been the major foci of the American strategy of supply containment. The aim is to reduce production at the source as well as interdict drugs in their supply chain to U.S. consumers. The U.S. State Department's 2010 budget allocated more than \$888 million for combating international trafficking in illegal drugs in the LAC countries. This is almost half (46%) of the Bureau of International Narcotics and Law Enforcement Affairs budget and is almost 50% more than was budgeted for Afghanistan and South Asia (Bureau of International Narcotics and Law Enforcement Affairs, 2010).¹

While the drug gang atrocities in Mexico dominate recent news, U.S. strategies in the region and the concomitant fallout are not new. Few initiatives have been as dramatic as the 1989 Panama invasion that resulted in Manuel Noriega's capture and conviction in the U.S. for drug trafficking, racketeering and money laundering. Colombia, which produces 70% of the world's coca, has been a target of the WOD since President Clinton launched "The Andean Counterdrug Initiative" or "Plan Colombia" (Fratepietro, 2001).

U.S. WOD policies in the region are wide-ranging and include eradication, inter-

¹ However, the budget for LAC in the year of 2011 had been reduced to \$506 million, which was about one third of the total. See Bureau of International Narcotics and Law Enforcement Affairs (2013).

diction and criminal enforcement activities. Despite these efforts, narco-trafficking in the region has continued at an alarming level. These U.S. offensives have triggered a series of counterattacks by drug traffickers who seek to maintain this lucrative trade, often by infiltrating and corrupting institutions and setting off cascading effects that reach all areas of these societies. The “offshoring” of the battle against narco-trafficking has diffused criminal activities associated with this trade to a widespread geographic region and exacerbated criminal activities as the narco-trade flanks these frontal attacks. These unintended consequences promote corruption in struggling democracies that further undermines the rule of law in a fragile region. A recent review of crime in the Caribbean, for example, concludes that “crime and violence present one of the paramount challenges to development” (United Nations Office on Drugs and Crime, 2007: i).

International Aid, Inequality, and Poverty

P.T. Bauer spent a lifetime studying development. In 1971 he published *Dissent on Development*, sharply criticizing aid for its focus on “symptoms and effects” of poverty while “divert[ing] attention from the determinants of development.” He states that it is not his intention to set out any general theory of development but rather to voice his skepticism and put forward his own analysis of the problems and of the probable results of different courses of action. His first view is “the widely held notion that poor countries are caught in a vicious circle of poverty and stagnation” (Bauer, 1971: 31). Is it really true, he asks, that countries are poor because they started poor? Or is their poverty due to a combination of factors, low income making saving impossible and preventing capital accumulation, which in turn inhibits increased incomes? How significant are the levels of demand and the size of the market and what effect of these have on investment and on government revenues, and the scale of public services? These questions are the basis for Bauer’s examination of vicious circle thesis. After citing Samuelson, Nurkse and Myrdal, he declares that the thesis can be “conclusively refuted by obvious empirical evidence,” for if it were correct, “innumerable individuals, groups and communities could not have risen from poverty to riches as they have done throughout the world in both rich and poor countries” (Bauer, 1971: 34).

The existence of the developed countries, he claims, refutes the vicious circle idea as they too all started off with low incomes. Bauer goes on to argue that in fact considerable development has taken place in many poor countries, notably Malaysia, Hong Kong, and parts of Latin America and West Africa. The idea of the inevitably widening gap between rich and poor countries “appears to describe situations, but is actually designed to urge courses of action, especially the granting of foreign aid”

(Bauer, 1971: 68). This is part of Bauer's argument which causes most uneasiness. If he is right, then developing countries will either accumulate capital themselves, albeit slowly, or attract it from foreign investors because of the presence of favorable factors, such as stable government combined with resources awaiting development. There must surely be a case for using foreign aid for infrastructure work associated with private or public sector development and for pump priming. The fact that spurious arguments are sometimes used to justify aid does not rule out the chance that it may benefit the recipients.

William Easterly provides evidence against the "legend" that "the poorest countries are stuck in a poverty trap from which they cannot emerge without an aid-financed big push" in his *The White Man's Burden* (Easterly, 2006). He used data on per capita income from 1950 to 2001 for 137 countries, from a statistical compilation done by Angus Maddison. He ranks countries according to their per capita income in 1950. When he broke the sample in half into those poor countries that had above-average foreign aid and those that had below-average foreign aid, he found identical results for 1950-2001 in both halves. Over 1950-2001, countries with below-average aid had the same growth rate as countries with above-average foreign aid. "Poor countries without aid had no trouble having positive growth" (Easterly, 2006: 39).

In a recent book titled *Lessons from the Poor* about successful entrepreneurs in the developing world, Alvaro Vargas Llosa echoes these insights. "The decisive element" in bringing a society out of poverty is "the development of the entrepreneurial reserves that exist in its men and women," he writes. "The institutions that grant more freedom to their citizens and more security to their citizens' possessions are those that best facilitate the accumulation of wealth" (Vargas Llosa, 2008).

The U.S. Aid cum WOD in Decline

As we mentioned above, a clear foreign policy rule set has existed between the United States and Latin America, centering largely on the question of counternarcotics. Starting with Richard Nixon's "war on drugs," an explicit quid pro quo came into existence: U.S. foreign aid (both civilian and military) in exchange for aggressive Latin American efforts to curb both the production and trafficking of illegal narcotics (primarily marijuana and cocaine). By virtually all accounts, that logistics-focused strategy has proven to be a massive failure. America's focus in interdiction and prohibition has not stemmed domestic drug abuse. Instead, all indications are that preventive education—on a general scale—has proven far more effective, meaning that demand reduction has trumped supply curtailment as a means of reducing overall prevalence (see, e.g., Office of Justice Programs, 2000; United Nations Office on Drugs and Crime,

2004).

In the meanwhile, across Latin America, there has been widespread movement toward decriminalization. Many people realized that the benefit of remaining on the U.S. side have been overwhelmed by the negative externalities of overcrowded prisons, rampant drug-related violence, police corruption, and growing organized criminal networks. In summer 2012, 110 victims of Mexico's violence drove in a "Caravan for Peace with Justice and Dignity" from Mexico through the United States, ending up in Washington, D.C. They called for a new approach to the tragic violence that has claimed over 60,000 lives in Mexico. They asked for the U.S. to take responsibility for stopping the flow of assault weapons that arm the cartels; to end a "militarized" approach to drug policy; to pass comprehensive immigration reform; and to support policies that would protect their communities, not escalate the violence (Isacson *et al.*, 2013: 3).

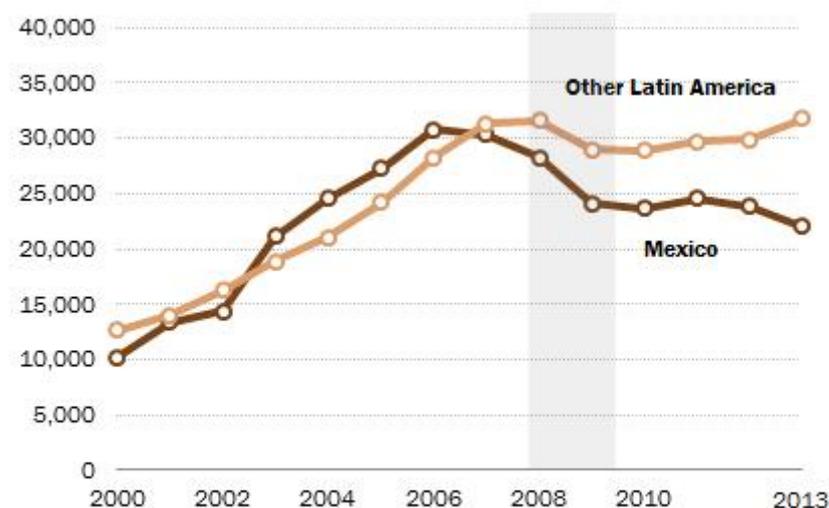
There are some explanations for this broad rule-set shift. First of all, the rising of a substantial middle class across Latin America is ending the popular mindset of economic dependency on the United States. It is undeniable that the more impoverished and/or "resource-cursed" regions still feature an anti-American populism. Yet the future of Latin America is not more pro-Chavez, but rather more of the confident global leadership exemplified, in recent years, by Brazil's charismatic president, Luiz Inácio Lula da Silva. Hugo Chavez may build ties with fellow rogue regimes, but Lula got the summer Olympics. The size of Latin America's middle class recently expanded to the point where, for the first time ever, the number of people in poverty is equal to the size of the middle class. Despite the recent growth in pro-poor programs, the middle class has benefited disproportionately from social security transfers and are 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 (Ferreira *et al.*, 2012).

Secondly, U.S. foreign aid to the region no longer has the monopolistic pull it once did. The U.S. development aid is now minor compared to the remittances that flow from Latino guest workers living in the United States (see Figure 1 and Table 1) and the foreign direct investment coming from Asia—especially "rising" China. However, research is inconclusive about the impact of remittances on receiving countries. Some studies have found that labor force participation declines in households that receive remittances, hurting economic growth (Chami *et al.*, 2003). Other studies focused on the impact of remittances in Mexico have found that, at the state level, remittances improve regional labor markets by raising employment levels (Orrenius *et al.*, 2012). On the other hand, foreign direct investment (FDI) flows into Latin Ameri-

ca and the Caribbean grew more rapidly than those for any other region in 2010 (compare Table 2 with Table 1) (ECLAC, 2010: 25). Chinese direct investment in Latin America gained significant momentum in 2010, when Chinese transnationals invested over \$15 billion in the region, the vast majority in natural resource extraction. It is the third largest investor in the region, behind the United States and the Netherlands (ECLAC, 2010: 17-18). The government of LAC may be able to take advantage of this investment impetus to create new paths to development by, for instance, tying the exploitation of raw materials to the construction of public infrastructure, or by offering incentives to establish domestic industries for processing these resources.

Total Remittances Received in Latin America and Mexico, 2000-2013

In millions, 2013 U.S. dollars



Notes: Shading indicates U.S. recession. 2013 are World Bank estimates. "Other Latin America" comprises Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. Remittance flows for 2005-2013 use a different methodology than 2000-2004; for more details see text box.

Figure 1

Source: World Bank Annual Remittances Data Inflows, Oct. 2013; cited from Cohn *et al.* (2013).

Table 2 Foreign Direct Investment from China in Selected Economies of LAC (in millions of dollars)

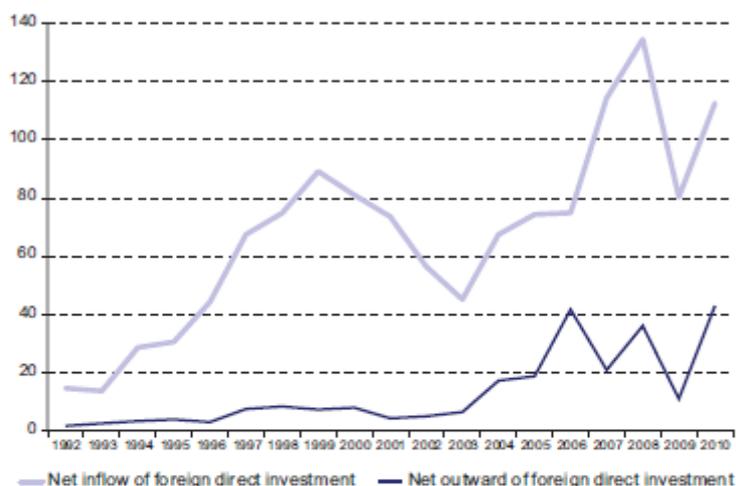
	Confirmed investments		Investments announced
	1990-2009	2010	2011 onwards
Argentina	143	5,550	3,530
Brazil	255	9,563	9,870
Colombia	1,677	3	--
Costa Rica	13	5	700

Ecuador	1,619	41	--
Guyana	1,000	--	--
Mexico	127	5	--
Peru	2,262	84	8,640
Venezuela (Boli- varian Republic of)	240	--	--
Total	7,336	15,251	22,740

Source: ECLAC (2010), Table 1.

Thirdly, globalization means that Asian and European trade is becoming far more important to Latin America over time (see table 3). While the United States is still the most important trade partner overall, China has already become Brazil's top trade destination, and the EU's level of trade with the region is breaking records on an annual basis. In 2005-2010, the Latin American and Caribbean region was the fastest-growing trading partner for China and the second fastest for Japan. China's exports to and imports from LAC expanded nearly twice as fast as its total exports and imports in that period. As a result, the region's share in China's trade gradually rose from a very low base to nearly 6% in 2010 for both exports and imports. During the same period, Japan's exports to LAC outgrew those to any other destination market and its imports from the region were surpassed only by those from the Community of Independent States (CIS) (ECLAC, 2011: 15). So it is no surprise that Latin America no longer sees its economic future held hostage to America's good will.

**LATIN AMERICA AND THE CARIBBEAN: INWARD AND OUTWARD
FOREIGN DIRECT INVESTMENT, 1992-2010^a**
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as at 15 April 2011.

^a FDI figures indicate inflows of foreign direct investment, minus disinvestments (repatriation of capital) by foreign investors. Outward FDI figures indicate outflows of direct investment by residents, minus disinvestments abroad by those investors. The FDI figures do not include the flows received by the main financial centres of the Caribbean. The outward FDI figures do not include the flows originating in these financial centres. These figures differ from those contained in the editions of the Economic Survey of Latin America and the Caribbean and the Preliminary Overview of the Economies of Latin America and the Caribbean published in 2010, as the latter show the net balance of foreign investment, that is, direct investment in the reporting economy (FDI) minus outward FDI.

Figure 2

Source: ECLAC (2011).

Table 3 Latin America and the Caribbean: Share of Selected Partners in Total Exports and Imports, 2000 and 2010 (in percentages)

	Asia-Pacific		United States		European Union		Latin America & the Caribbean		Rest of the world	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Exports	5.3	17.2	59.7	39.6	11.6	12.9	16.0	19.3	7.4	11.0
Imports	10.6	27.2	50.4	29.1	14.2	13.7	15.3	22.7	9.5	7.3

Source: ECLAC (2011), Table 3.

Fourthly, Latin American states have realized that sticking with America's WOD is the wrong path to take regarding the transnational threat of terrorism in this age of expanding globalization. The global drug trade comes to roughly one-third of a trillion dollars per year, with Latin American cartels obviously controlling a large portion of that flow. Two organizations, in particular, have come to dominate the trade,

El Chapo's Sinaloa Cartel and the Zetas. The Zetas were born out of a Mexican Special Forces unit that defected in 1997. True to their origin, they developed a military approach to organized crime, using brutal violence to seize and control territories. The Sinaloa Cartel, in contrast, is the General Electric of drug trafficking: a multinational parent company with hundreds of subsidiaries and service providers across the world (Bargent, 2014). As virtually all transnational terror groups are simultaneously globalizing criminal enterprises, the lure of Latin American drug trafficking money naturally attracts their networking. In other words, America's WOD strategy actually encourages an influx of global terror connectivity with Latin America that otherwise would not likely occur.

Decriminalization

As the U.S. aid policy through WOD is in decline, we have seen a wave of decriminalization efforts across Latin America over the past decade, with Argentina and Mexico recently joining Brazil, Colombia, Ecuador, Paraguay and Uruguay in passing laws that make personal (small-scale) possession and use of illicit narcotics a civil rather than a criminal offense—prosecution results in treatment and community service instead of imprisonment. The intended goal is simple: detach consumption from trafficking in a legal sense so as to encourage the social attractiveness of treatment, as studies show that most addicts resist the court-ordered treatment pathway primarily out of the fear of legal consequences (see, *e.g.*, McVay *et al.*, 2004).

Decriminalization is not to be confused with complete legalization, which attaches no penalties whatsoever to personal use and possession of drugs. Nor should it be conflated with the abandonment of policing illegal trafficking—efforts continued in those countries mentioned above. Mexico, as mentioned above, has suffered tens of thousands drug-war related deaths and in 2009 alone the death total has reached 10,000 (Barnett, 2009). Latin America is clearly rejecting prohibitionist model of the U.S. As a report by the Global Commission on Drug Policy claimed, “The global war on drugs has failed, with devastating consequences for individuals and societies around the world. Fifty year after the initiation of the UN Single Convention on Narcotic Drugs, and 40 years after President Nixon launched the US government's war on drugs, fundamental reforms in nations and global drug control policies are urgently needed” (Global Commission on Drug Policy, 2011: 2).

The U.S. has resisted any alternative to its prohibitionist drug policy. But signs of a possible shift are starting to bubble. At the 2012 Summit of the Americas in Colombia, the Obama administration said that legalization was worthy of debate. And during a visit to Mexico in March that year, Vice President Joe Biden called the debate over drug legalization “legitimate,” but he underlined that the Administration

would not alter its stance opposing legislation (Serrano, 2012). Nevertheless, on November 6, both states of Washington and Colorado voted to allow adults over age 21 to use pot, but they have taken different approaches to their new laws (Sherwood, 2014). A little over a year after Colorado and Washington legalized marijuana, more than half the states, including some in the conservative South, are considering decriminalizing the drug or legalizing it for medical or recreational use. The two states considered likeliest this year (2014) to follow Colorado and Washington in outright legalization of the drug are Oregon and Alaska (Lyman, 2014).

Latin America has repeatedly called for the United Nations to arrange an international conference on drug-policy alternatives that go beyond more prohibition. On November 27, 2012 the U.N. General Assembly has voted in favor of a motion, initially put forward by Mexico, Colombia, Guatemala, Costa Rica, Belize and Honduras, to hold a special session on Global drug policy. The resolution received the support of 95 countries present and the drug policy summit is scheduled to take place in 2016 (Bargent, 2012). Spending precious economic resources on a “one-size-fits-all” approach to drug interdiction, sanctioned internationally by the United Nations, can no longer be justified and has come at the expense of proven public health policies, according to a report by the London School of Economics. Instead, the report says, governments should redirect resources toward harm reduction programs and expanded access to medicines (Collins, 2012). “There is an increasing recognition among world leaders that the war on drugs strategy has been a disaster,” John Collins, lead author of the report, said recently (Serrano, 2014).

In the meantime, according to a Cato Institute report, the poster boy of the legalization camp, Portugal, enjoyed tremendous success in battling drug abuse within its borders by decriminalizing personal possession and use of marijuana, cocaine and heroin. The key results are: rates of drug usage have not increased—and lifetime prevalence rates have decreased; drug-related pathologies (sexually transmitted diseases, death by overdose, etc.) have decreased dramatically; treatment rates have skyrocketed; and trafficking flows (which remain illegal) have dropped significantly. Portugal already had one of the lowest drug abuse rates in the EU before the law went into effect. But eight years later, that is still the case. Most tellingly, after almost a decade of experimentation, Portugal’s citizens still overwhelmingly favor keeping the law in place (Greenwald, 2008).

Anyway, the long-term reality seems in favor of a decriminalization approach. With the 21st century shaping up to be one of profound advances in biology, leading to longer lives and thus a far higher proportion of elderly populations, “better living through chemistry” is already becoming a widely accepted social norm.² Drug pro-

² The phrase “Better Living Through Chemistry” is a variant of DuPont advertising slogan, “Better

hibition is largely a 20th-century phenomenon that will not long survive in the coming age of the super-medicated individual.

Conclusion

There are signs of inertia in the drug policy debate in some parts of the world, as policymakers understand that current policies and strategies are failing but do not know what to do instead. There is a temptation to avoid the issue. This is an abdication of policy responsibility—for every year the U.S. continues with the current approach, billions of dollars are wasted on ineffective programs, millions of citizens are sent to prison unnecessarily, millions more suffer from drug dependence of loved ones who cannot access health and social care services, and hundreds of thousands of people die from preventable overdoses and diseases contracted through unsafe drug use.

Many Latin American countries deeply realized and actively implemented alternative approaches that have been proven feasible or even effective to tackle these problems. Domestically, some states in the U.S. are also adopting decriminalizing measures on some recreational drugs. President Obama is reluctant but persuadable in discussing policy changes with his southern neighbors. Acknowledging that the “war on drugs” has not been effective, Mr. Obama has said he thinks of drugs as “more of a public health problem” (Condon, 2011). The question is how far he is willing to change. It will be necessary, though, for the U.S. to follow up this new rhetoric with real reform, by reducing its reliance on incarceration and punishment of drug users, and by using its considerable diplomatic influence to foster reform in other countries, especially those of the Latin America.

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Things for Better Living. . . Through Chemistry.” DuPont adopted it in 1935 and it was their slogan until 1982 when the “Through Chemistry” part was dropped. The statement is used for commentary on several topics, from the promotion to prescription or recreational drugs, to the praise of chemicals and plastics, to the sarcastic criticism of the same.

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