

GLOBALISATION, AND DRUGS AND CRIMINALISATION

Final Research Report
on Brazil, China, India and Mexico



http://www.unesco.org/most/globalisation/drugs_1.htm

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CD-ROM EDITION

DRUG TRAFFICKING AND MONEY LAUNDERING IN THE AMAZON REGION: GEOECONOMIC AND GEOPOLITICAL EFFECTS

Lia Osorio Machado

Conceptual framework

The drug problem and the recycling of profits derived from the drug trade and correlated activities is a truly complex problem, involving a complex set of interactions played out in different albeit connected scales of organisation. Thus, the study of a particular country or region cannot be isolated from other levels of analysis.

Our purpose is to introduce a geographical perspective of the drug problem, that is, to insist on the relevance of spatial distribution of data concerning international drug trafficking networks and their linkages to money laundering operations. Spatiality of social constructs increases our awareness of the difference that place makes in the dynamics of social, economic and political processes. Distance, relative position and accessibility of places are spontaneously evaluated by agents involved in drug trafficking and money laundering operations; equally important to these operations is the evaluation of territorial differentiation. Conversely, the form and extent of participation in these operations by inhabitants in each place owes much to the characteristics of lived-in territory and to expectations, real or imagined, of individuals and communities towards other places.

Because networks are the preferred mode of operation for drug traffic and money laundering agents both, our methodology leans heavily on the concept. Networks are a response to the heterogeneity and non-contiguous nature of spatial interactions;

they also function as *channels of interaction* between levels of organisation. The nature of these interactions is neither mechanical nor linear as individuals and groups acting at each level are continuously seeking to adapt themselves to sudden changes in the immediate and mediate environment, usually in an opportunistic behaviour.

In the first section of the chapter a brief survey of the symbiotic relationship between the organisations running the illicit drug trade and the banking and financial system in the global scale and in the Brazilian national scale is followed by an overview of drug trafficking networks and financial flows in the Brazilian section of the Amazon River Basin. The second section attempts to draw a parallel between the Brazilian section and the western section of the Amazon Basin in South America in terms of the relationship of organisational modes of international drug trafficking networks with particular traits of territorial settlement. Finally, the third section discusses drug trafficking control measures in Brazil and their geopolitical implications in the Amazon region.

Financial Flows and Drug Trafficking

The Symbiosis between the Illicit Drug Trade and the International Financial System

A symbiotic relationship between the illicit drug trade and the world banking and financial system has evolved in the last decades and may be considered as the crucial question for public policies at the domestic and international level.

Four aspects of the banking and financial globalisation process should be highlighted since they have a direct bearing in the increase of scale and diffusion of money laundering arrangements, namely:

- . The deregulation of the system of buying and selling currency, credit, or commercial paper.
- . The apparently contradictory duplication of such deregulation, which prompts some government to manipulate the territorial boundaries of banks under their jurisdiction (for example, by establishing territorial zones such as tax havens) and to support banks, stock exchanges, and agencies that carry some

weight in international investment markets to ensure their access to credit on the international market.

. The tremendous increase in the volume, flow, and variety of short-term capital circulating on the international financial markets, which ranges from "hot money" to government bonds, bank deposits, short-term deposits, and so on. This has a potentially destabilising effect on the economies of individual countries, especially those more dependent on international credit.

. The online operation of the banking and financial system permits ever swifter and cheaper financial transfers along with easier access to geographically scattered markets.

Despite the benefits of the globalisation of banking and financial systems, their global character also aids the money laundering process through the removal of national regulatory structures.

The Situation in Brazil

The incorporation of Brazil into international money laundering schemes is neither recent, nor is it solely attributable to the expansion of drug trafficking in the country. Responsible factors include the inflation of the 1980s through 1994; the fiscal and institutional crisis, which accentuated the instability of the credit system and of the economic ground rules; and the longtime dominance of informal labor markets and of small "informal" enterprises subsisting on contraband and tax evasion.

Brazil has developed a modern and interconnected domestic banking system whose branches are connected by means of a highly developed telecommunication infrastructure used mainly by the banks themselves. By the 1980s, banks and companies were already linked to the intercompany global communication system by means of leased networks. These networks provide higher quality connections than were available in the past and are less liable to disruption because they offer several alternative routes.

The expansion of the dollar black market, the development of transactions for the illegal transfer of currency abroad, slush funds ("*caixa dois*"; "*casse noire*"), and the depreciation of the average Brazilian's salary and savings all foster a climate conducive to the growth of money laundering devices. A 1991 International Monetary Fund study compared official data provided by the au-

thorities in 33 world financial centres and concluded that non-residents of Brazilian origin, *banks not included*, held approximately US\$ 17,4 billion in deposits abroad at the end of 1999 (against US\$ 9,7 billion in 1985).

Capital flight due to institutional instability and currency devaluation was one of the primary reasons for the "real" (new currency) plan, established in 1994. The associated reforms covered the transactions of exchange offices and dollar sellers, the underpricing of imports and overpricing of exports, the diversion of subsidized credits for the financial market, the bogus bank accounts linked to corruption, and the transactions that relied on secret funds.

The damping of inflation and the buttressing of national currency won majority public approval as evidenced in presidential elections and by the backing of financial agencies and international creditor banks. Nevertheless, the underlying economic policy is geared toward an expanded market culture, which encouraged measures to change prevailing economic and cultural norms. These measures ultimately make the country more accessible to the international market and are seen as necessary to make Brazil more competitive, both in the international commodities market and in the money market. This links two objectives: ensuring the availability of money and the confidence of potential investors.

New tensions are emerging alongside the new culture, for instance, those caused by the gradual adjustment in investment policies. In addition, increased exchange reserves act both as an economic and as a political variable, because both the market and the public at large view them as a kind of guarantee of exchange rate stability, and hence of government stability. The gradual devaluation of the "real" since the beginning of 1999 although not sufficient to destabilize the government has clearly undermined governance.

The growth of foreign currency investments has also produced tensions because of their volatility and because of the resulting increase in internal indebtedness. Legal domestic and international incentives for the financial and credit market can and are used to launder money and introduce it into the lawful economy. National investors and enterprises can use legitimate meth-

ods to transfer capital abroad and bring it back, the idea being to launder the funds into foreign currency to invest in stock exchanges or to invest in Brazil. Similarly, foreign investors and enterprises occasionally or permanently involved in laundering schemes can buy securities issued by Brazilian enterprises abroad or national treasury bonds.

We can thus describe both the national and the international banking and financial systems as open systems that are affected by international flows of money. Interaction between these flows will determine the system's overall stability or lack of it. Money laundering, which a number of governments see as a dysfunctional aspect of the banking and financial systems, is an integral part of these flows.

Links between Money Laundering and Drug Trafficking

We now turn to a theoretical (as opposed to factual) analysis of how the banking and financial system may be interacting with drug trafficking in South America, especially, in Brazilian Amazonia. In any case, data about money laundering and drug trafficking are hard to obtain and are often unreliable. Our study made a number of assumptions as follows:

- Those involved in drug trafficking and money laundering prefer to operate through networks, and the extent and/or diversity of available networks guides the choice of geographic location or territory in which they operate. We can classify networks into (a) natural networks such as streams and trails; (b) infrastructural or technical networks such as transportation and communication systems; (c) transactional networks,⁽¹⁾ which take political and economic power networks into account; and (d) informational networks.

- Drug traffickers also choose their territory based on the environment, for example, they prefer locations where local institutions may be weak and where connections between different groups in local society are tenuous.

- Just like legitimate multinational corporations, criminal networks also develop complex strategies to handle their international transactions. This too will affect their choice of location.

The same people will not necessarily be responsible for both drug trafficking and money laundering, but the relation-

ship between the two activities calls for setting up some kind of organisation. However, when one considers the spatiality of both activities, drug trafficking and money laundering is loosely linked. Given the high risks of transporting drugs, drug trafficking networks are inevitably flexible, meaning that they constantly change their routes, move their processing plants, and so on. On the other hand, flexibility is finite, given territorial constraints and infrastructural conditions. This was forcibly evident by the mapping of places where seizures of coca and cocaine occurred, which indicated the close dependence of drug trafficker to main land pathways linking, for example, the Amazon towns to the Southeastern seaboard, despite the apparent randomness of alternative routes. Because of this, our study distinguishes between *routes* and *corridors*: the main corridors are the least cost pathways for moving goods and may harbor an assortment of alternative routes alongside it. It is precisely the choice of routes the main indicator of the sensitivity and strategy of drug traffickers networks to territorial heterogeneity and the main indicator of where are placed their local partners and accomplices. The distinction between corridor and route may be useful for the design of territorial control strategies by governmental agencies.

By contrast, money laundering operations depend much more on existing, legitimate networks because of their reliance on specific services that are only available in particular places, usually in urban areas (such as banks, foreign exchange bureaus, financial services, and electronic money transfer). A number of techniques for money laundering are available (de *Maillard*, 1998), most of which involve the banking system at some stage. Thanks to the current openness of the international financial and banking system, the risks incurred in laundering operations are concentrated mainly at the first stage, that is, the disposal of bulk cash in banks. Once funds are deposited, currency can then be exchanged for other monetary instruments such as cashier's checks, bank drafts, and travelers checks. The risk decreases significantly in subsequent stages of money laundering, that is the layering stage, which involves disguising the origin of initial deposits through money transfers, and the integration stage, that is, using layered funds to buy clean, legitimate assets. On the other hand, the layering and integration stage entails higher costs given the high fees charged by banks for their services.

(1) A transactional network, as proposed by G. Dupuy (1991) following C. Raffestin's suggestion that place is where individuals or organisations reason their action towards other places, is the ultimate source of networks, a way of incorporating other places into one's territory.

The Drug Trafficking Network and the Amazon River Basin

The main coca producing areas are located on the western side of the Amazon River Basin in the upper and middle valleys of its headwaters and tributaries (Huallaga, Ucayali, and Apurimac in Peru; Beni and San Miguel in Bolivia; Putumayo, Caqueta e Uaupés in Colombia).

From the angle of drug trafficking logistics, the great South American river basins are a major route for the transit of drugs. Despite the difficulties of river navigation, these basins have provided the main communication route within South America for centuries. In addition to the river network, a road and transport network permit a reasonably good link between the Pacific and Atlantic coasts. Albeit much debate on the part both of national governments and the World Bank about the advisability of building a transcontinental highway, such a connection is an irreversible fact. The extent to which the drug economy directly or indirectly contributed to its gradual construction is unknown. Neither the air nor the road transport network is confined to intercontinental routes or official airports. A very precarious grid of minor roads and farm and village runways scattered around the interior of the continent makes up an "informal" transportation network. Consequently, while we know that drug trafficking takes advantage of both network, we do not know how far the trafficking organisations are responsible for maintaining and extending the informal system.

Note that the main trafficking routes between the Andean countries and Brazil are two way. They also serve to smuggle gold, electronic goods, commodities (such as coffee, soya), and stolen cars, which are exchanged for such items as coca, cocaine, and arms. Brazil's involvement in the drug economy also comes about through the sale of chemicals used to transform the coca leaf into cocaine. While Brazilian industry is not alone in benefiting from such sales, the country's chemicals and fuel industry, confronted with an unstable domestic consumer market, is encouraged to sell what it can to the Andean countries, where most of the processing in cocaine is carried out.

Money Movements in Brazilian Amazonia

Laundering through temporary bank accounts is a well-known money-laundering scheme. The launderer deposits cash

in a particular financial institution and requests the placement of into a temporary account. Some time later on, he instructs the bank to pay out the money in a bank check and eventually transfer the funds to accounts (at the same bank or another) held on behalf of companies controlled by the launderer or to his own account. Conversely, the launderer may collect bank checks sent to him by a third party. Within this scenario, the number and net worth of cleared checks in a particular place may be a reasonable indication of money laundering operations.

Information provided by Central Bank of Brazil for 1995 and 1996 on the movement of cleared checks for Amazon towns was therefore mapped. The mapping suggests that drug traffickers operating in the Brazilian Amazon region, probably since the end of the 1970s, have used this type of laundering scheme. Data was broken down by places where branches of public and private banks operated, the majority of which are very small towns. The spatial distribution of cleared checks shows many small towns with a disproportionate amount and net worth of checks if compared to population size, local gross internal product and the amount of federal income tax paid. In other words, money movement is incompatible with the economy of many places. No question that the method can only be applied in areas with precarious economies, which is the case here. It is to say that Brazilian Amazonia is very probably not the prime centre of money laundering operations. In reality, other areas of Brazil are more heavily (and profitably) involved. We have chosen to focus on this area purely for practical reasons related to our research.

a) Selected cases

The town of Eirunepé (1996 total population: 25 000; urban population: 15 420) shows check deposits in the order of US\$ 1, 4 million (1995) and US\$ 1, 3 million (1996) in its three bank branches (corresponding to a monthly average around 100 000 dollars). The formal economy depends on the marketing of local forest products sold to small traders operating along the middle valley of the Juruá river (95% of the labor force is informally employed). In 1996, Eirunepé's GIP was worth US\$ 10 million, most of it derived from the primary sector, and total income tax paid to the IRS amounted to US\$ 150 000. Nevertheless, the town hosts an airport and bank branches lease a 24-hour satellite service for data transmission of money orders.

In other cases, towns have grown and their economic activities have developed, yet clear source of capital cannot be identified. One example is Tefé, one of the oldest and best-known transit points for cocaine in the Brazilian Amazon region. Tefé typifies those towns where the spin-off from drug trafficking may be stimulating the emergence of legal urban-based activities: local GIP in 1996 was US\$68,150,000, 53% of which came from the urban service sector. Its rank in the urban hierarchy of the state of Amazonas jumped from fifth in 1980 to third in 1996, following an urban population increase (from 14,000 to 48,000 for the same period). Cruzeiro do Sul is another old town dating back to the rubber period that today still depends on trade, but nowhere economically significant as the rubber trade. Transformed into a free trade zone, it is a "cul-de-sac town", as it lies at the end of the east-west precarious road traversing the state of Acre. This and the relative closeness of coca producing areas in Peru had probably something to do with its becoming part of the network of cocaine trafficking and the trade in coca-based paste. This town of about 32,000 people (1996) had five bank branches that cleared 59,581 checks with a net worth of US\$25,867,483 in 1996. Connections to money laundering operations must have started early on, if the increase in the number of bank branches from two in 1971 to five in 1981 is something to go on. Nevertheless, here again, there is some evidence that the spin-off from drug trafficking may be stimulating the emergence of legal urban-based activities: local GIP in 1996 was US\$73,700,000, 68% from tertiary activities. Cruzeiro do Sul also hosts an airport and its bank branches leases a 24-hour satellite service for data transmission of money orders. Whereas 78% of urban labor holds informal jobs in Cruzeiro, Tefé's informal sector comprises 90% of total employed labor in urban jobs. Data on the functional distribution of formal labor jobs in Cruzeiro do Sul shows a significant proportion employed in commercial and hotel services, which suggests that the town benefits from outside visitors in a higher level than Tefé. Note that Cruzeiro do Sul is one of the main nodes of the criminal and political network connected to drug trafficking which was discovered some years ago and will be briefly described in the last section (*Section C*) of this chapter (the Cameli-Hildebrando case).

Comparison of data from these three towns suggests that, linkage to money laundering networks do not have the same "positive" economic effect as does the association of money

laundering to drug traffic networks in specific, usually strategically located, places. It begs the question of our research project since its beginning in 1995: *has the drug trade and money laundering had a hand in the region's economic development, that is, in the financing of legal activities?*

The most money associated with cleared checks in the region came through the cities of Manaus, Belém, and Cuiabá, the largest and most important in the Brazilian Amazon region. The development of international tourism has expanded the air traffic network through Manaus, which is also well situated for river traffic, and a newly surfaced road links Manaus to Venezuela, Colombia, and Guyana, one of the alternative ports for shipping cocaine to the United States and Europe. Identifying the contribution of national and international drug trafficking to the expansion of these three cities is difficult; however, all three occupy strategic positions in relation to the main regional and international traffic corridors.

b) Electronic transfers

The check clearance data do not give us a full picture of movements of money in the Amazon region. As in the rest of the world, electronic transfer is the main channel for moving funds. From an inventory of the points in the Amazon region connected by the DATASAT-BI satellite communication network service in 1994, we identified the towns directly linked to the rest of the country. This service operates around the clock, so leasing this service is only justified when the movements of funds offsets the price of the service. The banks are DATASAT-BI's main clients, and most of the towns in the region are directly linked to São Paulo, where the headquarters of most banks are located. An interesting finding is that some places like the small town of Tabatinga, strategically located on the Solimões River between Colombia and Peru, which has only two banks, still maintains a direct satellite link with São Paulo. Tabatinga and neighboring border towns is the subject of a Masters thesis currently being developed by a member of our research team. Direct connections of other small towns to the Brazilian Northeastern and Southern Region suggest that the money-laundering network may be indeed complex.

The Eastern Amazon Basin and the Coca-Cocaine Complex

Researchers have pointed out control over the territory — geographic or functional — as a necessary condition for individuals and organisations carry on their activities in the illicit drug trade. Nevertheless, social scientists studying criminal organisations often neglect the territorial dimension, a fact abundantly clear in the existing literature. Could it be that for many social scientists territory is an *empty space*? A strong case has been made by Robert Sack in his study of human territoriality that the modern mode of thought conceives space as a framework for events, thus events and space would be only contingently related (Sack 1986,37). Nonetheless, human activities and practices are they legitimate or illegitimate *make* the territory, adapting to, knowingly interacting with what is in place, and actively pursuing what is not. In this sense, human territoriality is not a neutral but an active element, a product of competing strategies and projects changing over time and highly differentiated in its political, economic and cultural density. Our purpose here is to consider some of the interactions between the illicit drug trade and the use of territory, at the scale of the Amazon basin in South America.

Agriculture frontier, illicit drug trade and the Amazon basin

The territory we are concerned with is the eastern section of the greater Amazon River drainage basin in South America, an area of approximately 8 million km². Marginally incorporated into the coca/cocaine complex it is mainly an alternative route for transit and export of cocaine, and secondarily a cocaine processing zone, as well as intermittently used for money laundering. The eastern section, comprising 63% of the basin, belongs to Brazil, and forms more than half of the country. Although most of the Amazon basin is still covered by sparsely occupied rain forest and tropical savannah, since the end of the 1950s the Brazilian section has been the target of considerable efforts of the central government to integrate the region to the rest of Brazil. Rural and urban settlement projects, pioneer roads and other infrastructure attracted intermittent flows of immigrants from other Brazilian regions, in the order of millions. By the 1980s, when the initial migratory and investment impulse had already begun to die down the burning and felling of trees attracted the criticism of ecologists and the international media.

Both the internal perception of the region as a national frontier of agriculture and the external perception of it as an area of ecological risk, have hampered a broader view of the greater Amazon drainage basin.

At least two different kinds of process should be taken into account when considering the use of territory in the greater Amazon basin. They interact, but are distinct. The first process is the integration of the territory into geopolitical and geo-economic schemes, both national and international. The second process concerns the agriculture and urban frontier that has sprung up in the greater Amazon basin.

With regard to the first process, central governments, international agencies, non-governmental organisations, big business concerns, all have their stakes at play, and cannot help but view the region "from above". The strategic advantage of this view is the ability to abstract from the human element, conceiving the territory as a set of points (places) and lines (networks), and as a subsystem of the national or international system. The drawback is that by underestimating the living element, questions of conflict, legitimacy, and control are neglected.

International drug trafficking organisations are the illegitimate dimension of the same process. The operation and logistics of international trafficking also demand strategies with a broader geographical perspective. In fact, a good case can be made that traffickers are the first to use the Amazon basin successfully as a functional unit, and act in tune with events in neighbouring countries.

Major coca/cocaine producing areas are located at the western border of the greater river basin, corresponding to the Andean piedmont and more recently, to the Amazon regions of Colombia, Bolivia, and to a lesser extent, Peru. Despite the lack of a good road transportation system, fluvial and airway transport have been able to connect the western section to the eastern one and thus to the Atlantic coast, a possibility not lost to traffickers. Knowledge of business possibilities in the neighbouring countries also helps. An example is the purchase of large tracts of land on both sides of the international border, an age-old means for all kinds of illegal traffic. Another example is the fi-

nancing of facilities and infrastructure in neighbouring countries, which can be used by both illicit and licit activities and pave the way for new partnerships.

The major drawback of the view "from above" for illicit export and trafficking organisation schemes is obviously their greater exposure to risk on the ground. Thus, the business must also integrate the view "from below". Drives for legitimacy have to be of a local character. Furthermore, operations depend on complex and unstable information and communication networks. To do business and diminish risks entails the creation of communication nodes between different levels of the social and political territorial organisation. To ensure the flexibility of routes, money-laundering circuits and political alliances must be highly adaptive to different socio-political environments and include a broad range of actors of different incomes, schooling, and nationality. Therefore, unlike legitimate organisations, criminal export and trafficking organisations cannot afford to consider territory as an empty space. This might partially explain the tolerance or even acceptance they enjoy in some places and groups, even without bribes.

Settlement processes in different countries share significant characteristics, but also have important differences. Three such differences may immediately be mentioned. First, in the Colombian, Bolivian, and more recently Peruvian Amazon regions, the greater part of the colonisation process is self-organised, whereas in the Brazilian Amazon the central government actively sponsored it, in both in the institutional and the economic arena. Secondly, the main immigration flow to the western Amazon basin was predominantly rural whereas in the Brazilian section immigration flowed to both urban and rural areas. Rural immigration in the western section was due; of course, to coca production becoming the principle incentive for extending the agriculture frontier, whereas in the eastern section a more diversified allocation of resources encouraged other activities. Nevertheless, the absence of a strong cash crop in small peasant landholdings in the Brazilian section can explain the economic stagnation of many colonisation areas. The third difference is more in the nature of a contingency. Whereas immigrants to the western section of the basin have found employment in activities connected to the drug trade in coca producing areas, immigrants to the eastern section are overwhelmingly employed in

low-paying informal labour markets in both urban and rural areas, with less structured links to the drug trade. It should be taken into account, however, that the line between the informal and the illegal sector is very tenuous, as many analysts have shown. Both sectors are excluded from benefits and rights, and from rules covering property relationships.

Similarities can be found between recent settlement processes in Colombia (*Vargas, Barragán* 1996), Bolivia (*Cortez*, 1993; *Laserna* 1997) and Brazilian Amazonia (*Machado*, 1992). On the ground level, the first common feature concerns the quest for free or cheap land as the main motive for rural immigration to the region. This is linked of course to the high concentration of land ownership that characterises the agrarian structure of each country. Another common feature is the low or in-existent technical education of both peasants and workers. The need for supplementing income by working in more than one activity is another common feature, which can also explain the growth of the informal labour market and labour mobility. Phases of the colonisation process are likewise similar: clearing, felling and burning of the rainforest, followed by exhaustion of soils and social differentiation of colonists, substitution of small landholdings by extensive cattle raising, and concentration of landholdings. Another important similarity is the observable change in the expectations of immigrants. These are not early 20th century self-sufficient family farmers but candidates to profitable livelihoods and urban-based goods and services. A precarious justice system with high levels of impunity, particularly of white-collar crimes, is also a common characteristic. Finally, among the similarities we mention the ecological issue presented by extensive deforestation of the basin. Here we somewhat diverge from the thesis that the "coca frontier" is the principal agent in deforestation. Wanton destruction of the rainforest can be found anywhere in the basin and cannot be specifically tied to the coca economy. Cattle-raising, multinational lumber firms, land market speculation by both small and large landholders, low technological and investment capacity and fluctuations in the regulatory framework of the economy, all have a part in the deforestation process.

Two other aspects should be taken in account when one tries to make sense of the local situation and its interaction with drug trade organisations. The first is the need to distinguish between the high and the low illicit drug trafficking circuit. They

certainly enmesh at some point but their insertion and geographical scope of action is different. The higher circuit corresponds to international drug trafficking organisations seeking large-scale distribution of drugs in international markets and the creation of complex trans-national money-laundering networks. They also make use of legal and financial expertise. The lower circuit may be tied to coca producing zones and the inner workings of the producer to consumer chain, but their mode of insertion can be more casual and periodical than the former. As pointed out by Roberto Laserna (1997, 68) individuals in the lower circuit are not necessarily specialised criminals but join the trade to obtain needed funds for their principal (usually informal) activity, or to supplement meagre incomes. The distinction is especially important in transit countries such as Brazil where truck and taxi drivers, pilots, landholders who eventually rent land for storage of drugs, fit into these categories. Other links to drug trafficking activities can be found between the high and low circuits. One interesting example is the participation of small investors in the "financial drug market". Cloning the legitimate ones, these markets operate with risk and high profits, selling shares for each cocaine shipment, the quoted price depending on the quality of the product. The usual "shareholders" and "risk takers" are low-paid informal workers looking for higher returns for their small investments. Each stop in route to the international markets can bring a return of between 100% and 500% to a group of small investors, tax-free. Most of the time no direct contact with drug traffickers is necessary, only with their "business representatives". The system operates on trust, following the model of informal lotteries.

The second aspect concerns the investment of illegal profits in legal activities. This is relevant to the Amazon region, and one of the key questions underlying research of the coca-cocaine complex is the extent to which it may foster *regional* economic growth. The discussion by G. Fiorentini and S. Peltzman (1995) of the economic approach to the study of criminal organisations is suggestive in this respect. Especially interesting for the Amazon region is the idea that definition of property rights may be paramount in explaining not only the origin of organised crime but also the investment of illegal profits in legal activities. Entrepreneurs allocate resources in appropriative (rent seeking) or productive activities depending on the relative returns of the two activities. Inefficient property rights over

resources would encourage investment in rent-seeking activities whereas a stable definition of property rights would favour investment in productive activities (1995, 9). Thus, criminal organisations would prefer to locate their investments in regions where there are problems in the definition of property rights (1995, 25).

Instability of property rights is a constitutive element of agriculture frontiers. In the case of the countries concerned, it is also a countrywide characteristic, which makes matters worse. In the Brazilian section of the basin, conflicts over property rights of land and mineral resources have been the norm of the settlement process (Martins, 1980; Oliveira, 1987). In Colombia, where researchers have amassed considerable data on the investment of illegal profits in legal activities, the preference of criminal organisations is towards rent seeking activities, such as the real estate business and large rural landholdings (Vargas, 1994; Thoumi *et al.*, 1997). On the other hand, criminal organisations also invest in productive capital formation at the local level, even in environments where inefficient property rights prevail (Castro, 1999).

Modes of territorial organisation of the coca-cocaine complex and their effects in the eastern Amazon region

Since the emergence of the coca-cocaine complex in the Amazon basin in the 1970s, two different modes of territorial organisation can roughly be identified. The first mode, which predominated till the beginning of the 1990s, ranked Peru and Bolivia as the largest producers of coca leaf and coca paste, and Colombia as major producer and exporter of cocaine. In response to changes in both the internal and external arena, this "division of labour" has undergone some adjustments and given rise to a second mode of territorial organisation. In the 1990s, Colombia also became a major producer of coca leaf and coca paste. On the other hand, Peru and Bolivia experienced a decrease in coca leaf production and a trend towards cocaine production. In other words, there seems to be a tendency towards a vertically integrated mode of organisation within the limits of each country. However, this is only a tendency; as mentioned above; illicit trafficking organisations are flexible in order to adapt itself to changes in the environment. Below, we will attempt to describe briefly some of the possible effects of these two modes of organisation in the Brazilian Amazon region.

It has been suggested that the functional arrangement characterising the first mode of organisation could have been at least partially inspired by Colombian trafficking firms, which were the first to exploit the demand and high prices for cocaine in the United States market in the 1970s. Within this mode, Brazil and its Amazon region seem to have played a minor role in the South American export network. Preferential routes to the United States stretched along the Pacific Rim with a branch crossing the Caribbean Sea, reaching into Florida and the Gulf of Mexico. Conveying of cocaine by small aircraft was a constant of Brazilian law-enforcement agency reports during the 1970s and 1980s, as was the "discovery" of irregular airstrips amid the rainforest. Although data on seizures should be interpreted with caution, the average figure for the whole country in the 1980s was less than one metric ton. With few exceptions, most of the existing data comes from the Federal Police and the Federal Highway police, the state police falling well behind in seizures. There is even less consistent data for trafficking in coca paste and cocaine base.

If it is hard to establish exactly the extent to which the Brazilian Amazon territory was used by international trafficking networks, data on the number of banking branches suggests that some of their financial operations were carried on in the region since at least the beginning of the 1980s. Focusing on the Brazilian states of Amazonas, Acre, and Rondonia, which border Colombia, Peru and Bolivia, the total number of bank branches increased 76% between 1981 and 1985, compared to a 26.5% average national increase. Breaking down the total by each local state, we find a 38% increase in Amazonas; 82% in Acre, and 173.5% in Rondonia.

This could be interpreted consequently, at least in the case of the last two states, of migratory flows to the agriculture frontier. However, breaking down the data even further, we find in all three states that the biggest increase took place in towns with less than 25,000 inhabitants with a minimum level of urban functions, low-paid workers and economically weak hinterlands. Within this group of towns, the number of bank agencies grew by 58% in the state of Amazonas; in Acre, by 107%; and in Rondonia by 209%. Overall, 62 towns with less than 25,000 inhabitants in the three states had between themselves 78 bank agencies in 1981. In 1985, for 80 towns, including new pioneer towns, there were 163 agencies, pushing the town/bank ratio up from 1.26 to 2.04. As to the

number of cleared checks, only available at the state level, we find that between 1980 and 1982 there was a 55% increase in Amazonas; 67% for Rondonia and 36% for Acre, compared to an average 33.5% growth for the whole country.

These figures are not self-explanatory. Other factors should be taken into account before dismissing the possibility that the Brazilian Amazon region was already being used for money operations since the 1980s. First, coca and cocaine production nearly doubled in Bolivia, Peru and Colombia in the same period, entailing money operations to finance trafficking activities and eventually to launder profits. Nowhere in the basin, except in the Brazilian section, was there a network of private and public banks linked to national and foreign financial centres and able to extend itself towards any place where money was circulating. Second, the spread of the banking network in the Brazilian section of the basin cannot be explained solely by immigration or by the dynamics of economic growth. Interestingly, these were the years of the international debt crisis and stagnation of economic growth for Brazil and the Amazon region. Finally, there was a significant increase of bank agencies in all three states despite the differences in colonisation settings, amount of immigrants and business endeavours in each state.

By the end of the 1980s, the second mode of territorial organisation had emerged. Several hypotheses have been put forth to explain why this happened. One of them is the "War on Drugs" effect, which increased US political and military pressure and presence in Andean drug-producing countries, disrupting old organisations and trading routes and interfering in the division of production between these countries. Another hypothesis would be a growing connection with organised crime in other countries, which has opened up markets in geographical areas outside of the United States (where cocaine prices decreased). Still another would be new partnership between bordering countries, disrupting old alliances.

Whatever the explanation, a greater portion of cocaine exports was shifted to the Atlantic seaboard and from there to Europe and Africa, thus increasing the importance of the Brazilian territory as transit route for international trafficking networks. In the 1990s, the average seizure of cocaine in Brazil was 5.24 ton, more than five times the 1980s average, although

the increase in seizures was also a consequence of governmental efforts to control illicit drug trafficking in the last decade (Machado, 1999). The sprouting up of cocaine "labs" in many parts of the country and the seizure of containers shipping coca paste and cocaine base from the far western borders to towns and cities in the Atlantic seaboard indicate a greater participation in cocaine (and "crack cocaine") production. A number of "laboratories" have been found since the end of the 80s, mainly in the Brazilian states of Mato Grosso and Mato Grosso do Sul, located to the south of the Amazon river valley and sharing a 3,126 km border with neighbouring Bolivia, crossed by railway and road. As domestic cocaine consumption remains negligible compared to that of other countries, it is reasonable to suppose that the main target is still the international market. Within the limits of available information, it is probably with Bolivia that preferred partnership have been established. Research is currently under way to explore the reasons why Bolivia has become a favourite partner.

There were two other effects of the second mode of territorial organisation in the Brazilian Amazon region. The first is the emergence of a more complex intermodal transportation system. Rivers, roads and local, national and international airports were more fully integrated into the logistics of the international drug trafficking. Within this system, specific preferred routes seem to have evolved between each of the three Brazilian Amazon Border States and neighbouring countries. Thus, the state of Amazonas is the preferred route for Colombia and Peru, whereas Peru and Bolivia have stronger connections with the states of Acre and Rondonia. Of course, this arrangement does not exclude triangular routes. For example, the port facilities at Iquitos in the Peruvian department of Loreto can receive airborne cocaine from southwestern Colombia and then ship it to Brazil by way of the Amazon River (or to Lima and from there to the United States).

In fact, the valleys of some of the largest tributaries of the Amazon River crossing international boundaries have become territorial axis of drug trafficking logistics. In the northwest of the Brazilian Amazon region, the valleys of the Putamayo, Caquetá, Vaupés connect the Colombian coca producing agriculture frontier to the sparsely occupied lower valleys of their Brazilian counterparts — respectively, the Iça, Japurá, and Uaupés-Negro rivers.

The Madre de Dios River valley after crossing Peru and Bolivia merges with the Madeira River, one of the longest tributaries of the Amazon River. Puerto Maldonado seat of the Peruvian department of Madre de Dios has become a transshipment node for cocaine base and cocaine export using small planes and boats as carriers through the Brazilian states of Rondonia and Amazonas. The Beni and the Mamore rivers, other main tributaries of the Madeira River links the main coca producing zones of Bolivia, the Yungas and the Chapare, to the states of Rondonia and Amazonas. And so on.

The well-known association between drug trafficking and smuggling, also holds true in Brazil and in the Amazon region. Pathways are two-way routes: gold, electronic products, chemical precursors, commodities, small planes and stolen cars are some of the goods smuggled out of the country in exchange for coca paste or cocaine, weapons or other industrial goods. This means of course that the illicit drug trade has ramifications in many sectors of the economy.

The other notable effect is a tendency to concentrate drug trafficking and money laundering operations in a few of the largest towns while simultaneously extending Amazon based networks to other regions of the country. It is reasonable to suppose, however, that these effects could also have been the result of interplay between the organisation of the coca-cocaine complex and independently generated changes undergone by the Amazon territory in Brazil during the 1990s. Not only has the regional urbanisation process become more intense but local entrepreneurs have intensified as well their business connections with other Brazilian regions. Investment strategies of the legal and the illegal economy may possibly be converging.

Local economic effects of drug trafficking networks

To gain some perspective in this whole process of the use of territory we may consider some parallel and contrasting cases of the local effects of illegal activities. In the lopsided triangle formed by the state capitals of Porto Velho (Rondonia), Rio Branco (Acre) and Manaus (Amazonas), Manaus has become the centre and principal beneficiary of illicit drug export organisations operating in the eastern section of the Amazon basin.

Besides its function as state capital and Foreign Trade Zone, which has made it the highest-ranking "metropolis" of the Amazon Basin, the city (one million inhabitants, 1996), has become a strategic transshipment node for the high circuit of cocaine international trafficking. Since the end of the 1960s it is a point of entry for Japanese European and US imports (electric-electronic components), exporting the finished products to the rest of Brazil and to other countries. Blending with the urban economy, a wholesaling centre for cocaine exports has emerged with connections to the Brazilian Northeastern and Southeastern regions, Venezuela and the Guyanas. Manaus contains 67% of the state's 120 banking agencies (1999), up from the 56% registered in 1996. Not only did the city concentrate 48% of the state's total population in 1996, but also 76.6% of the state's nine billion US dollars gross domestic product (GDP).

On the other extreme of the urban *and* illicit trafficking network hierarchy, the "town" of Atalaia do Norte (2,914 inhabitants), situated in the Peruvian frontier and an alternative transit point has a GDP of five million US dollars (1996) and two (legal) airfields. Nearly all labour (96%) is employed informally. Another transit point, the even smaller "town" of Japurá (1,433 inhabitants, 1996) in the Caquetá-Japurá river has one of the lowest GDP of the state of Amazonas, less than one million US dollars, one airstrip and 98% of labour employed in informal activities. As traffickers use transit routes intermittently, small towns and villages along the way have little to gain on the long run. Nevertheless, the "long run" is nothing to the local population; their point of view is "here and now". The building of a simple port infrastructure, a meagre increase in the number of visitors and small money inputs into local trade is what (understandably) matters to them.

Links to low and high drug traffic and money laundering circuits matters seriously when they are perceived as a chance for a "take-off" or for "multiplier effects" on the fortune of individuals or localities. This is more than solving a cash problem or lack of employment opportunities. This is to take opportunity of quick enrichment a step further than a chance event. Inefficient property rights cannot explain by themselves why this happens in some places and not in others. A conjunction of circumstances such as ethno-cultural heterogeneity, a profit-seeking mentality and the potential to establish business, political and

socialising networks cross-country, brought together by immigration processes in particular geographical locations, may help explain the emergence of this kind of environment in the states of Acre and Rondonia. Groups of local entrepreneurs in these states have sought and found functions to be performed and profits to be earned by linkages to cocaine export organisations.

The town of Cacoal (44,811 inhabitants, 1996) in Rondonia may exemplify such a process. It was a striving pioneer town in the 1970s, part of a colonisation project sponsored by the federal government. Like other pioneer towns it was placed along the main road of access to the state. Southward, the road links the state to the "core region" of Brazil in the Atlantic seaboard; northward, by road to the state of Acre and by the Madeira River to Manaus. Like many pioneer towns, its function as an urban service centre for settlers was stunted by the mediocre economic performance of small to medium-sized landholdings in the surrounding area. Both rural and urban immigrants came mainly from the developed areas of the Southwest and South of Brazil but also from the impoverished Northeast and from the neighbouring state of Mato Grosso.

In the beginning of the 1980s, a road was built linking the area to the border of Bolivia, some 450 km to the west of Cacoal. In 1980, the town had 17 634 inhabitants, but between 1981 and 1985 the number of banks jumped from 4 to 9 and the import-export business soured. In the next decade, while the number of banks decreased the urban population grew (46,811 inhabitants, 1996) to become the fourth largest town in the state; one mayor became state governor; and a satellite service, predominantly used for electronic money transfers, was installed. The township's GDP of a little more than 220 million dollars in 1996, mostly from the service sector and industrial sectors (71%), is not entirely consistent with the value of cleared checks (one billion four hundred fifty eight US dollars). Nor is the value of checks consistent to the 1996 total GDP of the surrounding municipalities (one billion six hundred forty US dollars). By the end of the nineties alternative drug trading and money laundering routes and business centres have sprung up elsewhere in Rondonia. The town still struggles for survival, one or two individuals are pointed out as having made money with cocaine trafficking in the past, smuggling still goes on at the border but on a lesser pace, and local entrepreneurs are fighting for less

taxes, more credit and better roads. A lot of money has passed through the town and the region. Some of it stayed there, invested in big cattle ranches or store chains. Nevertheless, their owners are rarely seen, having ascended to other legitimate (or illegitimate) activities elsewhere in the region, the country or in foreign parts. On the other hand, dozens of towns with similar stories of linkages to the illicit drug trade can move the local economy by attracting legitimate business such as airway companies, banking, multinational chemical firms, and so on.

Concluding Remarks

The territory of the Amazon basin is on the brink of new events, in both the western and eastern sections. In the western section, conflicts between the military, drug traffickers, leftist guerrilla movements, coca producers, national and foreign governments has reached a new level of tension and action. In the eastern section, the Brazilian government is trying to counter possible spill over effects of these conflicts by a stronger presence along the border, and at the same time promote development projects as an alternative to illegal drug trafficking activities. On the other hand, ecologists are worried with the use of chemicals to destroy coca plantations and with projects that endanger the rainforest. But as aptly observed by a social scientist some years ago in this same journal, neither reasons of state, sacred ideologies, or strategic planning of the future can justify disdain for the interests of the people (*Rahnema*, 1988).

Drug Trafficking Control Measures and their Geostrategical Implications in the Amazon Region

In the last few years, measures to counter transnational drug trafficking and money-laundering networks have become the focus of an intense effort of the Brazilian government, leading to the adoption of a specific legislation and the forging of an institutional framework. By acknowledging that these activities are linked to global organised crime and to domestic and international corruption schemes, the government is bringing together previously isolated problems, thus changing the conception of the subject. One of the changes is to consider transnational drug trafficking control policy an "internal security" issue instead of a police problem that can be resolved by

appropriate technical measures. By adopting this approach, the Brazilian government is joining what has been called the "international nexus" of drug control, led by high politics (departments of foreign affairs, defense department)⁽²⁾. Money laundering is also contemplated by these macro-policies as an illegal and connected activity, but the trend is to treat it as an economic more than political issue.

The purpose of this section is to examine how these new policies come together in the Brazilian Amazon region, the main target-area for their enforcement. Our study's assumption is that control of both activities has different political and economic implications. Control of transnational drug trafficking inside national borders is susceptible to a three-layered environment, namely, local politics, regional development alternatives and US geo-strategy in Latin America. On the other hand, measures to counter money laundering involves domestic economic and financial policies and are particularly susceptible to the degree in which international banking and financial system perceives this activity to be a threat to its own stability.

The chapter is organised as follows: subsection I briefly discusses the definition and scope of the institutional and legislation framework being built to establish minimum control mechanisms of transnational drug trafficking and money laundering in the Brazilian territory. Subsection II discusses some of the political and economic implications of these new policies. Geopolitical implications of drug trafficking control in the Amazon region are explored in Subsection III.

Macropolicies

The creation of an institutional structure to deal with international drug trafficking and money laundering is recent. In 1996 the government launched the National Antidrug Plan, after much discussions and negotiation rounds both in the domestic scene and abroad. The launching of the National Defense Policy was in effect the proposal of a new approach to defense strategy. The document evaluates that changes in the world order demands new directives for internal and external defense issues, foremost the re-examination of the limits to the power of national states. One of the directives outlined in the document was military support to anti-drug operations and the displacement of Army troops from the Southern Cone to the Amazon region and

(2) The "international nexus" is patent in Laurent Laniel's excellent report of the United Nation Summit on Drugs.

boundary zones. Finally, in 1999, the federal government was able to assemble an institutional structure and legislation concerning anti-drug and anti-money laundering macro policies.

a) Institutional-building

The model for institutional-building was the network. The idea was to overcome divisions and structural antagonisms of the bureaucracy by bringing them together and stimulating negotiation processes. Albeit the encompassing name — the National Anti-drug System, the institutional structure effectively separates drug trafficking and money laundering control programs, closely following the international reference model that distinguishes the nature and scope of each issue.

Drug trafficking control was initially carried out by a special secretariat (SENAD) and by a council (CONAD) directly linked to the Presidency (Figure 1). The key node of the network is the Institutional Security Cabinet. Until very recently, and for the last sixty-three years, it was the Military Cabinet of the Presidency, by tradition an office headed by a high rank army officer. One goal of the institutional reform is the subordination of the military to civilians in governmental hierarchy; another is the structuring of an Intelligence agency. By linking the agency to a civilian Institutional Security Cabinet, the government may now open the way to negotiate its creation with a renitent Congress.

The anti-drug secretariat's main function was to integrate all governmental policies for the prevention and repression of illicit trafficking and of drug abuse, including the definition of policies for the treatment of addicts. It was also responsible for the administration of bilateral agreements concerning transnational drug trafficking. As Figure 1 shows, from 1976 onwards the Brazilian government signed treaties with all neighboring countries, mainly with those located around the Amazon River basin. This seems to indicate that the government did not entirely underestimate the possible effects of the cocaine boom of the 1970s in the Amazon region. On the other hand, from 1990 onwards, the geographical scope of diplomatic agreements has expanded, a reflection of the new parameters shaping decision-making. A year later, tensions between the SENAD and the Federal Police caused by conflict over who should be responsible for drug trafficking repression and intelligence culminated in the anti-drug secretariat losing much of its power

when the Federal Police became the sole responsible for repression policies and field actions. On the other hand, Army Intelligence offices began working more closely with the Federal Police.

The Ministry of Justice (1996) originally planned the COAF (Council for the Control of Financial Activities) as an empowered group in charge of regulating, identifying and investigating money laundering activities. Along the way some fundamental changes were made, such as subordinating COAF to the Treasury and somewhat reducing its power of regulation and investigation (1998). The Central Bank, the Internal Revenue Service and the Federal Police are the key players in the Council (Figure 2). COAF's structure also follows the general recommendations of international institutions, as OECD and UNDCP, by positioning itself as a Financial Intelligence Unit (FIU). Brazil, Argentina and Mexico, initially invited to the meetings of the Financial Action Task Force (FATF) as observers, were finally accepted as members. The opening, considered as an important step to the negotiated adoption of the 40 FATF recommendations, means in effect the adaptation of anti-money laundering measures to the increasing freedom of financial flows (and not the other way around). Membership in the FATF also implies abandoning a regional approach to money laundering control, which tends to ignore the global nature of the problem.

b) Legislation

Anti-drug legislation in Brazil has been intermittent since 1938. Laws and regulations were mainly concerned with domestic use of narcotics and, secondly, pharmaceutical drugs. Brazil signed the 1961 Single Convention of Narcotics Drug, the 1971 Convention against Illicit Traffic in Narcotics Drugs and Psychotropic Substances and the 1988 United Nations Convention (Vienna). During the 1980s, there were more laws, acts and regulations concerning drug trafficking and correlated activities than at any other time before. However, the forfeiture act and the creation of a special fund with assets seized in drug-connected crimes, formally adopted at the time, were not implemented. In 1995, a comprehensive law established control of chemical precursors for cocaine production and regulation of money and values transportation firms. Finally, in 1998 (October), a special governmental Act created the National Anti-drug System.

Regulations pertaining to money laundering started in 1999, after the 1998 law that made it a criminal offence (the same law created the COAF). Of the underlying activities related to laundering, the law targets the profits from illicit drug trafficking, arms smuggling and extortion by kidnapping. The Ministry of Justice was adamant in emphasizing the connection with drug trafficking, a decision that limited the general scope of the law but was instrumental for its speedy approval by Congress. The limitation was somewhat atoned by another government measure during 1998.

The Bank Secrecy Act entailed an amendment to the Constitution. It was the first time in thirty three years that changes were introduced in bank secrecy rules. The model was the US Bank Secrecy Act (originally passed into law in 1970) which provides law enforcement with two basic tools: a paper trail of bank records to be maintained up to five years and the filing of a report by financial institutions whenever a currency transaction exceeds \$10,000 (the same limit applied in Brazil). Included in suspicious transaction reporting requirements are wire transfers, bank checks, bank drafts or other written orders of transfer and cashier checks. Bank secrecy can be broken after a criminal process is underway and information on bank accounts can be supplied by the Central Bank, and by private banking and financial institutions, to several government branches.

Law and regulations concerning money-laundering activities did not include basic banking and foreign exchange laws, although banking rules designed for legitimate business but not covered by anti-laundering legislation usually help money laundering and tax evasion. For example, in Brazil, the Central Bank Rule 5 (CC-5) permits the opening up of dollar accounts by foreign-based firms to make legitimate business transactions. It has been consistently used by firms and individuals, usually with the mediation of offshore centres, as an instrument to bring back, or send overseas, proceeds of tax evasion (which re-enters the country as foreign investment capital), corruption rings, contraband or drug trafficking.

Macro policies Implications

a) Political Implications

Unrelenting political pressure exercised by the United States had much to do with the decision to create the Anti-drug System. The first to agree to this contention, of course, would be the US government. It has repeatedly stated that diplomatic and political power should be used in integrating international drug control into the overall policy interests of governments in the Americas (Van Wert, 1988; International Narcotics Control Strategy Report, 1991), in addition to internationalising the drug/narcotics control regime (McAllister, 1995; Escohotado, 1994; Musto, 1999). Nevertheless, even if it is an important — indeed the dominant — factor, US political pressure is a purely contingent matter. Other factors may explain the political implications of macro policies concerning international drug trafficking in Brazilian territory.

First, a complex situation has emerged in the world system of nation states, with the increase in the number of activities, likewise decision-making, taking place at the global level (financial flows, environmental management, communication networks, technology, organised crime, and international police). States adapt to this situation by developing new forms of adaptation and defense. A case in point is the extensive program of economic liberalisation and state reform undertaken by Brazil and other Latin American countries. In the aftermath of these changes, governments have had to assimilate (or turn away) potentially hostile external and internal forces. From a state-(re)building perspective, the product is a network of juxtaposed components. Thus, control of illicit drug trafficking and money laundering are not isolated decisions, but part of a comprehensive political effort to maintain state legitimacy and adjust the institutional environment to the increasing pressure of a "local-global" world system.

Second, the building up of an institutional framework is giving a new political status to the control of illicit activities by signaling that it involves much more than drug peddlers and police activities. Perhaps the single most important effect is encouraging competition between and within organisations (political parties, the administration, pressure groups) in the investigation of linkages between transnational drug trafficking and *domestic*

corruption networks, that is, the corruption of democratic politics (Castells, 1998; Fraga, 1998). In 1998-1999 a Congressional investigation on drug trafficking has made headlines by finally unveiling a widespread drug trafficking-money laundering-corruption network run by well known politicians and members of the criminal justice and law enforcement local state apparatus (the Acre case).

On the other hand, competition within the administration is also a source of tension and obstruction of information flows. Complaints of Central Bank delays in conveying information to the Anti-rug Secretariat (SENAD) investigation efforts, or defense and foreign affairs administrators at odds with the Internal Revenue Service and the Federal Police in matters of strategy and enforcement are cases in point. It is not only a question of different administrative goals but of linkages with other networks. For example, the most successful operations of the Federal Police are based on information handed out by US Intelligence agencies. Law enforcement is hindered by lack of personnel, funds and organisation level to deal with long-term investigations and access to information abroad. Because of their dependence on outside information, the Federal Police has been criticised for giving precedence to out-bound "flows" of illicit drugs, a US government priority, instead of targeting them at their entrance in Brazilian territory.

Finally, building up an institutional framework run by civil administrators and subjected to civil codes is an important move to withstand the pressure for a greater involvement of the Armed Forces in anti-drug operations. For some years now, US "war on drugs" experts have tried to convince the Brazilian Army to have a more active participation in field operations, following the pattern put into place in neighboring countries. Understandably, nationalist feelings play an important role in the Army's refusal in subordinating itself to US civilian and military personnel. Closer to home, however, there are other powerful motives.

First, since the end of the military dictatorship (1964-1984), the Brazilian Army has painfully struggled through a legitimacy crisis and has partly succeeded in regaining public confidence. To act as a "police force" in local operations would be a serious setback, considering the low public confidence in policemen (see *Zaluar*, 1994). The fiasco of their anti-drug trafficking intervention in Rio de Janeiro some years ago corroborates their stand in the

issue. Second, the fear that troops and officers directly engaged in anti-drug combats are opened to corruption. In 1999, thirty-five kilos of cocaine was found in an Air Force plane bound for Europe, launching an ongoing investigation of officers and Air Forces bases involved in drug transport. Third, a greater involvement in anti-drug operations could undermine the Army's present policy of participation in welfare and social logistics support, particularly in border zones. As mentioned above, the National Defense Strategy carefully states that the role of military forces in anti-drug efforts is to offer logistic and intelligence support.

b) Economic implications

In the 1990's, a majority of Latin American governments, including Brazil, embarked in a developmental program strongly anchored on the liberalisation of financial markets and the opening up of the banking sector to international banking networks. Intensification of cross-border capital flows and the multiplication of financial services is paramount to the efforts of these countries to attract international investment capital. Linkages to the international money market, however, seem to present at least two inconvenient side effects: one is a larger degree of exposure to financial fluctuations at the global level; the other, a greater exposure to international money laundering schemes.

Although financial experts seem to have reached the conclusion that laundered money from illegal sources comprises a small portion of the trillions of dollars flowing around the globe, they also point out that the portion may be a significant one (UNDCP, 1998). Accumulated balances of laundered assets and legitimate assets held by criminal organisations are probably much larger than the annual money laundering flows estimated by international organisations. The problem is the difficulty of measuring proceedings of a concealed activity, both in the domestic and international level. A commonly accepted devise is to look for "traces" of money laundering, that is, indirect techniques of observation, by indicators or proxies. Colombian researchers working at the local level (*Vargas*, 1994; *Reyes*, 1997) have used direct methods of observation; the author in a regional level (*Machado*, 1998) used indirect techniques.

Exposure to money laundering activities is not only a matter of "hot money" flowing through the stock markets. Privatisation

programs and the deregulation of domestic banking systems also play a major role. In Latin America, control of bank assets has moved to the hands of large international banking houses operating through global networks. For example, in Argentina, foreign control of the country's total bank assets has jumped from 17% to 53%, between 1992 and the first semester of 1997; in Colombia, from 11% to 51%; in Mexico, from 2% to 59% (*Gazeta Mercantil*, 1999). For Brazil, the figures are less expressive (7% to 14% in 1997, to 22% in 1998); public banks still hold 27% of assets, down 44% since 1992, and national private banks, the rest. Several local state banks have been shut down in the last couple of years, most of them in the Amazon and Northeastern regions of the country.

Indeed, one of the reasons for the increasing attention paid by governments, international organisations and the international banking system to money laundering activities is the effect it may have on economic and financial liberalisation (*Quirk*, 1996). Adoption and implementation of international anti-money laundering standards are not entirely consistent with opening up domestic markets to cross-border money flows.

There is at least one economic implication of anti-money laundering legislation worth a closer look in Brazil, that of tax evasion and capital flight. The Internal Revenue Service has estimated a \$ 490 billion per year loss in taxes (1996). The amount of money moved by the underground economy in Brazil is probably larger, if one takes into account illegal, unreported and unrecorded earnings, and the informal economy. Although anti-money laundering legislation did not include tax evasion, the Bank Secrecy Act has become a powerful instrument in the hands of the government and its effects are starting to appear. In October of 1999, for example, the Federation of Industries of the State of São Paulo refused a governmental program settling debts with the government and the IRS because it also demanded reporting cash flows (*Folha de S. Paulo*, October, 1999).

If proceedings from tax evasion were invested in productive activities within the country, losses for the economy would be partly compensated. However, in Brazil, tax evasion is intimately connected to capital flight. Capital flight is not considered a criminal activity by international financial standards and is left off

anti-money laundering legislation. Its economic effects for the nation state, however, can be at least as serious as money laundering.

Small amounts can easily be moved abroad, by depositing local currency in a bureau of exchange and having them reappear abroad in whatever the strong currency chosen, usually dollars. Large amounts can be moved by a variety of methods. One of them is the "private banking" services offered by large domestic and international banking institutions. In 1990, two foreign and one domestic bank provided services. By the end of last year, there were 30 financial institutions offering the service. Studies by financial consulting firms show an increase in the use of private banking in Brazil: in the last three years, domestic deposits jumped from an estimated US\$ 25 billion to US\$ 45 billion; offshore deposits increased from an estimated 60 to 80 billion dollars (*Gazeta Mercantil*, June, 1999). Did tougher tax laws and the Bank Secrecy Act stimulate the move towards private banking, a legitimate banking activity? The probable answer is yes, since a (loose) correlation can be made between initial discussions of bank secrecy laws and the beginning of private banking services success.

Geostrategy Implications of Drug Trafficking Control in the Amazon Region

To the west of the river basin, on the mountains of the Andes, lies the coca producing areas of Bolivia and Peru. In the north-west portion of the basin, coca is produced in the Amazon lowlands of Colombia. Unlike Peru and Bolivia, where coca has been produced since pre-Incaic times, the Colombian coca-producing zone sprouted up after the coca boom of the late 1970s and early 1980s. Colombia is the centre of drug processing and drug trafficking for foreign markets; the three Andean countries produce 90 per cent of worldwide cocaine production of which roughly 73 per cent comes from Colombia (*Thoumi*, 1995; *UNIDCP*, 1998).

Although drug processing "plants" or "laboratories" have been found in Brazil, international drug trafficking organisations make use of the territory as a transit corridor and export platform, while using the modern domestic banking system as a money-laundering alternative. Seizures of cocaine by the Federal Police in Brazilian Amazonia represented 77 percent of a total of 4 tons in 1997, and 60 percent of the 5,8 tons seized in 1998

(*Federal Police Report*, 1999). Small airplanes and motor boats have been forfeited in special operations (Operação Porteira Fechada Norte). However, these figures should be interpreted with caution, since cocaine seized in other regions may have entered through the North, and there are no estimates of the amount of cocaine entering the country.

Below we will try to extract some of the political and economic features bearing on anti-drug trafficking control measures at the local level. A more systematic evaluation of the local effects of drug trafficking is being carried out but for now the aim is to bring together macropolicies implications in a regional perspective. A three-scaled approach permits some insights on the issue.

a) Local politics and domestic corruption networks

During the month of October 1995, several newspapers carried front-page stories on the possible involvement of the governor of Acre (a state located along the Peru-Brazil-Bolivia boundary) with Colombian drug trafficking organisations. The politician was a rich construction contractor who had started his political career as mayor of Cruzeiro do Sul, one of the main gateway towns for inbound drug trafficking (see Machado, 1998). In the course of an investigation conducted by federal authorities on grounds of corruption and tax evasion, he was charged for leasing of a Boeing 727-200, by one of his business firms from a US company (IAL Aircraft Holding) with head office in Miami and a branch in Panama. The second charge was an agreement with a Colombian business firm for a US\$ 165 million loan to be invested in upgrading the main state highway. The same firm had an agreement with the governor of Rondonia for a US\$ 700 million loan, approved by the State legislature, to be used in highway construction and house building for low-income families. Both governors alleged that they had to look for investors somewhere, to make good their campaign promises. In the Acrean case the state government offered large extensions of state-held lands as guaranty. By sending the agreement to the Central Bank for approval and because of the barrage of accusations thrown at him by rival fellow politicians, the governor finally attracted the attention of the public and both deals cancelled.

In 1998, during the process of closing the state bank of Acre⁽³⁾, the Central Bank reported a series of irregularities and fraud in banking operations, nominally indicating the governor as a com-

pliant partner. After leaving office he returned to the family business, and is still a major figure in state politics; he is also been prosecuted by the Internal Revenue Service for tax evasion and by the Office of the Attorney General for corruption.

In May 1999, a Congressional hearing on drug trafficking started to investigate a newly elected fellow Congressman, formerly a state military officer and member of the state legislature who, allegedly, was the head of an "extermination group" involved with kidnapping, deaths and drug trafficking in the state of Acre. Judges, lawyers and witnesses revealed details concerning the deals of the Congressman and the political events surrounding them. The Office of the Attorney General had known of the Congressman's involvement with drug trafficking organisations since 1997 but stated that it was still collecting evidence. On the other hand, the Office had asked to access to the Congressman's bank account and tax report, based on the Bank Secrecy Act, but the regional office of the Internal Revenue Service had not complied. The Centre for the Defense for Human Rights in Acre and the president of the state Court of Justice of Acre in 1997 had denounced some of the crimes in 1997. Media coverage and the cooperation of the current state governor (elected by an opposing political party (Partido dos Trabalhadores) in 1999 but no steps were taken by the criminal justice system. The Congressman furnished cocaine and pot for addicts and had then used this to convince them to vote for him. During the term of the ex-governor of Acre (mentioned above), a brother of the accused headed the state military police, another was a member of the state legislature and a sister-in-law was head of the local State Attorney Office. Referring to the accused politician as "colonel" (the traditional informal title of rural political kingpins in Brazil), an ex-police detective and member of the extermination group declared to the Congressional hearings that the group between 1995 and 1998 had killed at least 40 people. The specific role of the accused in drug trafficking activity was to steal containers with the aid of state military police and trade them for cocaine and firearms in Bolivia. He has close personal ties with an important Acrean businessperson, who controls the meat market in the state through 70 outlets and has been connected to drug trafficking networks by the Federal Police. Finally, connections with a corruption network in the Northeastern states of Piauí and Maranhão, involving state military police, state judges, mayors

(3) The local state-owned Bank of Rondonia (Western Amazonia) was also shut down last year. After serving for years as "shell" host for laundering the proceedings of local drug trafficking networks, it made the headlines because of its involvement in a derivatives speculation-money laundering scheme in the state of São Paulo. Interestingly enough, its disappearance has not seem to have caused impact on the local economy albeit the number of agencies, one for each county.

and state prosecutors were revealed. After being voted out of Congress, the politician was jailed and 26 members of the group have been indicted. However, there are still not enough evidence to convict him for drug trafficking.

These stories are unfortunately banal in its details; similar cases have happened in the more undeveloped areas of Brazil⁽⁴⁾ and other Latin American countries. Nevertheless, it merits some comments.

The idea that modernisation in society induces the replacement of parochial corruption by modern corruption (market corruption) does not seem to apply here. What does seem to apply, albeit related to a very different environment, are two ideas put forth by Cartier-Bresson (1997) in his discussion of corruption networks. First, corruption network is structured by mobilising multiple "resources" such as financial interests, obedience to hierarchy, family, friends (political, regional and corporate in our stories), violence (p.469); second, in institutionalised large scale corruption, the network appears as an extension of social legal networks.

Another point to be made is that proximity to coca producing countries and the use of territory as transit corridor for drug trafficking created an opportunity for those seeking enrichment and power but it is difficult if not impossible to establish a cause and effect relationship between these random conditions and violence. Institutional crisis, a clientelistic political system, and a growing gap between a formal regime and the political and economic reality are some of the social conditions that breed violence (*Thoumi*, 1995: Chap.2); however, cooptation of individuals and institutions by drug trafficking networks increases the level of violence and "organises" its use.

b) Regional development alternatives

A host of factors hinders economic development of the Brazilian portion of the Amazon River basin. For example, long distances and absence of an adequate infrastructure; a low level of credit in both public and private banks; speculative investments; a weak educational system; a highly concentrated land tenure system. Further aggravating social tensions are the concentration of income and wealth, which feeds an extensive underground economy, and the social, economic and cultural di-

versity among the main immigrant flows, and between them and the natives. For 1996, the gross domestic product (GDP) of Amazon states was US\$37,9 billion; that is 5,5 per cent of the country's GDP. Population is in the order of 13,5 million inhabitants, (8,5 per cent of total population), most of them living in urban areas (64,5 per cent). An urban service economy, lumber and mineral extraction, cattle raising and soy-bean crop are the main regional economic activities.

Although covered by a sophisticated communication-satellite system, the territory lacks a minimum level of infrastructure development. International criticism of the massive deforestation process since the 1970s, the drying up of governmental funding sources in the 1980s and the "politicalisation" of environmental change since then, are some of the factors that effectively thwarted investments in infrastructure. Even so, comparatively to neighboring countries, Brazil's Amazon region presents a fair degree of transport connections to the Atlantic seaboard, which helps explain why drug trafficking organisations could use the region as transit corridor.

One should bear in mind that contrary to the traditional peasant society encountered in neighboring countries; Brazilian Amazonia is urban-oriented and largely settled by an urban bred population. Frustrated expectations, lack of credit and funds for individual and business undertakings, the thriving of an urban-based clientelistic system based on selective distribution of benefits creates a receptive environment for drug trafficking organisations investment, loans and patronage.

A sustainable development approach to regional economics, the overall effort to curtail economic instability and an emphasis on economic interchange with neighboring countries may perhaps change the situation. Current governmental efforts are centred on development projects situated along intermodal thruways connecting the region to the Caribbean Sea basin, and on energy transmission lines to Venezuelan and Bolivian energy sources.

c) US geo-strategy in the Amazon region

From the Brazilian perspective, two components of the United States conception of drug control strategy must be emphasised. One is the development by the US of a technological, informa-

(4) See Christian Geffray's report on Mato Grosso (*Geffray*, 1995).

tional, and intelligence system applied to anti-drug efforts; the other is to encourage in Latin America increased levels of nation military involvement in anti-drug trafficking operations with US military support to the anti-drug forces of the host nation.

The mobilisation by the United States of its considerable technological and informational resources points to an "informational age" geopolitical thought where national boundaries matter less and information networks more. The US policy on "supply-reduction operations at the source", however, pushes it back to traditional geopolitical thinking where territory, its geographical content and political institutions are essential, hence the second component.

The implementation of an informational-based surveillance system for Brazilian Amazonia (Sistema de Vigilância da Amazônia-SIVAM) was conceived in this context. The surveillance system is based on the use of remote sensing, satellites and geographical information system (GIS) to be developed jointly by the Brazilian Government and an important U.S. defense contractor, Raytheon. It was the American company, however, who arranged international loans and furnishes the more sophisticated technology. The Air Force, who sponsored the arrangement, was criticised by sectors of the Army and by intellectuals and academics that feared (fear) that the US would have access and better conditions to information processing than the Brazilians. The winning argument was that Brazil did not have economic and technological conditions to create the system by itself. On the other hand, the implementation of SIVAM let off some of the pressure exercised by U.S. anti-drug forces over the Army.

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