Illegal economies and territoriality in Latin America

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Little importance has been attributed to illegal markets in the economy, perhaps due to the invisibility that results from their methodologies, indicators and sources, but also due to the moral, legal, political and cultural implications born in the framework of the “war on drugs” policy.

What is certain is that there exists an important monetary mass coming from illicit markets. The available data indicate that in 1998 Michel Camdessus (Director of the International Monetary Fund - IMF) estimated the amount at between 2% and 5% of the world economy, while Moisés Naim established a volume of 10% for 2004. This means that it doubled in six years, which gives evidence of a significant tendency for growth. If this rhythm of growth has been maintained to date, what would be the contribution of illegal markets to the world economy now?

In Latin America it was estimated in 2002 as 6.3% of the GDP (something like 75 billion dollars). In a study that we did under the auspices of the IDRC we found that the regional amount must be over 120 billion dollars, an amount close to the 137 billion of direct foreign investment in the region in 2013 (CEPAL).

Where are these resources?

While no research has been done in Latin America with respect to where these resources have gone, the studies of Forgione in Italy (2009) allow us to affirm that 40 to 50% are dedicated to reproducing illicit enterprises and increasing the dynamics of that sector (corruption, technology, arms, wages, hired assassination), while 60 or 50% are laundered and enter the legal economy.

The dynamics of the economy are increased with funds destined to reproduce the illicit sector and are invested in less regulated legal markets, with instant liquidity, and these are functional for the reproduction of the illicit sectors. The links with formal areas of the economy are evident, to the point where the limits between legal and illegal markets are imperceptible.

The sectors of the economy where these capitals are placed vary considerably, depending on the society in question, although the majority are based in urban areas. For example, real estate is an important sector where these capitals are very active; at the present time in the largest cities of Latin America there is growth in the sector that tends to be explained as if there were a bubble, excess offer or a real estate boom. The commercial sector, automobiles and tourism are other sectors that prove attractive for the laundering of funds from illegal activities.

New cultures tied to rapid and easy profits are developed in society, along with new forms of consumption, the contents of narco novels and music (“narcocorridos”), as well as a new capacity

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1 This text was first published in Spanish in ALAI’s magazine América Latina en Movimiento, No., 497, July 2014, entitled "La cuestión urbana hoy: Entre el mercado total y el buen vivir " - http://www.alainet.org/publica/497.phtml
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to generate employment and benefits – good social shock absorbers – all of which encourage groups to support these activities.

The reproduction of illicit activity demands economic resources in order to finance the control of strategic territories, such as areas involved in the production or movement of narcotics; as well as the financing for the maintenance of irregular military forces.

In addition, illegal activities need money to entrench them in state structures in such a way as to render them permissive with respect to crime, through modalities of “silver” (corruption), “lead” (intimidation) and “democracy” (elections) through which policies lose force and institutions lose legitimacy. In this way state institutions are undermined by corruption and by the creation of parallel structures to the constituted power, leading on the one hand to a loss of efficacy for the control of these activities, and on the other, to the expression of the “failed State”, which is simply the “certification” proper to the policy of the “war on drugs.”

Territories are changing

The social production of spaces is profoundly transformed, according to the new logic of legal and illegal economies. In the words of Sassen (1999): “the changes in the geography and in the composition of the global economy have produced a complex duality: an organization of economic activity dispersed in space, but at the same time globally integrated”.

This economy is sustained in the world decomposition of productive processes, not only in territory (dispersed spaces) but also in the phases of the general process. The exceptional places are part of an organizational system composed of networks and nodes, articulated on a world level by a central command similar to a holding company (Sinaloa Cartel, N’drangheta). This structure displays a unique quality: when the parts are attacked the whole is neither contaminated nor affected, since on the fringes, outsourcing and franchising operate, while in the global context the holding company is active. In this way there is an efficient structure on an administrative level which is immune in the face of the penal system, since outsourcing and franchising work as valves or fuses that are sprung at the interjection of police activity. When the police capture a group or a criminal organization, the holding company immediately replaces it with another group or parts of the same, thanks to the flexibility of the whole institution.

Obviously this structure has its counterpart in territoriality, expressed in three strategic areas: in the first place, the borders, where illegal economies have an astounding level of growth, where murder rates are higher than national averages and where there is an attraction-projection to and from the world (platforms or hubs).

From the beginnings of this century, frontier regions have become strategic areas for the most profitable illegal markets: narcotics, arms, traffic in persons, precursor chemicals and contraband. From that time onward, the borders became “global systems” with functions similar to a node of integration through which products come and go in real time – products (narcotics), inputs
(precursor chemicals) or services (health, sanctuaries) that come and go to and from distinct places in the planet.

In second place are the cities, preferential places for the new economy, as they are favourable for business, produce wealth, attract foreign investment, concentrate a high density of infrastructure and services, are given to innovation and have a concentrated mass of consumers. The connections between legal and illegal economies find fertile ground in the cities, as one can see in real estate or commercial activity that serve to launder money; but also, illegal activity is present in Brazil in clandestine betting for micro drug trafficking, collection agencies in Colombia for the sale of services of settling scores, or the many markets for the sale of stolen goods in the majority of cities in the region. Because of this, in markets such as those mentioned, with a high presence of illegal activity, it is easy for this money to forms part of the urban economy.

It should also be noted that border cities become structural nodes in transborder regions; both because the markets and connected crimes tend to be concentrated in them, and because they assume the function of universal platforms.

And in the third place, the fiscal paradises constitute a large area where illegal and legal markets meet, thanks to the predominance of offshore logic (extraterritoriality) that strengthens the benefits and services offered by the fiscal paradises. The OECD estimates at seven trillion dollars the money moved through the 74 fiscal paradises, of which 1.6 trillion come from illegal markets.

(Translated for ALAI by Jordan Bishop)

References: