



# Backgroundnder

## Executive Summary

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## TIME TO CHANGE U.S. STRATEGY FOR THE ANDEAN REGION

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United States policy toward the Andean region, which has focused predominantly on curbing drug cultivation and trafficking, has been ineffective. Rather than reduce drug trafficking and cultivation, the policy merely shifted it to other areas around the region, and Colombia's drug traffickers have forged cooperative relationships with guerrillas and paramilitary groups. Worse, revenue from drug trafficking is financing international terrorism.

Unless a new strategy toward this region is developed, the weaknesses of past U.S. policy will undermine efforts to help the region become economically and politically more stable. Specifically:

- **The Andean countries should not be treated as a unit.** Colombia's drug and terrorism problems have grown, spilling into neighboring countries and fueling criminal activities throughout the hemisphere. In contrast, Bolivia and Peru successfully targeted the cultivation of coca, and Peru was successful in defeating the guerrillas in its territory. Meanwhile, Ecuador, primarily a drug transit country, saw progress in stopping drug trafficking. Such differences among the Andean countries call for a strategy

that addresses each Andean nation on its own needs and merits.

- **Colombia's peace process has failed despite U.S. support.** The Bush Administration inherited policies that encouraged Colombia to appease the guerrillas and make concessions, such as granting a Switzerland-sized sanctuary to the Revolutionary Armed Forces of Colombia (FARC)—the most powerful guerrilla group in Colombia, which the Bush Administration has listed as a terrorist organization. The appeasement strategy merely encouraged the FARC and other armed groups to continue brutalizing the population and cooperating with drug traffickers. President Andrés

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Pastrana of Colombia recently announced an end to the peace dialogue with Colombia's leftist guerrillas and ordered them out of their haven because of their ongoing attacks on the people, government, and infrastructure of that country.

- **U.S. policy should not restrict trade and economic development.** The centerpiece of America's economic development strategy for the region is the Andean Trade Preference Act (ATPA), which seeks to strengthen legitimate sectors of the Andean economies by creating viable alternatives to the drug trade. Unfortunately, ATPA has not achieved its goal because of the limited nature of its trade concessions. A comprehensive free trade agreement would be more effective in promoting economic development.

**A New U.S.–Andean Strategy.** The Bush Administration should recognize these weaknesses in past U.S. policies toward the Andean countries and establish a new long-term strategy that looks beyond halfway measures and conditional access to the U.S. market. The Administration should:

- **Treat Colombia's drug and guerrilla problems as a security issue that is fundamentally different from the problems in other Andean nations.** Colombia's drug problem is no longer just a development and drug eradication issue; it has grown into a security threat and should be addressed as such. Bolivia, Ecuador, and Peru took strong steps to eradicate drug-related trade and cultivation or guerrilla activity. They should be encouraged to continue to exercise fiscal restraint, liberalize their economies, privatize state enterprises, control inflation, eliminate corruption, and strengthen the rule of law.
- **Support Colombia's fight against the guerrillas, paramilitary groups, and drug traffickers.** The growing power of guerrilla groups in Colombia poses a threat to the Colombian government and to regional security. The Administration should support the Colombian government's rejection of appeasement measures, offering security assistance as well as training and equipment to help it defeat the

combined problems of guerrilla violence and drug trafficking. The Administration should also dedicate security assistance and equipment to Colombia's neighbors to deal with problems that spill across Colombia's border.

- **Provide the basis for prosperity by offering a free trade agreement.** ATPA is a limited trade agreement. The United States should go beyond its trade preferences and transform it into a free trade agreement with Bolivia, Ecuador, and Peru to enable them to export more of the products for which they have a competitive advantage. Signing a free trade agreement with the United States would motivate these countries to sustain their efforts to eradicate drug trafficking and defeat the guerrillas. Once the Colombian government has demonstrated its commitment to these goals as well, the United States should integrate it into the broader economic agenda and the free trade agreement.

**Conclusion.** The United States must revise its Andean policy to help the nations of that region achieve political and economic stability. Guerrilla terrorism and illegal drug cultivation now threaten the entire region and American interests. Eradicating them must be a priority, but Colombia's problem must be treated as a separate security issue. Bolivia, Ecuador, and Peru should be encouraged to continue liberalizing their economies and strengthening the rule of law, and ATPA should be transformed into a full free trade agreement with Bolivia, Ecuador, and Peru, with Colombia joining as it demonstrates its commitment to market liberalization, eradicating drug trafficking, and defeating the guerrillas.

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## TIME TO CHANGE U.S. STRATEGY FOR THE ANDEAN REGION

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America's policy toward the Andean region, which has focused predominantly on curbing drug cultivation and trafficking, has been unsuccessful. Illegal armies in Colombia are growing more powerful and more cooperative with drug traffickers besides engaging in production and trafficking themselves. Together, these groups have become a destabilizing element in the Andean region.

For Bolivia, Ecuador, and Peru to achieve political and economic stability, they must curtail illegal drug cultivation and promote market liberalization. For Colombia to do so, it must additionally defeat its guerrilla threat and associated paramilitary backlash.

The United States should revise its Andean policy to help these nations achieve these important goals. Specifically, it should:

- **Treat Colombia as a security issue that is fundamentally different from those of other Andean nations.** The situation in Colombia, wracked by guerrilla activity and drug trafficking, is now a security issue rather than merely a drug eradication issue, and it should be treated as such. Meanwhile, Bolivia, Ecuador, and Peru have demonstrated that they do not want drug trafficking or guerrilla activity in their coun-

tries. They should be encouraged to continue to privatize state enterprises, liberalize their markets, control inflation, exercise fiscal restraint, eliminate corruption, and establish the rule of law.

- **Support Colombia in its fight against guerrillas, paramilitary groups, and the drug traffickers.** The political instability in Colombia poses the biggest problem in the region. The growing power of guerrilla groups in Colombia not only complicates the drug war, but also has become a national security concern for the United States. The Bush Administration should support the decision of the Colombian government to abandon the failed appeasement policy toward the guerrillas and provide security assistance, training,

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and equipment to help it defeat the guerrillas and drug traffickers. In addition, the Administration should dedicate security assistance and equipment to Colombia's neighbors to help prevent the deteriorating situation in Colombia from spilling across the border.

- **Provide the basis for prosperity through free trade.** The Andean Trade Preference Act (ATPA)<sup>1</sup> was enacted to help strengthen legitimate Andean economies by creating viable alternatives to the drug trade; but it is largely ineffective because it is a limited trade agreement that is based on preferences, not free trade. The United States should go beyond preferences and negotiate a free trade agreement with Bolivia, Ecuador, and Peru so that they can export more of the products for which they have a competitive advantage. Such an agreement would motivate the leaders of these countries to sustain their efforts to eradicate illegal drug trafficking and/or guerrilla activities. As Colombia demonstrates its commitment to achieving these goals, the United States should integrate it into a broader economic agenda and free trade agreement with Bolivia, Ecuador and Peru.

## TROUBLES UNDERMINING ANDEAN STABILITY

Bolivia, Colombia, Ecuador, and Peru are part of the mountainous Andean region in northwest South America. Agriculture, mining, and oil are the region's primary economic sectors, followed by fishing.<sup>2</sup> Colombia, Ecuador, and Peru enjoy access to the Pacific Ocean, facilitating the shipment of products and contributing to the development of the fishing industry. Bolivia, which is landlocked, has rich deposits of zinc, silver, and tin, as well as petroleum and significant natural gas reserves. Its semitropical valleys lend themselves to farming a variety of products.<sup>3</sup> Despite these many resources, however, these Andean countries continue to strug-

gle due to historically poor economic policies and political instability.

Economic growth in Latin America will likely slow in 2002 along with a decrease in global economic growth and the U.S. recession. This will follow declines in productivity last year. According to the World Bank, "GDP growth in Latin America and the Caribbean [declined] to 0.9 percent in 2001, down from 3.8 percent in 2000."<sup>4</sup> But as the Bank notes, "some adverse domestic conditions" are also responsible for this lack of growth. For example:

- **All of the Andean countries have experienced political instability.** Bolivia, Ecuador, and Peru have a history of military rule and coups against their civilian governments. Colombia, the oldest democracy in Latin America, is struggling against increasingly powerful guerrillas, particularly the Revolutionary Armed Forces of Colombia (FARC). Although all four countries have electoral democracies, corruption, interest groups, political opportunism, and—in the case of Colombia—a 38-year-old guerrilla movement undermine political stability.
- **While Peru defeated its guerrillas and decreased the cultivation of drug-related crops, Colombia has not.** The guerrilla group Shining Path began operations in Peru in the early 1980s. By 1988, concerted military and police actions had brought key commanders into captivity, and the dramatic 1992 arrest of Shining Path leader Abimael Guzmán ended rebel activity for the time being—albeit at some cost to the rule of law. By eliminating the guerrillas, the Peruvian government was better able to target drug traffickers. Colombia, by contrast, chose to appease guerrilla groups, to the point of granting the FARC control of a Switzerland-sized portion of Colombia in 1998. Recent reports indicate that Peru's gains are being undermined by guerrilla and drug activities

1. The Andean Trade Preference Act (P.L. 102–182, Title II) was signed into law on December 4, 1991.

2. Economist Intelligence Unit, *Country Profiles 2000* for Ecuador and Peru; *Country Profile 2001* for Colombia.

3. Economist Intelligence Unit, *Country Profile 2001* for Bolivia.

4. The World Bank, "Growth in Latin America and the Caribbean Is Down in 2001 but Prospects for Rebound Are Strong," *News Release No. 2002/###/S*, October 31, 2001, at [http://lnweb18.worldbank.org/news/pressrelease.nsf/Attachments/pr103101lac-en.pdf/\\$File/pr103101lac-en.pdf](http://lnweb18.worldbank.org/news/pressrelease.nsf/Attachments/pr103101lac-en.pdf/$File/pr103101lac-en.pdf).

spilling over from Colombia, demonstrating the corrosive effect that Colombia's problems have on the region.<sup>5</sup>

- **All four Andean countries have only partially liberalized their economies.** Despite some progress in privatization of state enterprises, liberalization of prices, and some deregulation, particularly in Bolivia and Peru, all four countries are burdened by corruption, an onerous bureaucracy, and excessive regulation. Bolivia, Colombia, and Peru are ranked in the top third of countries listed in the *2002 Index of Economic Freedom*, which measures the level of economic freedom in 161 countries by ranking their economies on a scale from 1 ("free") to 5 ("repressed"). All received a "mostly free" ranking. Ecuador has made the least progress in liberalizing its economy; its overall score fell from 3.2 in 1995 to 3.45 in 2002.<sup>6</sup>
  - **None of the Andean countries adequately protect property rights.** For the benefits of liberalization to take root, the protection of property rights is vital. A weak protection of property rights impedes investment, undermines civil liberties, and encourages corruption. This problem plagues all four countries: Each Andean country received the next-to-worst score on property rights in the *2002 Index of Economic Freedom*. But a weak rule of law particularly affects Colombia, where guerrilla groups intimidate and suborn judges and prosecutors.<sup>7</sup>
  - **All four countries are overly regulated, inhibiting the economy, perpetuating poverty, and encouraging corruption.** Over-regulation forces companies and ordinary citizens to bribe government officials in order to obtain licenses and other documentation—a very frustrating and expensive situation that forces many poor people to leave the legal economy. As economist Hernando de Soto explains in *The Mystery of Capital*, "[poor people] do not so much break the law as the law breaks them—and they opt out of the system."<sup>8</sup> The poor cannot use their salaries and possessions as collateral to obtain credit for investments and purchases. Over-regulation functions as a poverty trap that creates high costs for doing business in the legal economy, in which the poor lack the means to secure government services, and the illegal economy, in which the poor are prevented from efficiently utilizing their capital.<sup>9</sup> All four countries have problems with over-regulation and bureaucracy that impede investment and commerce.<sup>10</sup>
- Political instability, weak rule of law, and over-regulation have undermined the benefits of market liberalization for the Andean countries, but these

5. Juan Forero, "Farmers in Peru Are Turning Again to Coca Crop," *The New York Times*, February 14, 2002.

6. Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Mary Anastasia O'Grady, *2002 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2002).

7. Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, *2001 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2001). For evidence of insufficient protection of property rights in Bolivia, Colombia, Ecuador, and Peru, see, for example, U.S. Department of State, *Bolivia Country Commercial Guide FY 2002*, at [www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-BOLIVIA2002-CH--006BB658](http://www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-BOLIVIA2002-CH--006BB658): "Property and contractual rights may be enforced in Bolivian courts, but the legal process at best is time-consuming and at worst can be subject to political influence and corruption." According to the Economist Intelligence Unit, Colombia's "judiciary, in common with all other government institutions, has been susceptible to intimidation and corruption." See Economist Intelligence Unit, *Country Profile 2001* for Colombia. According to the U.S. Commercial Service, "For the most part, Ecuadorian law provides adequate protection for property rights. However, it is sometimes difficult to gain effective protection via the legal system due to problems in transparency and endemic corruption." See U.S. Department of State, *Ecuador Country Commercial Guide FY 2002*, at [www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-ECUADOR2002-CH--006E0715](http://www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-ECUADOR2002-CH--006E0715). Regarding Peru, the U.S. Commercial Service reports that, "In principle, secured interests in property... are recognized.... [However] the capabilities of individual judges vary substantially, and allegations of corruption and Peruvian government interference in the judicial system have been common." See U.S. Department of State, *Peru Country Commercial Guide FY 2002*, at [www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-PERU2002-CH--004DD742](http://www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-PERU2002-CH--004DD742).

8. Hernando de Soto. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000), p. 21.

countries—like most of Latin America—have addressed these problems only reluctantly. In addition, liberalization has made little impact on the excessive growth of the public sector. As *Wall Street Journal* “Americas” column editor Mary O’Grady explains, “Latin America’s experiment with reform...has demonstrated that efforts to adjust the economy without limiting the [size of] government are like working on the engine of a car with no wheels.”<sup>11</sup>

## LESSONS FOR A SUCCESSFUL ANDEAN STRATEGY

Stability in the Andean region and elimination of the illegal drug trade are in America’s interests. While the Andean nations share similar economic shortcomings, chronic political instability and erosion of the rule of law in Colombia surpasses that of its neighbors, principally due to the growing power of drug traffickers and guerrilla groups, requiring a different U.S. policy approach.

The serious threat posed by the guerrillas and drug trafficking extends far beyond the Andean

region. (See text box, “Colombia’s Problems: Dual Threats to International Stability.”) As the Bush Administration has stated,

The drug cartels are among the most powerful criminal groups ever to operate on American soil. No effort to stop these powerful organizations can succeed without the ability to strike at the cartel’s leadership and reach criminal activity that recognizes no national boundaries. These powerful criminal organizations also pose a threat to our democratic allies throughout the Western Hemisphere.<sup>12</sup>

The cooperation between the illegal drug industry and the guerrilla groups has created a lawless environment that brings enormous instability to the Andean region as both groups strive to increase their operations, wealth, and power.<sup>13</sup> In addition, these groups are financing international terrorism. Senator Orrin Hatch (R-UT) has remarked that “terrorist organizations routinely launder the proceeds from drug trafficking and use the funds to

9. This situation holds for Peru and Bolivia, and to a lesser extent for Ecuador, where more than half of the labor force works informally. See Economist Intelligence Unit, *Country Profiles 2000* for Ecuador, Bolivia, and Peru; *Country Profile 2001* for Colombia. In Colombia, informal employment is due mainly to the drug trade. See O’Driscoll *et al.*, *2001 Index of Economic Freedom*.
10. Although the Andean countries have improved marginally, much remains to be done. In Bolivia, the U.S. Department of State has reported that “plenty of red tape and archaic policies remain at all levels of Bolivian Government.” Bureaucratic red tape and lack of transparency continue to hinder efficiency in Colombia as well. Ecuador’s civil service, according to the Economist Intelligence Unit, “is renowned for slowing investment decisions with needless bureaucracy. Though efforts have been made to reduce size, cost and corruption at higher levels, the bureaucracy is still complex, much larger than necessary and often inefficient.” Finally, Peru’s regulatory environment is rife with red tape and the U.S. Trade Representative reports that “Executive branch ministries, regulatory agencies, and the judiciary lack the resources, expertise and independence necessary to carry out their respective duties.” See O’Driscoll *et al.*, *2002 Index of Economic Freedom*, pp. 119–120, 157–158, 179–180, and 329–330.
11. Mary Anastasia O’Grady, “Too Many Promises,” in O’Driscoll *et al.*, *2002 Index of Economic Freedom*, p. 30. The resistance of many Latin American countries to reform is encouraged by the economic crisis in Argentina, which many countries inaccurately blame on liberalization. Argentina never fully liberalized its economy. See Ana I. Eiras and Brett D. Schaefer, “Argentina’s Economic Crisis: An ‘Absence of Capitalism’,” Heritage Foundation *Backgrounder* No. 1432, April 19, 2001, at [www.heritage.org/library/backgrounder/bg1432es.html](http://www.heritage.org/library/backgrounder/bg1432es.html). Argentina’s government clung to spendthrift policies that dramatically increased debt without resulting in growth, refused to liberalize onerous labor regulations, and transformed government monopolies into private monopolies. The potential use of Argentina’s crisis to justify anti-market policies is a greater threat than the economic impact of the crisis itself. Countries should not take the wrong lesson from Argentina’s crisis—increased liberalization, not less, is a vital component of future prosperity.
12. The White House, “Combat Crime and Drug Abuse,” *A Blueprint for New Beginnings: A Responsible Budget for America’s Priorities*, at [www.whitehouse.gov/news/usbudget/blueprint/bud09.html](http://www.whitehouse.gov/news/usbudget/blueprint/bud09.html) (January 2002).
13. To be sure, illegal businesses also exist in prosperous countries, but not as easily as in countries plagued with poverty and political instability. In fact, without political instability, semi-closed economies, and poverty, drug producers and guerrillas would find it difficult to operate, much less turn their activities into large-scale operations.

support and expand their operations internationally, including the purchasing and trafficking of illegal weapons.”<sup>14</sup>

America’s efforts to address U.S. national security interests by increasing peace and security in the region and curbing the drug trade have been hindered in the past decade by:

- **Unquestioning U.S. support of Colombia’s peace negotiations.** The multifaceted war in Colombia involves the government, many guerrilla and paramilitary groups, and drug traffickers, with the civilian population caught in the middle. To appease the insurgents and negotiate a cessation of hostilities in 1998, President Andrés Pastrana granted the largest rebel group, the FARC, a Switzerland-sized parcel of land as a sanctuary. Two months later, he initiated what he called a “peace” dialogue—a series of open-ended talks that were hailed as bold and innovative.

The Clinton Administration supported Pastrana’s initiative to negotiate peace with the FARC and the National Liberation Army (ELN) and his unprecedented ceding of control of a large part of the country to the guerrillas. The European community also championed Colombia’s on again–off again dialogue with the rebel groups and participated in negotiations between the FARC, a United Nations representative, and the Colombian government’s peace negotiator beginning last March.

The peace process failed to end the conflict. On the contrary, the guerrillas used their territory to launch strikes against the Colombian military, kidnap and kill civilians, and establish their own cultivation of illicit drug crops. In August 2001, three members of the Irish Republican Army were discovered advising FARC troops on how to make bombs and anti-personnel mines inside the sanctuary.<sup>15</sup> An embarrassed President Pastrana ordered the military to patrol the perimeter, conduct surveillance flights, and keep foreigners from entering the zone. On January 14, 2002, diplomats from the observer group and U.N. envoy James LeMoyne salvaged the process with another cease-fire timetable.<sup>16</sup> Before the ink on this agreement was dry, however, the FARC dynamited a police station outside the safe haven, killed a guard and released 39 inmates from a prison near Bogotá, and blew up two power transmission pylons.<sup>17</sup>

Since then, the deterioration of the situation and the intransigence of the guerrilla groups have led the Colombian government to end the peace negotiations.<sup>18</sup> According to Colombia security expert Alfredo Rangel, “for the FARC, the negotiation continues to be a political tactic within the war” —a war it believes it can win.<sup>19</sup> The FARC’s intransigence has convinced the Colombian government that the peace process is doomed.

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14. Office of National Drug Control Policy, “John Walters Confirmed as Nation’s Drug Czar: New Office of National Drug Control Policy Director to Lead Balanced Approach to Nation’s Drug Problem,” December 7, 2001, at [www.whitehousedrugpolicy.gov/news/press01/120701.html](http://www.whitehousedrugpolicy.gov/news/press01/120701.html).
15. Scott Wilson, “Colombia’s Peace Bid at Risk; Arrests of IRA Trainers Spark Calls to Close Safe Haven for Rebels,” *The Washington Post*, August 25, 2001, p. A13. For an update, see Fabio Castillo, “Manejando con el Ira, *El Espectador*,” January 13, 2002, at [www.elespectador.com/periodismo\\_inv/2002/enero/nota1.htm](http://www.elespectador.com/periodismo_inv/2002/enero/nota1.htm) (January 16, 2002).
16. Juan Forero, “Peace Talks in Colombia Are Revived by an Accord,” *The New York Times*, January 15, 2002, at [www.nytimes.com/2002/01/15/international/15COLO.html](http://www.nytimes.com/2002/01/15/international/15COLO.html) (January 16, 2002).
17. Carlos Hamann, “Pastrana, Rebels Face New Deadline for Peace Talks Progress,” Agence France-Presse, January 16, 2002. Either those operations could not be called off in time, or FARC commander Marulanda cannot control his troops, which would make the peace process meaningless.
18. “Colombian Army Moves Against Rebels,” BBC News, February 21, 2002, at [http://news.bbc.co.uk/hi/english/world/americas/newsid\\_1832000/1832060.stm](http://news.bbc.co.uk/hi/english/world/americas/newsid_1832000/1832060.stm).
19. Hernán González Rodríguez, “¿Se acrecienta el escepticismo?” *El Espectador*, at [www.elespectador.com/opinion/nota1.htm](http://www.elespectador.com/opinion/nota1.htm) (January 23, 2002).

## COLOMBIA'S PROBLEMS: DUAL THREATS TO INTERNATIONAL STABILITY

Colombian drug traffickers and guerrillas pose a national security threat to the United States and increasingly to Europe.

- **Drugs.** Illegal drug cultivation and production from Colombia supplies up to 75 percent of all the cocaine sold worldwide. Colombia is now the source of between \$10 billion and \$100 billion worth of the cocaine consumed in the U.S. annually,<sup>1</sup> costing taxpayers an estimated \$110 billion in medical expenses and lost productivity.<sup>2</sup> Europe is third in consumption behind North and South America, and rapidly catching up. Over 220 tons of cocaine flowed to Europe last year—double the amount that entered the continent in 1996. It is believed that cocaine use in the European Union increases by 10 percent each year, rivaling the rise in cocaine consumption in the United States during the late 1970s and early 1980s.
- **Terrorism.** Guerrillas in Colombia violate human rights, attack law enforcement authorities, kill and kidnap, and pose a threat to the entire region.<sup>3</sup> The Revolutionary Armed forces of Colombia (FARC) kidnapped and fatally shot two American missionaries in Colombia in 1996,<sup>4</sup> and in 1998 abducted four American bird-watchers in the Colombian jungle.<sup>5</sup> Apart from attacking Americans, the guerrillas build ties with terrorist groups from other parts of the world. As their

strength and influence have increased, the rebels have expanded their activities and ties internationally. Colombian guerrillas are now active in northern Ecuador, eastern Panama, Peru, Brazil, and Venezuela. The FARC accepted help in making bombs and antipersonnel mines from the Irish Republican Army.<sup>6</sup> It reportedly exchanges drugs for arms through the Arellano Felix drug cartel in Mexico and through Middle Eastern smugglers operating out of Paraguay.

Both of these problems, which began in the 1960s and expanded through the 1980s in Colombia's depopulated and largely ungoverned countryside, were mostly ignored by the government. By the mid-1990s, U.S. counternarcotics assistance had helped the Colombian government defeat drug trafficking by organized cartels. But the Clinton Administration justifiably suspended U.S. assistance from 1994 to 1998 when it suspected that President Ernesto Samper received campaign contributions from drug kingpins. This suspension, however, had the unintentional effect of aiding a marriage between independent drug lords and Marxist guerrillas.

In November 1998, incoming President Andrés Pastrana found that both drug traffickers and guerrilla groups had expanded in numbers and resources.<sup>7</sup> Unsure of whether the United States would resume counternarcotics aid, and aware of America's reluctance to intervene in a

1. Based on street prices of \$20 to \$200 per gram and an estimated 500 metric tons of cocaine arriving in the United States in 2000. See National Drug Intelligence Center, "National Drug Threat Assessment 2002," December 2001, at [www.usdoj.gov/ndic/pubs/716/cocaine.htm](http://www.usdoj.gov/ndic/pubs/716/cocaine.htm) (January 14, 2002).
2. National Institute on Drug Abuse, as quoted in "2000 National Drug Control Policy Annual Report," at [www.whitehouse-drugpolicy.gov/policy/ndcs00/endnotes.html#116](http://www.whitehouse-drugpolicy.gov/policy/ndcs00/endnotes.html#116) (October 27, 2000).
3. Stephen Johnson, "Helping Colombia Fix Its Plan to Curb Drug Trafficking, Violence, and Insurgency," Heritage Foundation *Backgrounder* No. 1435, April 26, 2001.
4. Evelyn Tan Powers, "New Study Shows Upturn in Attacks Against Americans," *USA Today*, November 13, 1996.
5. David Adams, "Colombia's Leftist Rebels Kidnap Four Americans," *St. Petersburg Times*, March 27, 1998.
6. See David Lister, "Colombia Says IRA Sent 25 to Train Rebels," *The Times*, January 8, 2002, and David Williams and Michael Seamark, "IRA Man Held in Colombia 'Linked to Gerry Adams'," *Daily Mail*, August 16, 2001.
7. According to Colombian government sources, the country's illegal armies made more than \$1 billion in 1998, with half coming from the drug trade. See Angel Rabasa and Peter Chalk, *Colombian Labyrinth—The Synergy of Drugs and Insurgency and Its Implications for Regional Stability* (Arlington, Va.: RAND Corp., 2001), p. 32.



## COLOMBIA'S PROBLEMS *CONTINUED*

guerrilla conflict, he granted the largest rebel group, the FARC, a Switzerland-sized sanctuary to achieve a cessation of hostilities. Two months later, he initiated what he called a “peace” dialogue—a series of open-ended talks. The FARC has used the sanctuary to expand its operations to over 70 percent of Colombia’s countryside, increase its troop strength from 10,000 to an estimated 17,000, cultivate drug crops, hold kidnap victims, make bombs, and organize attacks on rural villages. The lack of government protection in this area led to a dramatic growth of paramilitary groups, exacerbated the violence and chaos, and contributed to the displacement of more than 1.5 million citizens and incalculable damage to infrastructure and the environment.<sup>8</sup>

The European community has become a champion of the country’s on again–off again dialogue with the FARC since six European nations joined a group of 10 “friendly” countries to witness the peace talks<sup>9</sup> on March 8, 2001, between the government’s peace negotiator and FARC leader Manuel “Sureshot” Marulanda, culminating in a declaration calling for a cease-fire. As the year pro-

gressed, the FARC refused to cooperate and finally walked out of the talks. When Pastrana threatened to close down the FARC sanctuary in January 2002, European diplomats and a U.N. emissary persuaded the guerrillas to return to the dialogue—delaying what should have been a day of reckoning for Colombia’s most dangerous group. Since then, the deterioration of the situation and the intransigence of the FARC and its kidnapping of Senator Jorge Eduardo Gechem Turbay on February 20, 2002, have led the Colombian government to end the peace negotiations.

Since September 11, both the United States and its European allies have begun to take terrorism and groups that engage in it far more seriously. Both should label Colombia’s guerrillas as drug traffickers and terrorists, and cooperate on a strategy to bring them to justice or defeat. Now that the day of reckoning is at hand, the United States and its European allies should act together to support the growing resolve of the Colombian government to defeat the guerrillas and curtail drug trafficking.

8. Between January 1999 and December 2000, rebels brought down 630 electrical pylons, while repeated attacks on the Caño Limón-Coveñas oil pipeline spilled 496,000 barrels of oil, contaminating rivers and streams, causing production to fall and the government to lose \$35 million in royalty revenues, according to Colombia’s Office of the Vice President, “Progress Report on the Presidential Program for Human Rights and International Humanitarian Law,” April 2001.
9. The group includes Canada, Cuba, France, Italy Mexico, Norway, Spain, Sweden, Switzerland, and Venezuela.

The Bush Administration reviewed the U.S. policies for the region that it inherited from the Clinton Administration but did not significantly change those policies. According to a February 2001 U.S. Department of State fact sheet,

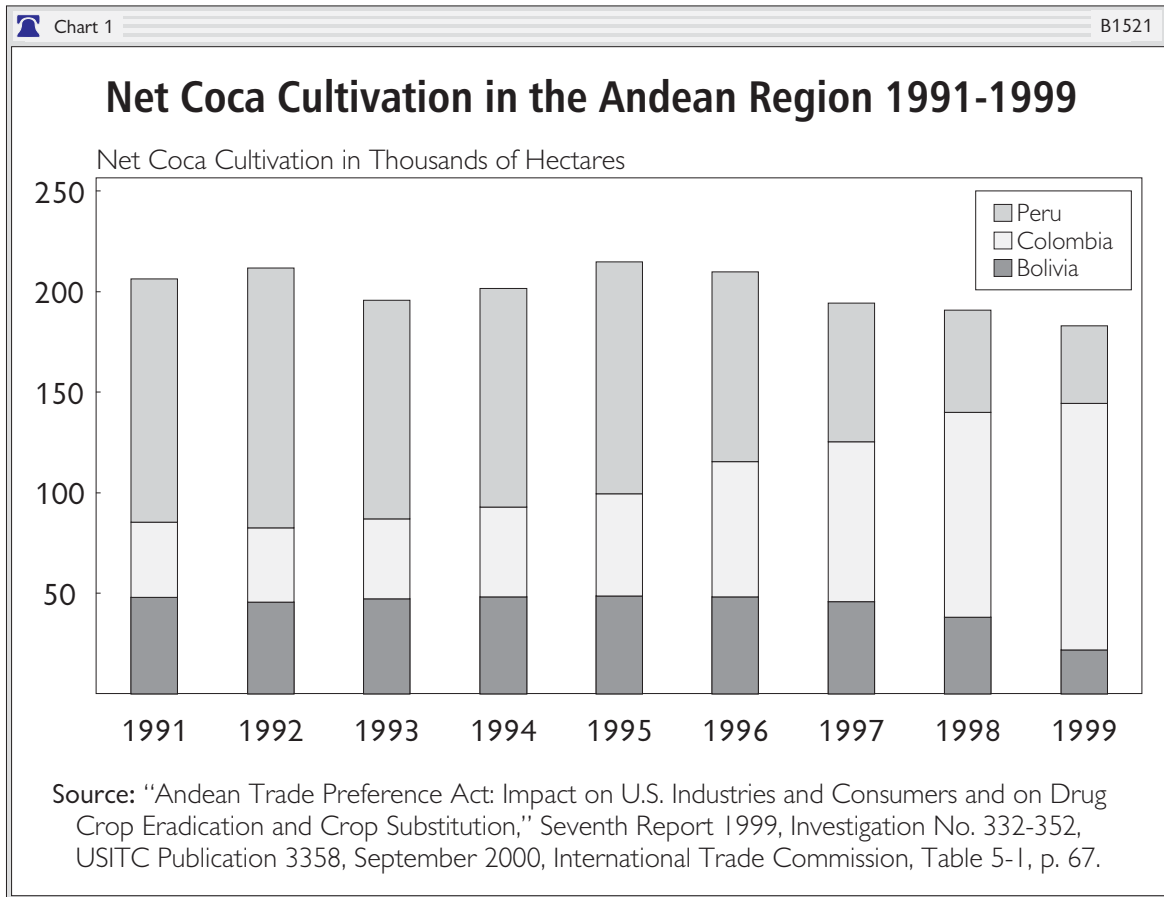
U.S. policy in Colombia is to support President Pastrana’s efforts to find a peaceful resolution to the country’s longstanding civil conflict.... Until the country’s civil conflict is resolved, sustained progress will be more difficult on all other fronts—reducing drug supply,

protecting human rights, and promoting democracy and economic development.<sup>20</sup>

This strategy was doomed to failure because the guerrillas do not want peace; they want victory, which depends in large part on revenues generated by their alliances with drug traffickers.

The chronic political instability and erosion of the rule of law in Colombia undermines the effectiveness of economic liberalization efforts. Until the government’s authority is restored throughout Colombia by defeating the guerrilla groups and curbing drug trafficking, its eco-

20. “Plan Colombia and the Peace Process,” fact sheet, Bureau of Western Hemisphere Affairs, Washington, D.C., February 20, 2001, at [www.state.gov/p/wha/rls/fs/2001/index.cfm?docid=1037](http://www.state.gov/p/wha/rls/fs/2001/index.cfm?docid=1037).



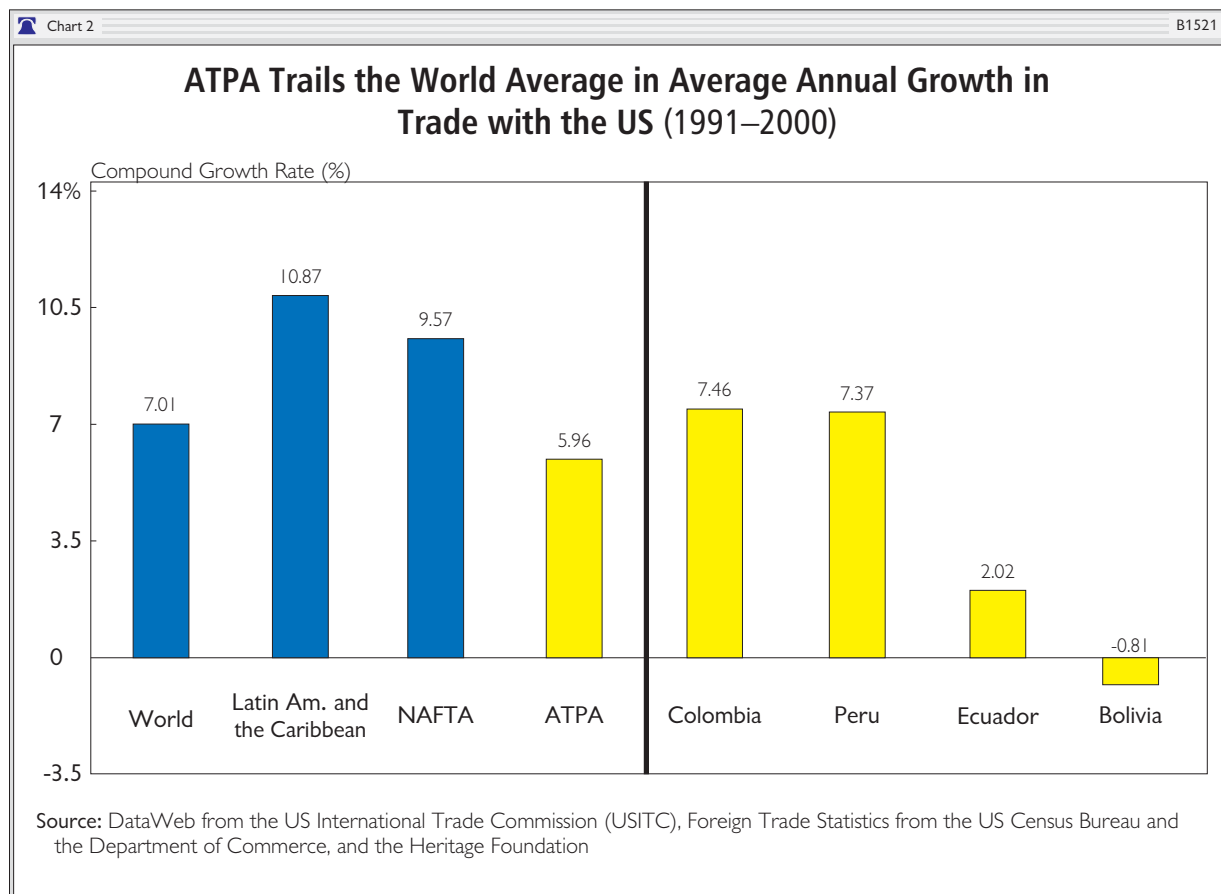
conomic policies will remain a secondary concern. The Bush Administration should recognize the futility of pushing peace negotiations with groups uninterested in becoming peaceful, law-abiding parts of Colombian society and support the Colombian government's efforts to regain control of the territory and re-establish law and order.

- **A flawed trade strategy.** America's trade policy toward the Andean region has centered on the Andean Trade Preference Act, signed into law by President George H.W. Bush in 1991. Despite a decade of good intentions, ATPA has failed to achieve its goal, which the U.S. Trade Representative describes as a U.S. trade policy tool that contributes to our fight against drug production and trafficking. By

strengthening the legitimate economies in these Andean countries and creating viable alternatives to the profitable drug trade, the ATPA is proving an important component of efforts to contain the spread of these illicit activities.<sup>21</sup>

ATPA has failed as an incentive to reduce net coca cultivation—coca cultivation minus eradication—in the Andean region. Since it was enacted, total drug cultivation in the region has remained almost unchanged,<sup>22</sup> merely accomplishing a shift in production from Peru and Bolivia to Colombia.<sup>23</sup> (See Chart 1.) Net coca cultivation decreased in Peru by 60 percent, and in Bolivia by 45 percent.<sup>24</sup> Coca cultivation

21. "Third Report to the Congress on the Operation of the Andean Trade Preference Act," Office of the United States Trade Representative, January 31, 2001, p. 3, at [www.ustr.gov/regions/whemisphere/atpa3.pdf](http://www.ustr.gov/regions/whemisphere/atpa3.pdf).



in Colombia, however, grew by 226 percent over that period.<sup>25</sup>

Though U.S. trade with Andean countries has increased, ATPA cannot be considered a successful trade agreement, for two reasons. First, the average annual growth in trade between the United States and the Andean nations since it was enacted is less than the average between the United States and the world over that period, and far below the growth in trade between America and its free trade partners. (See Chart 2.) Second, while growth in U.S. trade with the Andean countries has been steadier under ATPA, the trend lines depicted in Chart 3 show

that Andean trade was increasing more rapidly before ATPA than after it was signed. The conclusion is that while ATPA has been marginally beneficial, it has not been nearly as successful as its supporters claim.

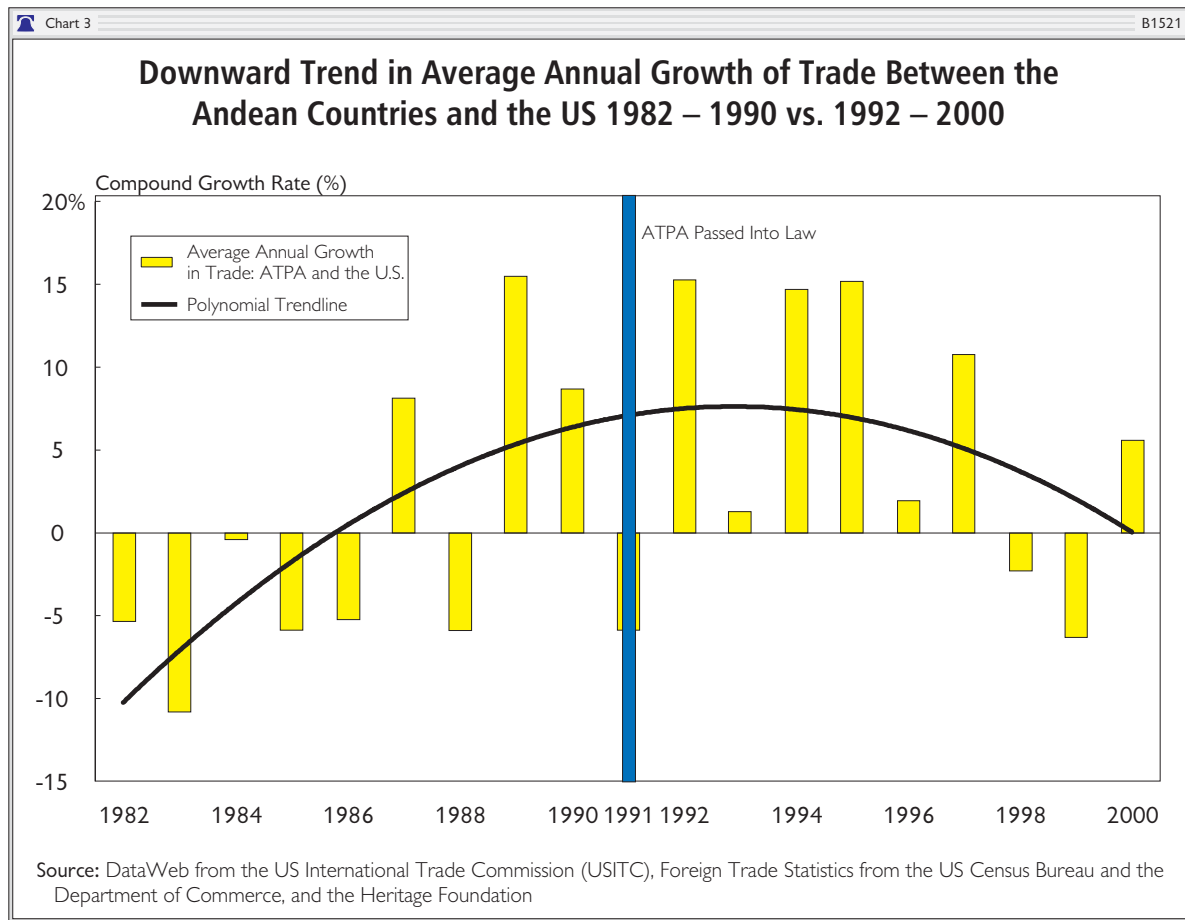
The reason: ATPA is a limited agreement that does not remove all trade barriers between the Andean countries and the U.S. market. In fact, only 10 percent of imports from Andean countries enter the United States exclusively under ATPA provisions,<sup>26</sup> and the law fails to reduce barriers for many of the products that are particularly relevant to the Andean nations, including textiles and apparel, rum and sugars,

22. This phenomenon is called the “balloon effect” (see Chart 2), based on the principle that when a balloon is squeezed on one end, the other end gets bigger, but the total air in the balloon is the same. See International Trade Commission, “The Andean Trade Preference Act: Impact on US Industries and Consumers and on Drug Crop Eradication and Crop Substitution,” p. 67.

23. *Ibid.*

24. *Ibid.*, pp. 69, 72.

25. *Ibid.*



syrops, and sugar-containing products.<sup>27</sup> A free trade agreement would be superior to ATPA because it would remove all barriers that artificially impede economic opportunities, make those benefits permanent, and thereby reduce the risks for investors making long-term decisions.<sup>28</sup>

- **Uneven political dedication to eliminating drug trafficking and defeating guerrilla groups.** The illegal drug trade has become a

very lucrative funding operation for guerrilla and terrorist activities around the world, especially in Colombia. Drug traffickers in Colombia pay the guerrillas to transport their crops and to process the drugs in guerrilla-controlled areas—now comprising 70 percent of the country.<sup>29</sup> The FARC finances its guerrilla activities largely through kidnapping and by protecting drug traffickers.<sup>30</sup>

Fighting the illegal drug industry through interdiction and discouraging consumption is very difficult because the illegal drug business is so

26. J. F. Hornbeck, “The Andean Trade Preference Act: Background and Issues for Reauthorization,” Congressional Research Service, *CRS Report for Congress*, January 3, 2001; see esp. “Summary.”

27. See the Andean Trade Promotion and Drug Eradication Act (H.R. 3009), “Articles Eligible for Preferential Treatment” (Section 3), at <http://thomas.loc.gov/cgi-bin/query/D?c107:4:./temp/~c107QcMDCP:e3467:>

28. These products include, but are not limited to, canned tuna, certain footwear, watches, sugars, syrups, molasses, and rum products. See K. Larry Storrs, “Andean Regional Initiative: Assistance for Colombia and Neighbors,” Congressional Research Service, *CRS Report for Congress* RL31016, September 18, 2001.

29. *Ibid.*

30. Houston Chronicle News Service, “Rights Group Urges Rebels to End Abductions and Killings,” July 10, 2001.

## SUBSISTENCE FARMING IN THE ANDEAN REGION

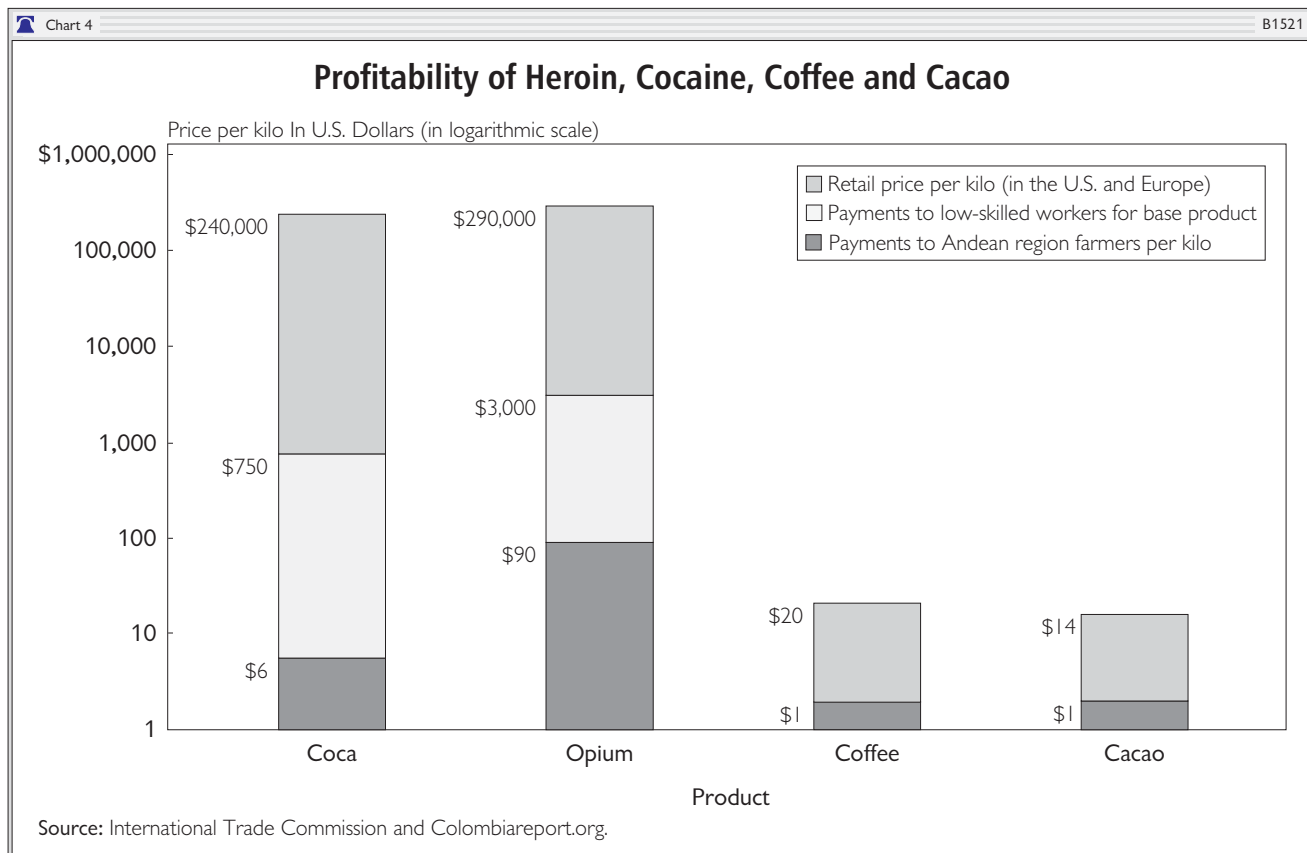
Large price differences exist between what farmers and low-skill workers receive for their coca and poppy and the retail price of cocaine on the streets of America and Europe. (See Chart 4.)<sup>1</sup> These differences highlight two important difficulties in substituting legal crops for coca and poppy cultivation in this region:

- Farmers' income from coca and poppy is far higher than income from any other legal crop or goods. Based on the data in Chart 4, farmers make up to 90 times more money on coca and poppies than on other products. A more conservative estimate reported in *The Financial Times* notes that in Colombia, "poppies are four times as profitable as coffee per hectare."<sup>2</sup> Even if farmers earned the same amount for the four products compared, coca and poppy crops are more profitable because they resist bad weather and diseases better than other legal products.<sup>3</sup> The competitive advantage of coca cultivation is persuasively conveyed in an International Trade Commission report, which states that "few products, if any, can viably replace coca in terms of economic return, marketability, and the supportive infrastructure that is already in place in the Andean cocaine industry."<sup>4</sup> No matter what farmers grow, the economic advantages of coca and poppy are difficult to match.
- The illegal drug industry can easily attract farmers and low-skill workers away from pro-

ducing other legal crops by increasing how much it pays for coca and poppy. Illegal drug producers pay less than 0.1 percent of the retail price to farmers for coca leaves and poppy and less than 0.4 percent of the retail price of cocaine and heroin to low-skill workers for the base product. Several factors add to the high retail prices for cocaine and heroin: the fact that consumption of cocaine and heroin is illegal, the high risk from enforcement, and the uncertainty that comes from the inability of drug traffickers to enforce contracts legally.<sup>5</sup> Although it is difficult to know the exact cost structure of the illegal drug industry, most studies indicate that the profits for producers of illegal drugs are considerably higher than the profits from any other legal product. With large profits, drug traffickers can easily increase the prices they pay for coca and poppy in order to win back farmers and low-skill workers who had switched to the cultivation of legal crops.

As long as cocaine and heroin profits remain high, coca and poppy will be grown, the illegal drug industry will find a place to establish itself, and it will have a strong incentive to remain in business. For as long as it remains in business, it will be able to substitute illegal crop cultivation for legal crop cultivation and legal goods production.

1. Profit differences in Chart 4 had to be drawn in logarithmic scale, where all the segments of the vertical axis are multiples of 10. For example, in a scale from 1 to 1000, a log scale would have 10, 100, 1000 as segments, whereas a linear scale would have 1, 2, 3, 4...1000 as segments. The reason for using the logarithmic scale in Chart 4 is that the large profit gap for coca and heroin would not have allowed for the inclusion of coffee and cacao.
2. "Coffee or Poppies? Colombia's Growers Under the Spotlight," *The Financial Times*, October 26, 2001.
3. From author's conversations with officials at the Embassy of Bolivia in the United States.
4. International Trade Commission, "The Andean Trade Preference Act: Impact on US Industries and Consumers and on Drug Crop Eradication and Crop Substitution," *Seventh Report 1999*, Investigation No. 332-352, September 2000, p. 65.
5. Peter Reuter, "Supply Side Drug Control," *Milken Institute Review: A Journal of Economic Policy*, First Quarter 2001.



profitable that producers and traffickers can afford to increase the amount paid for coca and poppy to offset any increased profitability of legal crops. (See text box, “Subsistence Farming in the Andean Region.”) Fighting this trend will require a strategy that also discourages cultivation.

Coca cultivation declined in Peru and Bolivia during the 1990s because the leaders of those countries implemented plans to combat cultivation and guerrilla activities. Bolivian President Banzer aggressively undertook coca eradication, and former Peruvian President Fujimori effectively defeated the guerrillas in Peru and then eradicated most of the coca cultivation.

Meanwhile, coca cultivation grew in Colombia because the government failed to adopt and implement a comprehensive plan to establish order in the countryside. Furthermore, U.S. assistance was largely withdrawn during the presidency of Ernesto Samper in response to allegations that he took campaign contributions

from drug lords. In the interim, drug traffickers and guerrillas formed a symbiotic relationship that strengthened both groups. Now guerrillas and paramilitary groups alike provide valuable protection that makes the drug trade more profitable; the guerrillas and paramilitary groups use their profits from this activity to buy weapons and equipment to expand their power and influence.

The lessons of the past decade are clear: Eradicating illegal drug cultivation in the Andean region requires (1) political will on the part of Andean governments; (2) changing policies that make it easier for guerrillas and drug trafficking to thrive (i.e., weak rule of law and partially closed economies); and (3) reducing U.S. trade barriers to Andean products in which they have a competitive advantage through a free trade agreement.

**WHAT THE UNITED STATES SHOULD DO**

The guerrilla groups and drug traffickers have not experienced any setback that would lead them to reconsider their successful strategy of killing and

kidnapping opponents, oppressing peasants, and building ties with other terrorist groups. For this reason, they are not only a serious threat to eradicating drugs from the region, but also—and most important—a threat to stability in the Andean region and to U.S. national security, financed by international terrorism, that must be countered.<sup>31</sup>

To eliminate this growing threat, the Bush Administration should adjust its strategy for the Andean region to:

- **Support Colombia's fight against guerrilla and paramilitary groups and drug traffickers.** As the rebel threat in Colombia grew during the 1990s, authorities chose to appease the guerrillas, ignoring them as long as they did not disturb life in the cities. This shortsighted strategy left the government at their mercy. As the guerrillas grew in power, so did the security threat that they created, which now overshadows the drug problem in importance. Washington's lackluster contribution in the fight against drug trafficking and its support of President Pastrana's flawed peace process that conceded territory to the largest rebel group have had little effect.

Given the seriousness of the security situation in Colombia, the Bush Administration should support the decision of the Colombian government to begin establishing public order throughout its national territory to protect citizens from violence and terrorism. Although the Colombian army and police have become better trained and more professional in the past three years, their numbers and capabilities are still insufficient to meet the threat of a highly mobile guerrilla force. The United States should pro-

vide Colombia with the additional training, equipment, and security assistance to carry out such a plan. Since lawlessness is the root problem, Congress should ease restrictions on the use of U.S.-donated equipment and assistance so that it may be employed against all lawbreakers, not just carefully defined drug traffickers. In addition, the Administration should provide security assistance to Colombia's neighbors to help them defend their territory against any spillover from Colombia's deteriorating situation.

- **Help Ecuador, Peru, and Bolivia to find a way to strengthen the rule of law in order to eliminate corruption and preserve reforms.** Strengthening the rule of law and curtailing corruption are critical to maintaining the economic growth that follows market liberalization.<sup>32</sup> Bolivia and Ecuador, to their credit, have initiated reforms to separate judicial and prosecutorial functions as well as establish transparent accusatorial procedures in their judiciaries.<sup>33</sup> Peru should be encouraged to do the same.

Strengthening the rule of law, however, must go beyond tribunals. As Andrzej Rapaczynski, professor of Law at Columbia University, points out, statutes need to be adapted to the social and economic needs of the majority of the population for the rule of law to be effective.<sup>34</sup> For example, if a person must work illegally in the black market because employers find it costly to abide by a complex set of labor regulations, local lawmakers should simplify those regulations so that employers can offer legal jobs. In

31. For more information, see Stephen Johnson, "U.S. Coalition Against Terrorism Should Include Latin America," Heritage Foundation *Backgrounder* No. 1489, October 9, 2001, at [www.heritage.org/library/backgrounder/bg1489es.html](http://www.heritage.org/library/backgrounder/bg1489es.html).

32. Robert J. Barro, "Rule of Law, Democracy, and Economic Performance," in Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, *2000 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2000), pp. 31–51; see also Alejandro A. Chafuen and Eugenio Guzmán, "Economic Freedom and Corruption," *2000 Index of Economic Freedom*, pp. 51–65; and William W. Beach and Gareth G. Davis, "The Institutional Setting of Economic Growth," in Bryan T. Johnson, Kim R. Holmes, and Melanie Kirkpatrick, *1999 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 1999), pp. 1–21.

33. The U.S. Department of Justice helps train civilian police forces, members of independent judiciaries, and prosecutors through the International Criminal Investigative Training Assistance Program (ICITAP) and through the Overseas Prosecutorial Development and Assistance Program (OPDAT).

34. As cited in de Soto, *The Mystery of Capital*, p. 170.

this respect, Peru, Ecuador, and Bolivia need to revise their statutes in a way that can integrate the informal sector. In a study on the determinants of economic development, Richard Roll and John Talbot of the Anderson Business School at the University of California—Los Angeles note that, “With adequate property rights, developing countries might not require much external assistance. Their economies could percolate up from inside.”<sup>35</sup>

Although the impetus for strengthening the rule of law must be homegrown, America can facilitate it by offering technical expertise, such as experts from the U.S. Department of Justice and the Federal Bureau of Investigation, on how these countries should reform their judicial and law enforcement systems. With a stronger rule of law, Bolivia, Peru, and Ecuador would be able to build on and sustain key elements in a long-term strategy to counter drug traffickers and guerrilla groups by reducing corruption, enhancing political stability, and protecting the prosperity gained through increased economic liberalization.

- **Transform ATPA from an anti-drug agreement into a free trade agreement for Bolivia, Ecuador, and Peru.** As currently structured, ATPA is hobbled. It restricts access to the U.S. market for many of the products that are particularly relevant to the Andean nations, including textiles and apparel, rum and sugars, syrups, and sugar-containing products.<sup>36</sup>

The United States should transform ATPA by negotiating a free trade agreement with Bolivia, Ecuador, and Peru, countries that have made a

commitment to eliminate drug-related trade and cultivation and/or guerrilla activity from their countries. This agreement should be finalized even before the negotiations on a Free Trade Area of the Americas (FTAA) are concluded in 2005.<sup>37</sup> Colombia should be integrated into this free trade agreement after it has demonstrated its commitment to eliminating guerrillas and drug traffickers as well.

Prosperity created by a permanent free trade agreement with the United States—one that would give these countries free access to the U.S. market for legal products—would increase as investment and trade grow, thereby undermining incentives to cultivate illegal crops. In addition, a free trade agreement would motivate the leaders of these countries to continue working to sustain their prior illegal-drug and/or guerrilla eradication efforts. In short, while Congress and the Administration could remove the restraints on trade that undermine the effectiveness of ATPA, a free trade agreement would have a more durable effect.

## CONCLUSION

The Bush Administration should be concerned about the potential chaos in the Andean region and take immediate action to adjust its policies to address the many problems facing the region before they deteriorate further. Guerrilla groups in Colombia are growing more powerful and cooperative with the drug traffickers, and together they have become a destabilizing element throughout the region. Too few realize that Latin America, not the Middle East, was the world’s leading region for terrorist activities in 2000<sup>38</sup> and that drug traffickers and guerrillas are increasing their ties with and

35. Richard Roll and John Talbot. “Developing Countries that Aren’t,” November 13, 2001, p. 16. Available upon request at [johntalbs@hotmail.com](mailto:johntalbs@hotmail.com).

36. See footnote 27.

37. Bilateral trade agreements should be pursued, despite the Administration’s commitment to the FTAA, for several reasons. First, FTAA negotiations have dragged and many countries are behind in adopting trade liberalization, making the goal of an FTAA by 2005 less certain. Second, the situation in the Andes requires immediate action, not action in three years. Third, following the crisis in Argentina, some Latin policymakers are considering greater trade protection over liberalization, which runs counter to the FTAA. Finally, bilateral trade agreements are not inconsistent with an FTAA and can be structured to yield to an FTAA once it is implemented.

38. “Patterns of Global Terrorism—2000,” Released by the Office of the Coordinator for Counterterrorism, U.S. Department of State, April 30, 2001, at <http://www.state.gov/s/ct/rls/pgtrpt/2000/2451.htm>.



financing international terrorism. To eliminate the guerrilla and paramilitary threat as well as illegal drug cultivation, and to bring political stability to the Andean region, the United States must recognize the new realities there and revise its Andean strategy.

Positive reforms in Bolivia, Ecuador, and Peru should be encouraged and reinforced by transforming ATPA into a full free trade agreement with those nations, encouraging them to continue to liberalize their economies and strengthen the rule of law. The seriousness of the situation in Colombia, however, requires the Administration to support the Colombian government's fight against the guerrilla groups. As the Colombian government demonstrates its

commitment to eliminating the guerrillas and the drug traffickers, the United States should integrate Colombia into a broader economic agenda and free trade agreement with Bolivia, Ecuador and Peru.

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