

Final Research Paper: “Colombia: The Traps to its Development and Stability”

For whom: UW-Madison
Timeline: April - May, 2008
Role: Student, researcher

Project

As the final project of the class *Agricultural and Applied Economics 373 - GLOBALIZATION, POVERTY AND DEVELOPMENT*, each student had to write a research paper on a country with an “emerging” economy, and their barriers to development. I chose to research and write about Colombia. The process taught me how to consider how systems and actors can interplay, how to project for the future, and how to think on a macro-level. It was the foundation for a life of trying to understand how the world works. It also was the kickoff of my love affair with Colombia - its history, challenges, and wealth of culture.

The following slides are the actual research paper

Colombia: The Traps to its Development and Stability

Melinda Kreuser
AAE 373
May 12th, 2008
UW-Madison

Collier explores the difficulties that a country faces in escaping poverty and achieving high levels of economic development in his book, The Bottom Billion. More specifically, Collier explores “traps” which certain countries face that continually prevent them from eliminating their high levels of poverty. The poorest billion people in the world reside in places that face these traps to development which keep them in poverty. This research project explores the developmental challenges and traps facing Colombia.

Although Colombia is not plagued with poverty as extreme as in those countries considered as part of the “bottom billion”, a considerable number of people live in poverty in Colombia. According to the 2008 edition of the Country Watch report on Colombia, poverty and inequality rates are high. Currently, 8.2% of the population lives on \$1 a day and 22.6% of the population lives on \$2 a day (43). Along with this, the current Gini index is 53.8 (42). Furthermore, Colombia is plagued with political and civil problems which prevent the country as a whole from achieving its economic development potential. Colombia faces the following overall development “traps”: the natural resource curse, civil conflict, the illegal drug industry, and political instability.

Colombia’s natural resource curse, decades-long civil conflict, the drug industry, and political weakness and instability prevent its poorest from escaping poverty and prevent the economy as a whole from reaching a higher level of development. Colombia is endowed with natural resources which have the potential to help Colombia reach its developmental potential. The large abundance of oil in Colombia has led the country to over-depend on the resource for exports, causing a “Dutch Disease” effect on other sectors and weakening the stability of the economy. Colombia has been experiencing a decades-long crisis in the form of a civil conflict between armed groups, narco-

traffickers, civilians, and the state. The violence and asset-procuring techniques that these armed groups inflict on society cause a great amount of capital loss and social disruption which put millions of Colombians at risk of living in poverty. The illegal drug industry leads to further violence and social disruption, as well as causing a “Dutch Disease” effect on the economy. Finally, the weakness of the state as a political and authoritative power allows the civil conflict and illegal drug industry to flourish.

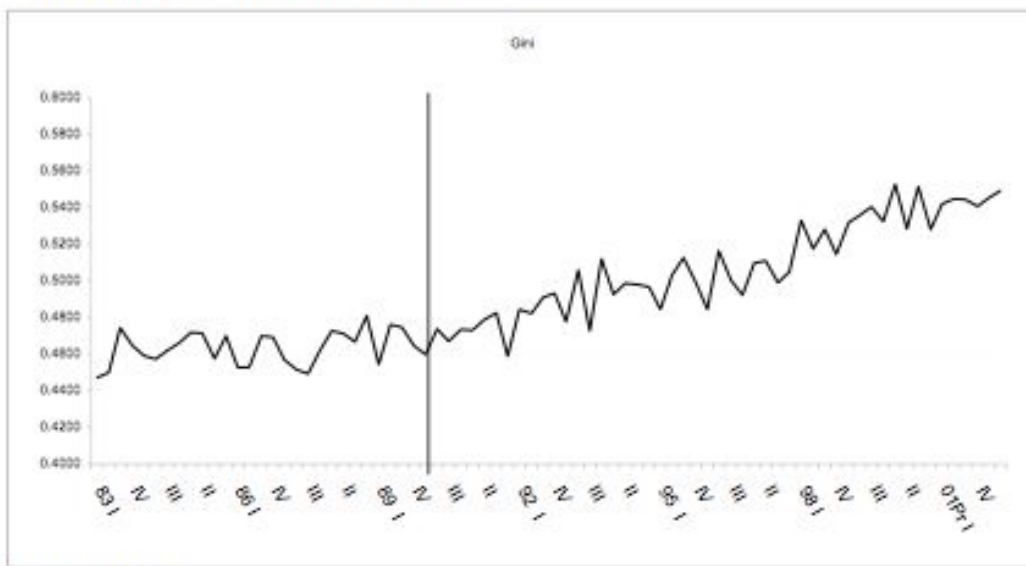
Brief Economic History

Colombia has enjoyed relative economic stability and growth from the 1930’s until the mid 1990’s, even managing a 3.5% annual growth rate during the Latin American debt crisis decade (Rabasa and Chalk 4). The country’s relatively stable economic state until then can be attested to “responsible macroeconomic management” (Rabasa and Chalk 4) by the government. As a result, Colombia’s quality of living and social indicators improved. School enrollment and public utility access has increased in the last twenty years, while illiteracy and malnutrition have decreased (Vélez 7).

Colombia’s export sector has traditionally been weighted towards agricultural products, especially coffee, which consisted 60% of export value in 1970. Like many other Latin American countries, Colombia was unable to successfully fully industrialize through import-substitution (Rabasa and Chalk 4), leaving the economy reliant on coffee and its natural resources such as oil and coal for exports (Country Watch 75). However, the government’s trade liberalization plan in the late 1980’s to adjust to falling commodity prices hurt the agricultural sector. Now facing competition from cheaper imports, domestic industries suffered and unemployment rose (Holmes et al 169).

From the mid 1990's to 2002, the country's economic growth stagnated as result of falling commodity prices, growing civil conflict and a growing fiscal deficit from increased government spending (Country Watch 75). Inequality had been growing since the late 1980's and was only intensified by the growth of the civil conflict (Vélez 27). However, due to the economic crisis, poverty rates and inequality worsened even further, as shown in the following graph of the increasing Gini index. From 2004, Colombia was able to stabilize its economy by reducing public debt and inflation and with help from increased foreign investments (Country Watch 76).

Figure 3. Gini Coefficient. 1983-2002



Source: DANE

source: Hernando Zuleta & Orlando Gracia, 2004. "The Free Trade Agreement between Colombia and USA: What can happen to Colombia?,"

The Natural Resource Curse: Dutch Disease

Colombia's overdependence on oil for exports has ultimately left a Dutch Disease effect on the economy which has hindered its potential to reach a higher level of economic development. The oil boom left agricultural and domestic industries suffering

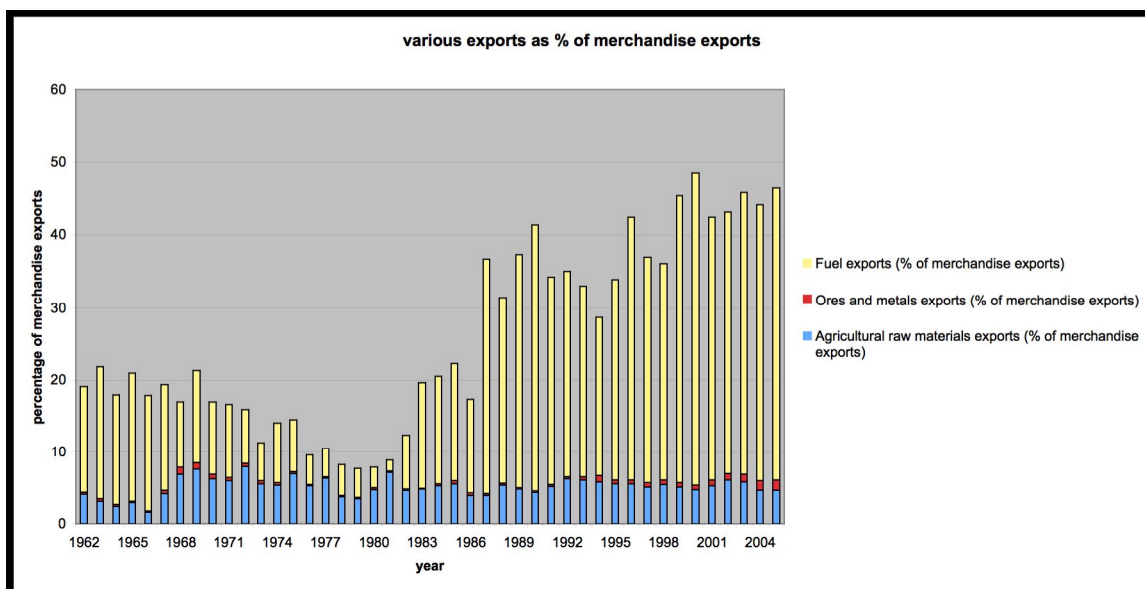
from increased imports. Furthermore, the oil shock in the 1990's spurred Colombia's financial crisis from expenditure imbalances

In the 1980's, the domestic industries in Colombia suffered as result of the expansion of oil and narcotics exports. The increase in the exports of oil and narcotics discouraged investments in these other export sectors which were now relatively less profitable. Furthermore, as a result of the increase in supply of foreign exchange, imports of manufactured goods increased (Safford and Palacios 308). Hence, domestic manufacturing industries suffered from the competition of foreign products. Over time, Colombia's domestic industries' contribution to GDP declined, including: agriculture, services, manufacturing, and construction.

The over-dependency on oil can be traced to further wealth inequalities in Colombia. The profits earned from oil extraction are not equally shared among municipalities nor among the Colombian people. The decentralization of the government which occurred during the early 1990's gave more political and fiscal authority to municipalities and away from the state. In relation to oil extraction, nearly half of oil profits were to go to the municipalities in which extraction occurred and oil pipelines ran, and the other half distributed nationally. As regions in which oil is extracted or passes are lightly populated, income distribution became very skewed between these areas and non-oil-producing regions (Safford and Palacios 340). Furthermore, oil is very capital-intensive and therefore does not generate much employment.

The following graph depicts the increase in oil exports relative to a stagnant agricultural and mining sector.

Source: WDI online



The following chart depicts the magnitude of drug export profits in relation to falling coffee exports and rising petroleum exports over time.

Source: Safford and Palacios, p. 309

% income from drug exports compared to income from legal exports

Years	Coffee	Nontraditional	Petroleum	Total Legal	Illegal Drugs
1980-1984	50,1	40,4	9,5	100	65,4
1985-1989	38,8	48,1	13,1	100	40,3
1990-1995	17,7	63,9	18,4	100	30,6
1980-1995	31,2	52,4	16,4	100	41,4

When the oil sector boomed, wages and foreign earnings in Colombia increased. As a result, public expenditures increased for non-tradables such as construction. The real exchange rate was consequently revaluated due to compensate for these increases,

encouraging more capital-intensive activities and discouraging labor-intensive activities (Abel and Lewis 393). In the end, the agricultural sector suffered because land-intensive activities were now relatively less valuable (394). Thus, the negative effect which the oil boom had on the economy can be seen in the decline of the agricultural sector.

The volatility of the world oil market is what ultimately makes dependence on oil dangerous for Colombia's economy. The increase in revenues from a growing oil production have found their way to state expenditures. The government had taken advantage of the oil revenues to spend more without needing to raise taxes (Safford and Palacios 341). When world oil prices fell, the government could no longer spend as much. The decreasing cost of oil production along with an increase in world oil supply in the 1990's had led to a decrease in world oil prices (Abel and Lewis 391). This shock in the oil prices ultimately had a negative effect on the Colombian economy, as the government could no longer use the oil wealth to fund its expenditures. If funds for expenditures were pulled from a diverse production sector, then perhaps Colombia would not face a fiscal crisis in times of price shock.

Illegal Drug Industry

The strong presence of the illegal drug industry in Colombia is a major hindrance to sustainable economic development, peace, and state authority. The highly lucrative nature of the drug trade leads to inefficiencies within the economy and aggregate market distortion through a Dutch Disease effect. Furthermore, the drug trade's link with the civil conflict creates violence and corruption within Colombian society.

The drug industry consisted as small-scale marijuana cultivation in the 1960's. In the 1970's Colombia entered the coca processing network with Peru and Bolivia,

exporting finished cocaine to the United States (Holmes et al 165). The production grew during the 1980's, initially controlled by a handful of cartels, but expanding in the 1990's to the involvement of many more groups (166).

The drug trade exists as a major source of foreign income for Colombia. However, it is difficult to calculate the exact amounts of income brought into the country from the drug trade due to the illegality of the industry. Some believe that the drug industry represents \$18-25 billion in annual profits and that Colombia exports 600-1000 tons of coca per year (Steiner and Corchuelo 3). Colombia as a country is the main supplier of cocaine in the world. It is estimated that Colombia exports 70% of its drug produce to the United States, which is the largest market for cocaine (4).

One of the biggest problems associated with the drug trade and growth is the discrepancy in how the money earned from the drug transaction re-enters the Colombian economy. One study estimates that up to \$260 million entered annually from 1985 to 1994 (Steiner and Corchuelo 8). Money can enter legally through small private transfers. However, it is estimated that the most popular way to enter is through contraband to avoid detection and avoid tariff costs (Steiner and Corchuelo 9). In this method, drug revenue is spent on contraband goods which are then imported. The problem with drug money entering through contraband is that the hard money is not actually entering the country (10). Also, potential tax revenue is lost since no taxes are derived from contraband (12).

Macroeconomic effects

When the incredibly high profits from drug exports enter the Colombian economy, the result is aggregate market distortion. In the short-run, the influx of revenue

causes an increase in domestic spending and a consequent increase in aggregate demand (Steiner and Corchuelo 7). This phenomenon can have a positive impact on the economy. However, in the long-run, prices of nationally produced goods are distorted in a Dutch Disease scenario (7).

As large amounts of illegally-earned money enter the economy, the real exchange rate will appreciate. Consequently, more will be imported and less will be exported as it becomes cheaper to now buy foreign goods. Locally-produced tradables and their industries suffer as a result of the growing competition to foreign products. The industrial and manufacturing sectors as well as unskilled workers in Colombia end up losing (Steiner and Corchuelo 12). On the other hand, the non-tradable sectors benefit from the increase in consumption (13).

The revenue from the illegal drug industry is not always invested in sectors which lead to macroeconomic growth. It is estimated that 8-23% of the revenue repatriated from drug actions is used to buy land in Colombia. Drug dealers choose to buy land to procure assets and to avoid risk of being detected by authorities (Steiner and Corchuelo 14). With this land drug dealers tend to create large cattle or horse ranches of low agricultural productivity. The potential agricultural productivity lost to these investments results in a loss of potential productivity for rural regions (14).

Drug Economy and the Labor Force

Drug cultivation has been causing a transition in the composition of the rural workforce. The nature of drug production and trade does not require a large number of workers. Steiner and Corchuelo estimate in their 2000 essay that 3% of the total

economically active population works in drug trafficking (300000 people) and 6.7% of the agricultural workforce is employed in drug cultivation (Steiner and Corchuelo 15).

Peasants have been more attracted to participating in drug cultivation because drugs are more lucrative than producing traditional agricultural products (Steiner and Corchuelo 14). With commodity prices falling since the liberalization of the agricultural market in the 1990's, it is no wonder why drug production is attractive to the rural poor. Although drug cultivation may help some rural peasants find employment, employment in the illegal work sector does not optimize the potential for sustainable long-term economic growth. The incentives of drug production attract workers away from participating in legal agricultural endeavors which could contribute positively to the agricultural sector (15). More participation in the legal agricultural sector would increase competition which would be an incentive for the agricultural sector to modernize (15).

The high profitability of the narcotics trade and the growth of drug production during the 1980's caused a decline in the profitability of non-drug crops (Safford and Palacios 316). International currency brought in from the drug trade have shadowed those earned from coffee exports. Currency attributed to the narcotics trade reached \$36 billion between 1980 and 1995, equal to 5.3% of GDP during that time. Coffee's revenue, on the other hand, generated worth amounting to only 4.5% of GDP, while oil making even less at 1.9% (315).

An increased income from growing coca would theoretically lead to an increase in demand and prices and hence a spillover effect on the regional economy (Angrist and Kugler 7). The study in the Angrist and Kugler article shows that there is little evidence that a spillover effect occurs during a coca boom for the local economy. However, there

is some increase in the income for the producers (21). The benefits can be questioned, as taxes are imposed on coca cultivators by guerrillas and paramilitaries, which reduces the profits for the producer (7). The involvement of the guerilla groups in the drug industry will be developed in the next section of this discussion.

Civil Conflict and Political Instability

The ongoing-armed conflict between the armed groups, narcotraffickers, the state, and civilians has greatly hurt the social wellbeing and growth potential of the country. Furthermore, the armed groups' participation in the drug trade further prolongs both the civil conflict and the drug industry itself, making these two issues harder to battle. To study this conflict critically, one must first explore its initial causes and also the factors which allow the conflict to influence society. There exists a two-way causality of the conflict between the goals of the armed groups and the weakness of state authority.

The conflict today between the rebel insurgents, the paramilitaries, and the state forces has roots in inequality in land distribution and class strife in the early 20th century when the rural poor were gradually being pushed to the periphery of the political agenda. As a result, great inequalities arose in wealth and land distribution and a general distrust among the Colombian people for the nature of government interests (Country Watch 9).

With capitalist interests in mind, the state and large landholders began encroaching upon the communities of small landholders and their properties (Brittain 22). As a result, rural peasants began to mobilize into self-defense groups with Marxist ideology. These groups expanded during the 1960's and eventually armed themselves as official leftist guerrilla forces, the largest being the FARC and the ELN (Brittain 22).

Both groups at the time to overthrow the Colombian government or form independent republics (Country Watch 70).

The FARC officially formed in 1966 and is the most prominent leftist-guerrilla group participating in the civil conflict in Colombia today with 9000-12000 fighters (Country Watch 70). The group has been increasing its presence by augmenting its fighter base and creating territorial blocs and fronts in every part of the country (Rabasa and Chalk 27). In 1997 it was estimated that the FARC had an influential presence in at least 60% of the country's municipalities (Brittain 23). The ELN officially formed in 1964. The ELN failed to gain momentum and launch military operations until the 1980's. Having fronts mostly in the northeast region of the country (Rabasa and Chalk 31), the ELN is estimated to consist of around 3000 fighters (Country Watch 70).

Paramilitary forces have a substantial role in the civil conflict between the insurgents and the state. Paramilitaries are groups formed for self-defense against encroaching guerrilla groups (Rabasa and Chalk 53) and represent a movement of anti-communism (Safford and Palacios 366). These groups were originally constructed by the government, such as the AUC (United Self-Defense Groups of Colombia) (Country Watch 10) although some are organized privately by landowners. Violent conflict erupts between these groups and the insurgents as paramilitaries try to counter insurgent movement and occupation (Rabasa and Chalk 53).

Civil Conflict and Local Economic Loss

Both having formed with Communist ideology, today the interests of the FARC and the ELN are driven more by financial gain than political motives (Country Watch 70). It is the methods through which these groups procure finances, arms, and attention

that disrupts the lives and the well being of the Colombian people. It is also the participation in the drug industry for finances which makes the civil conflict harder to battle. The complex system which sustains the survival of the insurgent movements is what also keeps the country from achieving its development potential.

The FARC uses tactics such as killing, kidnapping, and bombing to gain influence and ultimately challenge the state to revise its economic, agrarian, and political policies (Country Watch 10). Instead of focusing on military attacks and confrontations to achieve influence, the ELN employs tactics to hurt Colombia economically (Rabasa and Chalk 45). The ELN uses similar tactics as the FARC such as kidnapping to finance its operations. However, the ELN also attacks sources of economic wealth such as oil pipelines and communications systems to weaken the country's infrastructure. The group wants political representation and ultimately a socialist government (Country Watch 10).

The armed leftist groups play a role in the illegal drug industry, further increasing the violence and corruption associated with the drug trade. Armed groups rely on drug profits through taxation of cultivators to finance their operations. It is estimated that the FARC generates half of its income from drug income and that nearly one third of FARC militants are involved in coca cultivation (Holmes et al 158). Considering this, the drug industry is a great factor in assuring the success and survival of armed groups.

Land and Capital Loss

The insurgent groups rely on expanding their operations into new territories and procuring new land to secure their presence and influence over an area. Because of the country's poor system of land security which has difficulty enforcing land ownership, insurgent groups have the capabilities to expand and procure the land of others (Ibáñez

and Vélez 663). The capital and assets lost from the procurement of land by these armed groups is a major setback to the economic growth of the agricultural communities where this occurs.

Armed groups have been looking to the country's agricultural regions to expand their political fronts or secure new drug territory. Unfortunately, it is often the richer municipalities which the armed groups enter and seize to secure their influence and finances. Insurgents prefer to occupy regions with lower rates of poverty (Rubio 113) and towns which are rich with natural resources (Rubio 120). Hence, insurgents have been penetrating the dense agricultural areas, particularly the coffee and cattle zones, and the towns within those regions (Rabasa and Chalk 47). It is believed that the FARC was able to grow as much as it did in the 1980's because it penetrated and successfully exploited the primary commodities in the agriculturally dense regions of the country (25). Hence, a region which would otherwise have great potential economic growth has its resources diverted away for the growth of the armed groups.

The occupation of the agricultural regions by paramilitaries and insurgents ultimately affects the productivity and well being of its inhabitants. The farmers whose land and assets are procured suffer an income shock whose affects will ultimately trickle down to the local economy. Also, the community's social networks and labor organizations become disrupted by the presence of armed groups who upset the efficiency of the local economy. The economic interests of the armed groups are more often for the betterment of their own group rather than for the wellbeing of the community (Ibáñez and Vélez 663). Hence, armed groups continue to procure land and hoard the wealth from the natural resources of a community.

Displacement

Rural peasants are forcibly displaced from their lands through armed groups procuring more land for either political or drug territory reasons.

Civilians suffer a loss of capital due to the insurgent occupation and procurement of local land. Landholders face a great risk of encountering violence and threats when groups arrive to take their land for themselves. In these circumstances, landholders may either pre-emptively abandon their land or stay until they are forced to leave (many times with violence). Hence, landowners lose their capital as a result of the presence of insurgent groups. If the landowner decides to stay on their land, they may hire paramilitaries for self-defense. Small landowners more often fall victim and abandon their land because they do not have the money to fund for their defense (Ibáñez and Vélez 669). Under these circumstances, the landholder will incur losses either way – whether by abandoning their land or having to finance self-defense. Ultimately, the entitlement of capital and assets become a risk for their holders rather than a form of sustenance (663). Hence, the value of land and development is compromised.

Those landholders that do end up abandoning their land are then forced with the task of resettling and finding a new means to support themselves. Many of those displaced from the rural regions migrate to cities to restart their lives. However, many find themselves facing enormous problems upon arriving to the city. It is often hard for former farmers to find a job in the urban centers because they do not have the training or skills to compete in urban markets. Thus, the returns to their capital are now *lower* than before, making it harder to survive. Also, migrants to cities do not necessarily

immediately gain access to health care and education, as the cities are not equipped to provide for large numbers of new immigrants (Ibáñez and Vélez 664). Hence, migrants from the rural sector often suffer upon arrival to cities. In fact, it can be said that the rural migrants in the 1990's fared worse than the urban poor, whereas previously migrants had fared better (660).

Data shows that Colombia has one of the largest displaced populations in the world, accounting for 2.9 million people in the country. This large number is equal to 7% of the entire population and 29.1% of the total rural population. These numbers will continue to rise as armed groups expand into more municipalities (Ibáñez and Vélez 659). The estimated losses per household due to displacement are staggering. Overall, displaced peoples have lost a total of 1.2 million hectares of land (663). Those households which migrate for preventive reasons suffer a loss worth 20% of lifetime consumption, while those who are directly displaced as result of armed group forces suffer a loss worth 33% of lifetime consumption. Additionally, losses are usually higher for poorer households (670). The losses incurred by displaced peoples result in higher poverty which prevents the economy from reaching its economic growth potential.

Macroeconomic Costs

The state incurs great financial costs as well from the civil conflict with the insurgents and paramilitaries. The percentage of expenditure spent on military expenses to combat insurgent activity is staggering, consisting as 61% of the gross costs of armed conflict in the country between 1991 and 1996 (Solimano 108). The enormous amount of finances put towards combating insurgent activity could be put towards solving other problems in the country, such as inequality and poverty (10). In 1998, the government

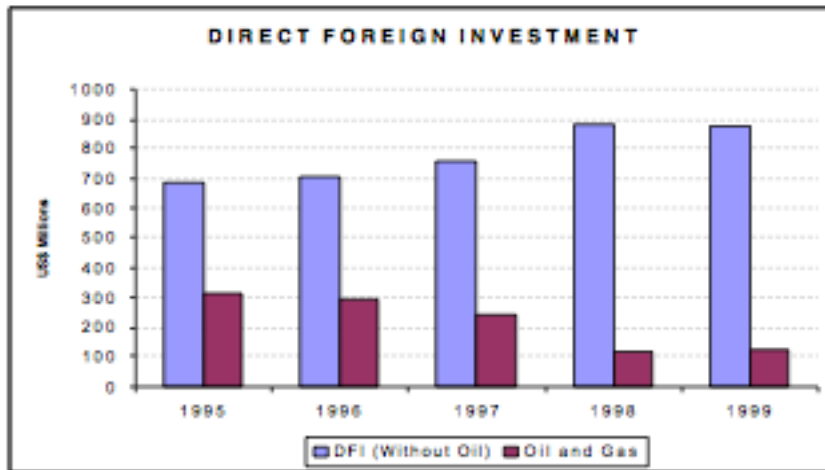
spent 18% of its expenditure on defense and 6% on Justice (Steiner and Corchuelo 34). Compared with Latin America, Colombia spends more as a percentage of GDP on military expenditures (34), amounting to 3.56% of GDP in 2000 (Rabasa and Chalk 105). Thus, ultimately the costs of the civil conflict hurt the entire Colombia population as the government is prevented from being able to finance its programs to its highest potential.

The ELN resorts to attacks on the economic and communications infrastructure of the country to achieve its political goals. Oil pipelines have often been the targets of bombings by the ELN (Country Watch 75), as well as coalmines and electricity systems. In fact, the oil infrastructure has been attacked nearly 700 times in the 1990's (Solimano 30). The oil assets lost from an attack are substantial, new oil sources are needed to be found in order to offset the losses and declines in production (Country Watch 103). As one of Colombia's major exports, an attack on oil hurts the economic stability and growth of the country. Putting more finances into the active protection and surveillance of the oil pipelines could possibly prevent future attacks from happening.

The losses incurred from attacks on the oil infrastructure also are seen in lower levels of investment from abroad (Steiner and Corchuelo 15). It becomes risky to depend on oil as a sustainable commodity export if it is susceptible to attacks which would cut its supply. Hence, it becomes riskier to invest in oil and levels of oil production fall. In fact, levels of oil production decreased from 830,000 barrels per day in 1999 to 512,400 per day in 2005 due to lower foreign investment (Country Watch 73). The Country Watch report notes, "The unstable security situation greatly exacerbates Colombia's problems in raising the investment required just to maintain, much less expand, its current levels of oil production" (75). If emphasis was put upon diversifying the sectors in which investments

are made, then possibly a fall in investments for the oil sector would not entail such a hard blow to Colombia's economy. The following graph depicts the decrease in investment in oil as result of an increasing armed conflict over time.

Source: Steiner and Corchuelo



Source: Banco de la República and ECOPETROL

Violence

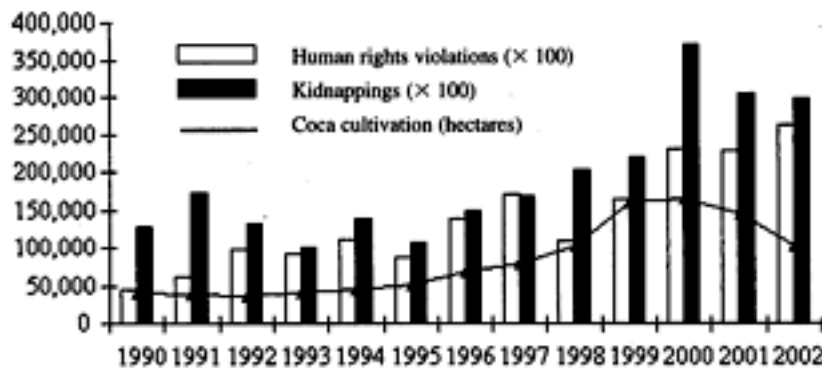
The means through which the insurgent groups procure resources and drug traffickers obtain territory is particularly damaging to the stability of Colombian society. Additionally, the social well-being of the Colombia people is affected by violence; more inequality, poverty, and lack of education have been linked to the increasing crime rate (Vélez 12).

Colombia has staggeringly high homicide and kidnapping rates, which have been increasing ever since the late 1970's, when its rate was roughly that of other Latin American countries. At least 60% of world kidnappings occur in Colombia, with at least half of those being from guerrilla groups (Vélez 155). Compared to other Latin American countries, Colombia has one of the highest rates of violent crime, which is

three times that of Brazil and even ten times that of Argentina (154). Since 1985, more than 300,000 Colombians have been murdered (Holmes et al. 163).

An increase in homicide and kidnapping rates can be attributed to the growth in coca production during the 1990's. Regions which experienced a boom in coca production experienced a steeper increase in homicide rates than those in non-growing regions (Angrist and Kugler 22). This increase is due to the nature of the coca economy as an illegal industry. Those who produce face threats and intimidation from other producers as well as well as insurgents (25). The following graph depicts the positive relationship of violence with coca production.

Source: Holmes et. al



Sources: Human rights violations, CINEP; kidnappings, País Libre; coca estimates, Colombian National Police Antinarcotics Division

The tactics of kidnapping and extortion which the FARC employs to sustain themselves economically takes a toll on the social and economic well being of Colombian communities. The guerrilla groups rely on the ransom money collected through their kidnappings to finance their operations. Most of the kidnappings occur in the agricultural regions, with civilians as the majority of the victims (Rabasa and Chalk 34). Kidnappings also occur in the cities, where high professionals and businessmen are

often found to be the victims. It was estimated that in the year 2000, 3000 people were held for ransom and that revenue from ransom made up 22% of total guerrilla income between 1991 and 1996 (34).

This violence witnessed and experienced by the civilian populations by armed groups exacerbates more violence in the region by making civilians more accustomed to violent behavior. Hence, society is more likely to turn to violence as a way of settling disputes (Solimano 19). Furthermore, the illegality of the drug industry leads those involved to resort to illegal means, violence, to facilitate and govern transactions. Those who cultivate or deal drugs must hire illegal self-defense units to protect their drug properties from intrusions and also to expand their operations into new territories. Thus, the presence of actors who depend on violence as a form of mediation teaches the public, especially adolescents, that violence is an acceptable way to achieve (Steiner and Corchuelo 17).

Kidnapping and the threat of violence have severe economic effects on communities. The fear and mistrust which has grown out of an increasing rate of violent crime deters the population from partaking in communal and nighttime activities which would otherwise foster community growth (Vélez 160). Moreover, a great amount of human and financial capital is lost due to violence from armed groups on the civilian population. Some of these costs include loss of productive life years from homicides and hospitalization costs from intentional injury. Overall, the cost of homicides account for an annual loss of 4% GNP in Colombia, (Solimano 27). These costs ultimately hinder the macroeconomic growth of the country. Costs of violence in Colombia are so high that it is estimated that if levels of violence could be reduced to the levels of other Latin

American countries, then Colombia would enjoy levels of investment and GNP equivalent to a 30% economic growth rate (29). The following graph depicts the increasing costs to violent crime in the early 1990's.

Source: Steiner and Corchuelo

NET COST OF URBAN VIOLENCE AND OF THE ARMED CONFLICT

	1991	1992	1993	1994	1995	1996
Loss of Life	931	935,1	926,4	879,2	834,8	873,1
Health expenditure	21,6	21,8	19	19,4	19,8	29,7
Private security expenditure	326,9	382,4	444,4	513,5	590,4	676,1
Excess military expenditure	662	500,9	659,8	279,3	662,1	976,2
Terrorism	91,6	78,3	33	30,6	28,7	58,9
TOTAL	2033,1	1918,6	2082,5	1722	2135,8	2613,9
% PIB	3,38	3,06	3,16	2,47	2,9	3,48

Source: Trujillo and Badel (1998)

The Political Instability Trap as a Cause of Civil Conflict and Illegal Behavior

The persistence and gravity of the civil conflict ultimately can be blamed upon the failure of the state and institutions to exercise authority in the country and prevent and combat insurgents and narcotraffickers. The inefficiency and corruption within the judiciary and authoritative systems are exploited by insurgent groups to expand their operations and power over Colombian society.

The decentralization of the state in the early 1990's weakened the political and judicial autonomy of municipalities, allowing for insurgents to enter and impose their authority and drug traffickers to obtain territory (Rubio 108). Although municipalities were given more political and fiscal autonomy, they had little power in regards to justice and public order. This way, insurgent groups could easily extort the local governments

through threats for money and influence (Rubio 108). Hence, armed groups rely on these methods to successfully enter and occupy a territory.

The overall weakness of Colombia's judiciary system also encourages the growth and corruption of armed groups and the violence associated with the drug industry. Studies have shown that there is a negative correlation between the efficiency and legitimacy of the judiciary system (measured by percentage of homicide investigations which go on trial) and the presence of armed groups in a territory (Rubio 119). In other words, a higher level of judicial corruption and illegitimacy provides a better environment for the occupation of armed groups. This correlation also suggests a two-way causality; the presence of armed groups will further encourage the inefficiency of the judiciary process through extortion and threats (119).

The formation of illegal paramilitaries unassociated with the state is a sign of the state's own weakness to effectively combat insurgent activity. Because the state military has been unable to successfully prevent the expansion of threatening insurgent groups into municipalities, citizens are forced to take their personal safety into their own hands. Hence, citizens hire paramilitary groups to fight these insurgents (Rabasa and Chalk 53). However, over time, paramilitary groups have become more associated with drug trafficking and criminal organizations (54) than combating guerrilla groups. It is also these paramilitary groups who are responsible for the majority of mass killings between all armed groups (55). These paramilitaries ultimately prolong the civil conflict and create an extra burden for the state. One can attest this problem to the failure of the state to keep the original paramilitaries from transforming into corrupt criminal organizations that fundamentally complicate the civil conflict even more.

As long as the state fails to serve as a legitimate authoritative figure for the Colombian people, the civil conflict will continue to grow. The armed groups depend on the authoritative and judicial voids left by a weak government to gain power. Thus, the state must focus on improving its own authoritative legitimacy as well as improving its ability to combat the armed groups in order to control the civil conflict.

The weakness and corruption of the justice system further encourages the extortive and violent behaviors associated with the civil and drug conflict. The judicial system has been inconsistent in its prosecution of criminals (Safford and Palacios 367), encouraging groups to commit more crimes out of belief that there will come no punishment (Solimano 23). Furthermore, the local population is also more inclined to take justice into their own hands through revenge murders and social cleansing if they observe the impunity in the judicial system towards guerilla criminals (23).

The drug industry relies on the weakness of the judicial and authoritative system to grow. Drug lords threaten or kill policemen, judges and civilians to manipulate the weak government of the community to obtain pardons and serve their interests (Steiner and Corchuelo 17). The public's witness of the judiciary's weakness will influence their own opinion and trust of the authority of the legal system. As a result, the public will feel less of a moral restraint in committing crimes, in turn further increasing the undermining of the system (18).

Conclusions:

It is clear that Colombia is "stuck" in traps which keep the country from reaching its full development potential. The natural resource trap of oil pushes out other domestic industries from the realm of development and also leads to fiscal vulnerability. The

insurgency conflict, the illegal drug trade, and the weakness of the state authority all involve one another and form an even bigger trap which is harder to combat. The weakness of the state in its capability to enforce judicial law and order has allowed for the emergence of armed groups who have the capacity to fight the state. Weak land rights and municipal power have allowed these groups to infiltrate the countryside and establish fronts and roots for the illegal drug industry. In turn, the violence and corruption associated with these two illegal activities succeed in further undermining the state's authority. Therefore, these traps grow upon themselves and really do create a hindrance to the economic development of the country.

Solutions?

The government has attempted peace talks with the armed groups to stop the massive amounts of violence inflicted on the Colombian people. However, the armed groups desire a demilitarized zone in return, which the government is reluctant to offer. Colombia has been putting more of its government expenditure into the military to try and defeat the guerrilla groups by force. However, the FARC is well armed and capable of taking on the state military on numerous fronts (Rabasa and Chalk 27). How much of GDP is Colombia willing to sacrifice for the end of this civil conflict? Colombia's defense budget for the year 2000 was nearly 3.5% of GDP! (95).

Another strategy has been Plan Colombia, a plan to combat the civil conflict on various levels with the aid of the United States (Rabasa and Chalk 61). Plan Colombia offers to combat this problem by: strengthening armed forces, financial reform, attracting foreign investment, increasing social programs, community development to end local corruption and kidnappings, peace negotiations with the armed groups, and an anti-

narcotics strategy (61-62). This plan will need to focus on strengthening a legitimate state authority as well as a stronger local authority in municipalities. It is ultimately the fault of the weak state presence in municipalities that the armed groups are able to seize territory, yet it is also the weakness of the judicial system which allows their crimes to go unpunished. Also, this plan will need to fund the improvement of social programs in urban areas to better receive displaced migrants so that they do not slip into poverty.

The United States has also been aiding the anti-narcotics efforts with Colombia as well. Through the eradication of poppy and coca fields, Colombia believes the drug industry will be weakened. However, this strategy has caused adverse effects by destroying the soil quality for land sprayed which was misbelieved to be used for growing drugs. Also, drug cultivators now are simply forced to go into the deep jungle to grow – which is even more difficult to eradicate (Rabasa and Chalk 66).

A proposed free trade agreement with the United States would possibly foster the growth of the manufacture sector which has been hurt by oil booms (Gracia and Zuleta 2). However, lowering tariffs on goods exchanged between the two countries would most likely hurt the already suffering agricultural sector. Yet, overall the effect on Colombia would be a small but positive one (2).

Only time will tell which strategies are most effective in combating the armed groups, the drug trade, and Dutch Disease. For now, the country needs to aid those who have suffered economically from the exploitive and violent acts of the insurgents and paramilitaries. For it not, the country will continue to disintegrate socially and politically and the civil conflict and drug economy will expand.

Works Cited

- Abel, Christopher, and Colin M. Lewis. Exclusion and Engagement: Social Policy in Latin America. London: University of London, Institute of Latin American Studies, 2002.
- Angrist, Joshua David, and Adriana D. Kugler. Rural Windfall or a New Resource Curse? Coca, Income, and Civil Conflict in Colombia. Cambridge, Mass: National Bureau of Economic Research, 2005.
- Brittain, James J. "The FARC-EP in Colombia: A Revolutionary Exception in an Age of Imperialist Expansion." Monthly Review Sep 2005; 57, 4.
- Country Watch. Colombia Country Review. Houston, TX: Country Watch, 2008.
- Gracia, Orlando and Hernando Zuleta. "The Free Trade Agreement Between Colombia and the USA: What Can Happen to Colombia?" Investigación Económica en Colombia 003594. Fundación Pondo. 2004.
- Ibáñez, Ana María, and Carlos Eduardo Vélez. "Civil Conflict and Forced Migration: The Micro Determinants and Welfare Losses of Displacement in Colombia." World Development Vol. 36, No. 4. (2008): 659-676.
- Jennifer S Holmes, Sheila Amin Gutiérrez de Piñeres, Kevin M Curtin. "Drugs, Violence, and Development in Colombia: A Department-Level Analysis. " Latin American Politics and Society 48.3 (2006): 157-176,178-IV.
- Rabasa, Angel, and Peter Chalk. Colombian Labyrinth: The Synergy of Drugs and Insurgency and Its Implications for Regional Stability. Santa Monica, CA: Rand, 2001.

- Rubio, Mauricio. "Illegal Armed Groups and Local Politics in Colombia." Journal of Drug Issues Winter 2005; 35, 1.
- Safford, Frank, and Marco Palacios. Colombia: Fragmented Land, Divided Society. Latin American histories. New York: Oxford University Press, 2002.
- Solimano, Andrés. Colombia Essays on Conflict, Peace, and Development. Conflict prevention and post-conflict reconstruction. Washington, D.C.: World Bank, 2000.
- Steiner, Roberto, and Alejandra Corchuelo. Economic and institutional repercussions of the drug trade in Colombia. Bogota, Colombia: Centro de Estudios Sobre Desarrollo Economico, Universidad de los Andes, 2000.
- Vélez, Carlos Eduardo. Colombia Poverty Report. Washington, DC: World Bank, 2001.