

## THE EFFECT OF ILLICIT TRADE IN NARCOTICS ON GLOBAL ECONOMY

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**Abstract:** Illicit markets especially those dealing with narcotics constitute grievous issues to the world's economies, putting to test global safety, economic progress as well as security and many other aspects. Seemingly, illicit narcotics trade in the last decade – that is 2000 to 2011 underwent a significant boom, resulting from a wide spectrum of illegal drugs such as cocaine as well as heroin among many other hard drugs. In today's global society, several concerns are emerging on the rise of illicit narcotics trade accompanied with organized crime, chiefly as major hindrances to consistent global economic progress. Apparently, some of the effects of illicit narcotics trade are that; this trade gradually turns upside down business rules, opening way for new unruly market players besides reconfiguring influence in global economics as well as politics. Surprisingly, the revenue from illegal drugs in 2011 alone was roughly 10% of the global GDP. Hence, exaggerating local economies' incomes and triggering ceaseless conflicts among market players, while at the same time reducing legal business activities likewise disintegrating socioeconomic conditions. An empirical research method was adopted for this study, analyzing illicit trade in narcotics on the global arena as from 2000 to 2011 and its resultant effects. The research findings indicate that, illegal drugs trade particularly on the world economy besides growing at a high rate, it endangers the overall welfare of humans likewise the business environment. This is ostensibly because this trade has high chances of engrossing regional economies into illegal drugs business activities, causing them to neglect sustainable ethical businesses. Now, to effectively address negative economic issues related to illegal drugs trade, there is apparent need for integrated efforts from local as well as international authorities. Such efforts are chiefly to control not only the harmful effects resulting from the use of illicit narcotics, but also from the trade itself and to build sustainable economies. The findings of this study are crucial for regulatory authorities in the global economy, for them to adequately comprehend the effects of illicit trade in narcotics hence inform their decisions to take necessary measures. This paper is on the effect of illicit trade in narcotics on global economy, touching on issues like peace along with social cohesion as well as security and economic progress.

**Keywords:** trade; narcotics; global; illicit; drugs; development.

**JEL Classification: F19**

### **Effect of illicit narcotics trade on global economy**

Illicit narcotics trade as discussed in (Birdsall, 2008: 163-167) is a worldwide illegal market sector that is also described as a black market undertaking. This illegal market chiefly focuses on cultivation along with processing as well as dispersion and sale of medicinal substances that are largely abused by human beings. Further,

(Ellis, 2009:171-196) indicates that a number of legal authorities worldwide continue to place strict measures that forbid business transactions for such substances, specifically for prohibited uses. However, their trade is only allowed where valid licenses are obtained from the recognized authorities. Notably, even with issuance of such licenses, it is argued in (Birdsall, 2008: 163-167) that still illicit narcotics trade continue to have far-reaching effects, on top of being a compromising market sector that either directly or indirectly alters the global economy's economic framework. This paper analyses the effects of illicit trade in narcotics, chiefly to establish its impact on the global economy. The research plan involves the analysis of empirical data on the research topic, specifically as from 2000 to 2011.

The history of illegal narcotics began as earlier as during the 19<sup>th</sup> century, with opium being the main as well as popular substance of discussion then. At that time, opium was widely traded among the British as well as Chinese merchants among other traders, enabling them make lucrative returns. In those times, this business' resultant effects included a rise in addiction cases among the Chinese people. As for the British merchants and the other traders, they got quick access to huge chunks of money from China, mainly as a form of compensation (Storti and Graewe, 2011: 23-45). In the 21<sup>st</sup> century, since illegal drugs trade cause injection into different world economies secretive amounts of money that in turn is used to execute undesirable acts such as terrorism and even wars among others continues to receive criticisms. Also, with changes of time, more drugs such as heroin accompanied with cocaine among many others have made to the list of illicit narcotics trade (Jenner, 2011: 901-927).

**On average**, the global economy as discussed in (Ellis, 2009: 26-35) has developed at a faster rate, where these developments are from a range of factors such as expansion of upcoming economies inclusive of India, Eastern Europe along with China among many other upcoming economies. It has also emerged that, with development of the world economy is the widespread of social ills, the likes of illicit narcotics transactions that have widely penetrated in the international market scene. For instance, *in the recent past as discussed in* (Jenner, 2011: 901-927), *there has been massive rise in illicit drugs trade for example of cocaine along with heroin among many others, characterised by extensive drugs networks together with dangerous criminal groups. Today, as illicit narcotics trade continues to gain ground in world economies, the major worrying issues are that the extent as well as geographical coverage of such illegal activities has no precedent. Also, the other alarming issue touches on unaccounted for income, where for instance in 2009 alone the overall amount of money got from trade in illegal narcotics was roughly US \$ 1.25 Trillion that up to now is yet to be accounted for* (Hubschle, 2011: 25-40).

Moreover, Illicit narcotics trade as discussed in (Hubschle, 2011, p.25-40) is not a new subject not only within domestic economies but also in the global arena. **Moreover, the** (UNODCCP, 1999: 51-55) indicates that illicit drugs trade derives its shape courtesy of numerous factors including historical aspects, location and population as well as reigning economic circumstances, hence few countries are least affected by this trade. Therefore, illicit drugs trade unavoidably stretches into every aspect of the global society. The figure below is an indicator of the Drug connections on the international scene.



**Figure 1: Drug connections on the international scene**  
Source: (Hubschle, 2011: 28).

Nations with strict measures on illicit narcotics to a large extent have been greatly hit by such measures; this is following the high rate at which such measures are breached. Equally, those local economies on the receiving end such as Ecuador have been hardly hit by issues arising from drug prohibition and its trade (Hubschle, 2011: 25-40). In the contemporary world, the business scene is that of integration, where legitimate businesses are established using illegal activities funds such as illicit narcotics trade. This is the situation where, the gains realized from trade in illicit narcotics for substances such as cocaine as well as opium are utilized by transnational criminal groups to diffuse, contaminate as well as disrupt the well functioning of power structures likewise the economy at large (Sherman, 2010: 7-15). Also, illicit drugs trade are associated with the armed differences worldwide, such as in some West African States, where civil wars have been directly or indirectly linked to illegal drugs trade for instance in Angola among many other nations worldwide (Birdsall, 2008: 203-229).

Often, with probable financial challenges within various economies, such situations create more openings for those who rely on the formal economy, basically to take part in illegal economic activities, ostensibly to settle losses incurred during periods of financial difficulties (Storti and Graewe, 2011: 23- 45). The fact is that, illicit drugs trade is highly profitable, besides being hard to keep under surveillance for purposes of market regulation. Again, with its' widespread reach as well as its' effects that are largely downplayed, its role in each economy on the global front especially on supplier nations along with transitory nations does not garner the attention it deserves (Jenner, 2011: 901-927).

As of 2010 (Scott and Marshall, 1998: 34-67) indicates that drug seizures had declined a great deal owing to the extensive media focus on issues to do with illicit narcotics trade. This was also supported by the well orchestrated actions of nations in different parts of the world likewise concerned international bodies, for instance

the United Nations office (UNODC) that is charged with the responsibility of dealing with drugs as well as crime. Even so, the fall in captures of illegal drugs do not imply that such transactions have significantly dropped; this only indicates that illicit narcotics cartels along with contrabandists have turned out more advanced in their techniques and ways of transporting likewise of selling them. Furthermore, in relation to drugs seizures (Jenner, 2011: 901-927) reports that most of the trade routes together with transportation techniques of illicit narcotics have been greatly repositioned. This is evident to the hardihood as well as advancement of parties to this trade, besides the resilience of the illegal drug cartels in evading being caught (Storti and Graewe, 2011: 23- 45).

Lately it has come out that local players along with criminal connections are taking over more elaborate systems, to secretly trade in illicit narcotics. This take over is a denotation of how the illegal trade is well linked in the international economy. As such connections have enabled parties into the illicit narcotics trade to be way ahead of the organizations dealing with drug crimes as well as global efforts to eradicate this trade (Scott and Marshall, 1998: 34-67).

As pointed out in (Mamdani, 2004: 12-23), some of the well-known illicit narcotics often traded in the global market include the following; top on the list cocaine, which mainly comes from Colombia as well as Bolivia and is exported to other parts all over the world. The second drug is cannabis, which is also widely available as well as traded because of its medicinal value besides its recreational use. This drug is allowed in economies like Canada, yet also prohibited in other countries because of its negative effects. The third drug most traded in the global scene is tobacco that despite being legally allowed for use by adults, it is highly taxed pushing it to the black market, where users are able to purchase it at relatively low prices (Hubschle, 2011: 25-40).

The third illicit drug as discussed in (Jenner, 2011: 901-927) is heroin, which is mainly from Mexico along with Southeast Asia region, and has more attractive sales returns when compared with most of the other illicit narcotics. Fourth is methamphetamine along with Temazepam, both of which are mostly prepared in laboratories among many other techniques. On average, in the global economy there are more than four hard drugs that are highly profitable to traffickers, and though illegal continue to make it to various regions of the world to meet the addiction needs of their users. Generally, some of the means employed to transport these drugs include air transport like use of cargo planes and water transport using container ships besides use of human agents either through agreement or at times through coercion. This is mainly done through coordinated efforts of political leaders from various countries around the world (Scott and Marshall, 1998: 34-67).

### **Effects of Illicit Drugs Trade**

The illegal narcotics business undeniably according to (Ellis, 2009: 26-35) is one of the biggest black market sectors in the global arena, with its high profit returns; hence it comes very close to the legal emerging economies just like in Latin America. Unfortunately, Latin America is susceptible to extensive capital flight, majorly because of its highly forceful entrepreneurs coupled with the drug barons and many others. For the most part, as a result of trade in illicit narcotics, the global economy continues to face numerous challenges resulting from ceaseless chaos of masterminded drug crimes, where those mafias collect government revenues like taxes for their own selfish interests (Mamdani, 2004: 12-23).

In reality, there are a range of effects inherent in illicit narcotics trade on the global economy, effects that touch on crucial economic factors linked to production as well as consumption and distribution such as labor force besides security among others (Hubschle, 2011: 25-40). The illicit narcotics trade as pointed out in (Jenner, 2011: 901-927) has developed to a level that is sabotaging the main economic framework. This implies that, this black market of illicit narcotics is endangering the extent at which the global economy is developing.

The first effect is that, trade in narcotics coupled with their use leads to destruction of human capital, and even worse the society's well functioning (Ellis, 2009: 26-35). In other words, trade in illicit narcotics coupled with their abuse as discussed in (Storti and Graewe, 2011: 23- 45) in the long run causes falling apart as well as disorganization of social set ups. This happens quite often to economies that largely rely on such illegal activities. Acts that without doubt trigger the disentangling of its people and society values, values that are necessary for not only survival but also social likewise economic cohesion. Apparently, once the individuals in an economy become weak, particularly from use of illegal drugs, there are high chances that insecurity issues will result in the global economy, following the dependency and poverty levels and even crimes among many other social issues. Such kind of insecurity trends are aggravated by negative effects of illegal drugs trading accompanied with drug use (Scott and Marshall, 1998: 34-67).

The second effect is that, in illicit narcotics trade passing illegal drugs via a country implies that most of it is retained within that economy. Such drugs are possibly dispensed as a settlement for the services offered or as a point of profit for the local agents, the impact being more usage of such drugs hence paralyzing several economies and wider distribution channels. The third effect is that, with illegal drugs trade the desire to get education is overwhelmed by the mindset of individuals wanting to acquire wealth within a short period, especially among the young population (Mamdani, 2004: 12-23). Such a situation in turn affects the global economy by lowering quality of the workforce, and ultimately employee productivity levels. Also, the moneymaking chances, power and high returns linked to illegal drugs trade turns out more appealing to marginalized groups like the youth, distracting them from acquiring crucial working skills. In that way, the skilled workforce reduces and those available can only carry out less production activities which in turn affects overall global productivity (Jenner, 2011: 901-927).

Fourthly, illicit narcotics leads to a rising number of unskilled and unproductive as well as unemployed people in an economy who are most likely to abuse the illegal narcotics themselves, hence enlarging the drug use practices in an economy. This also takes place as some of the drugs are linked to health issues the spread of other infectious diseases such as HIV mainly through sharing of injections (Scott and Marshall, 1998: 34-67). On the other hand, in the global economy, drug crimes encompass a wide range of underground activities inclusive of human and dangerous weapons trade. The kind of underground activities that in one way or another curtail the progress of world economies, as they subvert governing standards, human rights and overall health. With such effects, illegal drugs trade act as a kind of a destabilizing power more so for fragile developing economies (Ellis, 2009: 26-35).

Additionally, the high amount of foreign exchange as a result of illegal drugs trade revenues can cause currency overvaluation likewise loss of competitiveness for exports and domestic production, which competes with imports among much other

disorganization in business operations (Mamdani, 2004:12-23). Moreover, illicit narcotics trade leads to a declining as well as sabotaged work force, besides influencing formation of a divided legal structure. Also, illegal drugs trade forms a good ground for constant violence among members of the society, where organized criminal activities accompanied with corruption creates a risky business environment. Likewise, with illegal drugs trade there is a ***potential of having slow economic progress as people's behaviours change drifting from performing productive economic activities to non productive ones. This situation has high chances increasing the cost of operating a formal economy, especially if there are high cases of*** incarceration as well as homicide among many others (Jenner, 2011: 901-927).

***Furthermore, if illegal drugs revenue tends to be concentrated in particular economies of the world, this has caused unequal development of regions. This is the case as the illicit trade in narcotics induces regional booms as well as busts that possibly hurt the global economy (Mamdani, 2004:12-23). In a way, this illegal drugs trade encourages money laundering, an act which exaggerates consumption along with trading patterns as drug dealers and their partners utilise money gained from such activities to invest in other sectors of the global economy like real estate and capital intensive ventures. Also, illegal drugs markets create a massive number of jobs for societies particularly for the suppliers and sellers, increasing income expectations for the local economies*** (Scott and Marshall, 1998: 34-67).

Apparently, most money laundering activities linked to illicit drugs trade take place not only in offshore, but also involving professionals such as accountants and many others. Taking the case of Guinea - Bissau, security officers are used to execute most of the illicit narcotics businesses, especially transportation (Mamdani, 2004:12-23). Indicatively, the illegal drug business transactions according to (Jenner, 2011: 901-927) are taking away the economies' commitment to boost legitimate operations. Which can be translated as foreclose for the growth of normal economic organizations as illegal drugs trade weakens political as well as social institutions. Undeniably, the detrimental economic effects of illicit narcotics trade are far much than the direct costs for rebuilding the destruction emerging from this trade. This takes into account the escalating expenses for medical as well as policing and social costs. This basically extends to the disintegration of efficacious operation of the global economy, causing the expenditure on crime prevention to turn out as a form of tax (Jenner, 2011: 901-927). Furthermore, illicit narcotics just like lawful alcohol, either directly or indirectly degrade the essence of the labor force. The policing issues emerging on the global economy from narcotics trade is that, much more resources are directed towards other expensive miscellaneous expenses, resources which could otherwise be utilized for other more productive uses (Scott and Marshall, 1998: 34-67).

### **Conclusion**

From the above discussion, it has emerged that the scope as well as scale of illicit drugs trade has made most of the international organizations and law keeping agencies to get concerned on the possibility of illicit narcotics trade getting out of hand. Generally, the presence of illegal drugs is apparent in the modern society, with players in the illegal drugs sectors turning out more powerful than a number of

government agencies considering the numerous amounts of money they derive from such transactions. Some of the major effects of illegal drugs trade which impact the global economy are related to profits made from such activities along with the possibility of violence and their destructive effects on people's health. In the event that such situations arise in the global business environment, such conditions have high probabilities of discouraging economic progress. Hence a need for various economies to join efforts to establish a favorable global political likewise economic environment, that promotes economic progress. More importantly, to effectively address negative economic issues linked to illegal drugs trade, there is apparent need for integrated efforts from various players in the global economy. Such efforts are chiefly to minimize not only the harmful effects resulting from the use of illicit narcotics, but also from the trade itself and to build sustainable economies.

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