U.S. Department of Justice
Drug Enforcement Administration

Colombian Economic Reform:

The Impact on Drug Money Laundering within the Colombian Economy

Drug Intelligence Report

Intelligence Division

September 1994

The Attorney General has determined that publication of this periodical is necessary in the transaction of the public business required by law of the Department of Justice.

Drug Enforcement Administration

Colombian Economic Reform:

The Impact on Money Laundering within the Colombian Economy

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This report was prepared by the Financial Unit of the Strategic Intelligence Section. Comments and requests for copies are welcome and may be directed to the Publications Unit, Intelligence Division, DEA Headquarters at (202) 307-8726.

September 1994

ADMINISTRATOR'S MESSAGE

Like many Latin American countries, Colombia recently has liberalized its economy through a series of reforms and relaxed import restrictions on foreign goods and services. Although Colombia may be benefiting from the resultant increase in international trade and exchange, criminal elements, including major drug kingpins, also are profiting from liberalization of the Colombian economy.

Economic reforms have stimulated growth in Colombia's financial service industry, which is being used by drug kingpins to legitimize illicit wealth. In addition, vital commercial facilities throughout the country are now in the hands of the private sector. Consequently, the financial infrastructure has become more accessible to kingpins, who commingle legitimate commerce with illicit drug trafficking.

As the country's reliance upon illicit drug revenue continues to increase, the Colombian drug cartels' influence within the private and governmental sectors threatens to widen the gap between rich and poor. In this liberalized economic atmosphere, with the continued absence of strict financial laws, the financial sway of the drug cartels threatens to undermine the success of the current economic reforms. The Colombian Government, thus, is facing a crucial test. If the government enacts and strictly enforces legislation prohibiting money laundering, it will go a long way towards protecting economic reform and undercutting the financial influence of the cartels. If not, criminal elements will continue to flourish, jeopardizing not only Colombia's economic growth, but regional security throughout Latin America.

Thomas A. Constantine
Administrator

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EXECUTIVE SUMMARY

The Colombian *Apertura* "opening" program, initiated in 1990, features a movement toward privatizing major state-owned companies and liberalizing Colombia's economy in an effort to attract and generate capital. Prior to 1990, Colombia and many other South American nations prohibited the importation of certain goods from other nations to protect domestic industries from foreign competition. Recently, a combination of financial, labor, tax, and trade reforms have paved the way for Colombia to compete more effectively in the global economy.

However, as the country's economic reforms proceed, Colombian drug kingpins have taken advantage of the government's reforms and capitalized on the benefits of a more open and liberal economy. Reform has created more opportunities and provided drug kingpins easier access to launder and safeguard their illicit wealth within Colombia. The privatization of major Colombian banks, combined with the placement of the foreign exchange markets in the hands of private financiers, has made it possible for Colombian drug kingpins covertly to influence policies and operations of certain Colombian banks.

In addition, the revenue generated from the drug trafficking industry has permeated every facet of Colombian society. Consequently, the country's increasing reliance on the proceeds of this criminal activity has caused serious concern among government officials in Colombia and the United States. The enormous flood of U.S. currency into Colombia has affected the government's monetary policies, causing the government to implement a tariff on U.S. currency.

As each drug dollar enters the kingpins' accounts, the political and economic influence they exert on the government increases. This establishes a dangerous precedent for the region. Drug kingpins are able to influence the structure of financial and banking regulations in order to launder, legitimize, and safeguard their illicit wealth with ease and without legal repercussions. Without the implementation and enforcement of money laundering laws and the enactment of an extradition treaty with the United States, the present economic reforms in Colombia will increase the difficulty for the U.S. and Colombian Governments to combat drug trafficking effectively.

EFFECTS OF THE *APERTURA* PROGRAM

The Colombian *Apertura* "opening" program has stimulated and increased growth in the country's financial sector and has had the collateral effect of broadening the array of instruments available to Colombian drug traffickers to legitimize their illicit monies. The liberalization program has led the Colombian Government to privatize many state-owned banks, utilities (such as electric and telecommunications companies), and port facilities. The government also has established a private pension fund system to increase investments in both the stock and bond markets. As a result, individual savings and retirement funds now are being invested in these markets as in many countries, including the United States.

The government and private financial sectors in Colombia are modernizing their automated banking/financial and telecommunication-transaction systems. These upgraded systems provide banks in Colombia with on-line access to international banking and other financial services, and enable instantaneous transactions with major financial markets—currency and commodity transactions in international futures and interbank markets in a matter of minutes. For example, one South American drug money launderer established a currency brokerage firm to conduct international currency futures transactions for his drug kingpin clients. His brokerage firm conducted futures transactions through interbank currency markets. His clients, drug kingpins, electronically moved millions of dollars in drug proceeds instantly throughout the world, amid highly disguised paper trails.

FOREIGN EXCHANGE & STOCK MARKETS

Throughout 1992 and 1993, Colombia's stock exchanges experienced strong growth following the Central Bank of Colombia's approval of a resolution authorizing the private sector to establish futures and options markets for commodities. These markets also allow for the trading of foreign currencies, bonds, and other financial instruments. The reforms opened up trading to foreign brokerage houses and other financial institutions provided they register with the Finance Ministry's Superintendent of Banks. Furthermore, the foreign exchange markets, including the import and export sectors, now are being placed entirely in the hands of the private financial sector. These reforms lack the necessary regulations and monitors to prevent illicit money laundering. Consequently, the privatization of the financial sector enables drug kingpins to safeguard their illicit assets.

In addition to private companies issuing stock to raise capital in 1993, the Colombian Government issued three series of U.S. dollar-denominated treasury bonds that were sold domestically to Colombian investors. This was a consequence of the high level of U.S. dollar reserves held by the Colombian Government and its new open market policy of issuing dollar-denominated bonds in the local capital markets (Law 55). The first series of bonds had a value of $250 million with a 3-year maturity.[1] The second offering of $250 million had a 5-year maturity. The third series was a $250 million bond issue with a 7-year maturity. A total of $750 million in U.S. dollar-denominated bonds was issued by the Colombian Government in 1993.

[1] All monies are expressed in U.S. dollars unless otherwise specified.

Colombian Economy at a Glance

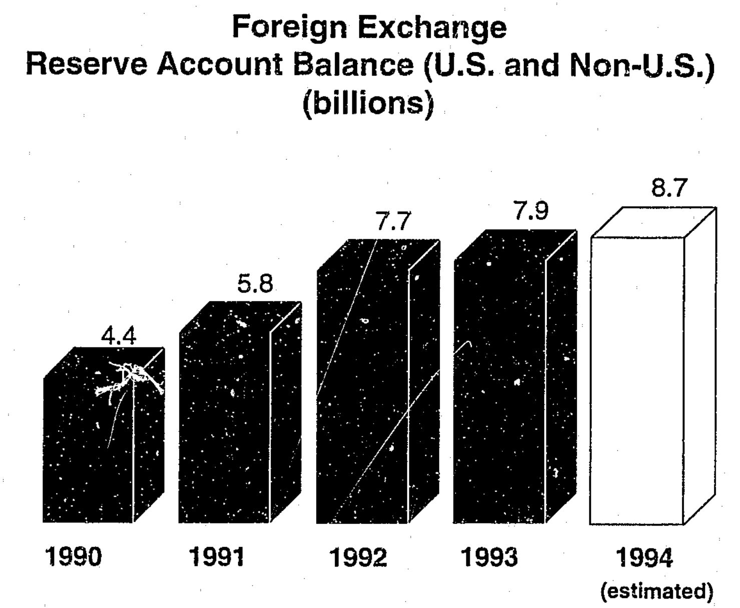
Gross Domestic Product (GDP):	$51 billion
National Product per Capita:	$1,500
Unemployment Rate:	10%
Industry:	Industrial production accounts for 20 percent of GDP; major industries include beverages, cement, chemicals, clothing and footwear, food processing, metal products, mining, oil, and textiles
Agriculture:	Agricultural output accounts for 22 percent of the GDP; crops make up two-thirds and livestock one-third of the output; crops include coffee, corn, rice, sugarcane, and tobacco
Exports:	$7.4 billion; primary commodities include bananas, coffee, coal, fresh cut flowers, and petroleum
Imports:	$5.5 billion; primary commodities include chemicals, consumer goods, and industrial and transportation equipment
Trade Partners:	Brazil, European Community, Japan, United States, and Venezuela

Source:
CIA World Factbook, 1993.

In addition, the government issued fixed-rate treasury securities to generate additional revenue. These securities were sold to Colombian investors and informed sources reported that some securities were purchased with drug money.

The security offerings provided the Colombian Government with $438.8 million for its multilateral loan payments. Colombia's total foreign debt was reduced by about $464 million in 1993, and total payments through the external debt account totalled $585.5 million. Recently, the government announced plans to reduce the foreign debt from $14 billion to $10 billion within the next 6 years.

Figure 1



Source: International Monetary Fund (International Financial Statistics).

Ironically, a large percentage of the foreign currency reserves that are flooding the Colombian Government's international reserves accounts (especially the majority of U.S. dollars) are believed to stem from the repatriation of drug proceeds from U.S. and European drug markets. The revenue generated by the influx of drug proceeds into the economy has provided the Colombian Government with funds for debt payments and national infrastructure development. Furthermore, through the purchase of government-issued securities, Colombian drug kingpins are investing in their country's future economic development.

PRIVATIZATION OF BANKS

A significant danger to economic security in Colombia is the purchase of financial institutions by Colombian drug organizations. The privatization of major banks in Colombia, combined with the placement of the foreign exchange markets in the hands of private financiers, has provided Colombian drug kingpins with the ability to influence covertly the policies and operations of certain banks in Colombia. There are now 16 banks owned by private Colombian investors, 9 owned and controlled by foreign banks, and 3 owned by the Colombian Government.

U.S. and Colombian Government authorities have evidence of drug proceeds being deposited in every major bank in Colombia. The funneling of drug money through the banks is done wittingly or unwittingly by bank officials. Some are coerced by drug organizations into allowing the deposit of drug proceeds.

A Colombian source indicated that many banks and businesses are owned covertly by principal members of the Cali Cartel. Recently, suspicions were raised when a major Colombian bank was sold to a wealthy Colombian family for a price 15 percent above government expectations. The bank maintains branch offices in Panama and the Cayman Islands and is the parent company of another bank in Miami, Florida. A source reported that the family was associated with a major Colombian drug cartel.

INTEGRATION OF COLOMBIAN & VENEZUELAN FINANCIAL INDUSTRIES

Liberalization of economic policies in Latin America has lead to the integration of Colombia's and Venezuela's financial sectors. This is of grave concern to U.S. and Colombian justice officials. Cross-border debt and equity flows between the two countries have increased over the past 2 years and they are expected to climb to record amounts in 1994. As these flows increase, it will become easier to camouflage cross-border drug currency flows.

Privatization has allowed non-Colombians to purchase previously state-owned banks. Two Colombian banks, *Banco Tequendama* and *Banco de los Trabajadores*, were sold to Venezuela's *Banco de la Construccion* and *Banco Mercantil*, respectively. Another Venezuelan bank, *Banco Latino* established a subsidiary branch in Colombia. Venezuela's *Grupo Construccion* currently owns 24 percent of Colombia's *Banco Ganadero*. The Colombian Government is now selling off *Banco de Estado* and *Corpavi Savings and Loan.*

In a series of law enforcement raids by the Venezuelan *Guardia Nacional* in western Venezuela in October 1993, evidence revealed a major money laundering organization using Colombian, U.S., and Venezuelan banks, in addition to *casas de cambio* (currency exchange houses). Analysis of documents seized in the Venezuelan raids indicates that billions of Colombian *pesos*, Venezuelan *bolivars*, and hundreds of millions of U.S. dollars were laundered through Venezuela en route to Colombia.

Privatization has allowed non-Colombians to purchase previously state-owned banks.

By using *casas de cambio* in Venezuela, hundreds of millions of dollars were funneled into Colombia without being subject to Colombia's 15-percent tariff on U.S. dollars. Drug proceeds from the United States were placed into U.S. and/or foreign bank branches and wire-transferred to major banks in Caracas, Venezuela. The money (still in U.S. dollars) was withdrawn from the banks and then laundered through *casas de cambio* or travel agencies along the Colombian/Venezuelan border in the western State of Tachiria. At the border *casa de cambio*, the money was converted into Venezuelan *bolivars* or Colombian *pesos* and wire-transferred to banks throughout Colombia, thereby skirting the tariff on U.S. dollars.

After the October 1993 law enforcement raids in Venezuela, drug money launderers in Colombia and Venezuela redirected their money laundering routes. It is suspected that the majority of cocaine proceeds from the United States, which passed previously through Venezuela, now are bypassing Venezuela and bulk-shipped directly to Colombia. According to U.S. law enforcement sources, a large amount of drug proceeds reportedly are secreted in new vehicles being exported in volume from the United States to Colombia.

At the same time, it is suspected that the shutdown of that particular money laundering organization may have had a direct or indirect effect on the collapse of Venezuela's *Banco Latino* in January 1994, and placed the entire Venezuelan banking system in a major crisis. Other Venezuelan banks were affected by the collapse of *Banco Latino* to the degree that the Venezuelan Government intervened on behalf of *Banco Latino*. An investigation revealed evidence that many members of *Banco Latino's* board of directors were corrupt and had been involved in money laundering. Following the crackdown on illegal money laundering and the collapse of *Banco Latino*, a temporary run on the U.S. dollar caused Venezuela's foreign reserves to fall $744 million in January 1994.

Although there is no direct evidence that the cessation of drug money flow from the United States *per se* was the primary cause of the fall in Venezuela's foreign reserves, this conclusion cannot be dismissed. The repercussions may have a serious effect on the banking system in neighboring Colombia as the two country's banking sectors become integrated. Although the Colombian banking system is healthy, it currently is susceptible to such a crisis as corruption and drug money laundering activities continue to spread throughout the banking sector.

There are currently no money laundering laws in Colombia.

The drug kingpins' immense resources afford them a cushion of security in Colombia. Their influence within the banking industry, government, and law enforcement agencies already has impeded attempts to prosecute them. Through bribery and intimidation, they have altered and reversed undesired policy decisions by the country's government and banking regulators. As these kingpins continue to commingle their illicit proceeds within legitimate financial institutions, it will become more difficult for law enforcement authorities to investigate effectively these criminal organizations.

The kingpins' sophisticated exploitation of illegal financial tactics remains a crucial impediment to law enforcement efforts. Colombia must enact money laundering legislation as well as appropriate the necessary resources—such as financial and legal training for law enforcement personnel—to combat effectively this exploitation. Without these measures, Colombia's economic reforms will make it much more difficult for drug law enforcement officials to conduct financial investigations pertaining to drug money laundering in Colombia as well as in other countries.

LEGAL MEASURES

There are currently no money laundering laws in Colombia. The only type of financial criminal law that is enforceable in Colombia is the "illicit enrichment" law and few have been penalized for violating this law. The "illicit enrichment" law is separated into two categories. The first applies to Colombian Government officials who have acquired a questionable (unexplained) amount of wealth. Violators can be subject to a prison term of between 1 and 8 years, plus a fine equivalent to $20,000. According to Colombia's Attorney General's office, there have been more than 72 "illicit enrichment" investigations against government officials involving nearly 5 billion *pesos* since 1993. However, there never has been a conviction.

The second category applies to non-government employees who violate the country's drug laws. Any person who directly or indirectly acquires wealth from drug-related activity can be sentenced from 5 to 10 years in prison and fined the equivalent of $20,000. A further provision of the "illicit enrichment" law requires the prosecutor to provide "proof" of a drug connection to the wealth. In both cases, the defendant must justify the source of "unexplained wealth."

In early 1994, the Colombian Constitutional Court ruled that liquid assets can be seized by order of the "*Fiscalia*" (Prosecutor General's Office). However, the "burden of proof" is placed on the government to produce a drug nexus to the assets, which is all but impossible for overworked, poorly trained, and easily corrupted prosecutors. Furthermore, threats and assassinations against judges and prosecutors by the powerful cartels have made them reluctant to initiate seizure actions. Moreover, under current practice, once a seizure order is authorized, a Colombian bank account simply is placed under "administrative review" and never actually "frozen" by the government. The account holder still can transfer funds in and out of the account.

Although a $7,000 currency transaction reporting requirement for the *casas de cambio* was enacted in 1992, prosecutions have been limited. *Casas de cambio* are free, for all practical purposes, from any form of enforceable measures imposed by the Superintendent of Exchange for *casas de cambio*. Although there was a strict regulation designed to close down any *casa de cambio* that violated procedures, the regulation was repealed indefinitely due to the government's inability to audit and enforce it effectively. It is estimated that the majority of drug proceeds, in the form of cash, personal checks, travellers checks, and money orders, are deposited initially into the many *casas de cambio* in Colombia. In the parallel/black market, monetary instruments such as personal checks, travellers checks, and money orders are exchanged daily. A single check or money order can be bought and sold an average of 3 to 4 times before it is eventually cashed and cleared in a *casa de cambio*.

Laws prohibiting drug money laundering are significant deterrents against drug kingpins. For example, after the Venezuelan Government enacted and enforced legislation against drug money laundering, not only has that activity been slowed or reduced significantly, other forms of illegal money laundering also have been reduced. Upon disclosure of evidence revealing the methods and amount of money laundered by a Venezuelan money laundering organization, over 100 individuals were arrested in October 1993 and incarcerated for 8 months for violating Venezuela's money laundering law. Although the Venezuelan judicial system inexplicably released all the defendants in May 1994, the raids demonstrated the real intent of the government to enforce money laundering laws.

THE ECONOMIC IMPACT OF DRUG MONEY LAUNDERING IN COLOMBIA

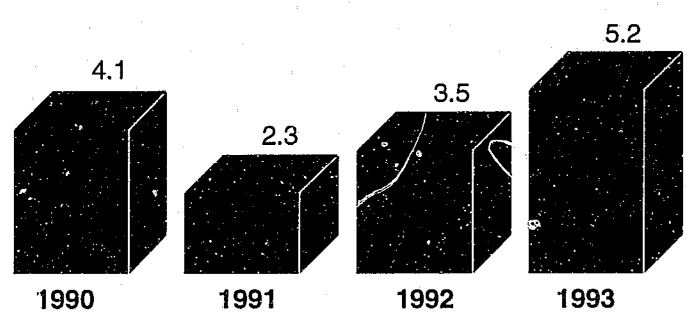
IMPACT ON THE NATIONAL ECONOMY

The Colombian Government is becoming dependent on the drug trafficking industry for a significant portion of its gross domestic and national product. Some sectors of the economy, such as the construction sector, already have become highly dependent on this illicit source. The construction of business offices, hotels, condominiums, and housing has boomed in Bogotá. Information from various sources indicates that the construction boom has been financed primarily by large investments using drug proceeds. Not only is the construction industry an ideal means for drug traffickers to launder and legitimize their illicit wealth, investing in it also is a hedge against inflation. This is especially true in South America, where in some countries, such as Argentina and Brazil, inflation has exceeded 2,000 percent annually. Colombia's inflation rate recently has ranged between 18 and 30 percent annually.

Revenue from the illicit drug industry has stimulated Colombia's economy. However, the effect of this stimulus has benefited only selected segments of Colombian society. According to a Colombian columnist, the number of people living below the poverty line has increased by about 1 million since 1990, and the gap between the average rural and urban income has doubled.

Figure 2

Annual Increase in Gross Domestic Product (percent)



Source: International Monetary Fund (International Financial Statistics).

The downside to the injection of drug money into an economy is the effect of "crowding out" legitimate investments the economy normally would attract if drug trafficking and its related violence did not exist. According to Colombia's Finance Minister, Rudolf Hommes, foreign investment in Colombia would be 25 percent higher if murders and kidnappings by the insurgent guerrillas and drug traffickers did not exist. Colombia's President Cesar Gaviria stated that his country spends over $1 billion annually fighting the drug war and loses another $1 billion in foreign investment, foreign exchange, and taxes due to drug trafficking.

According to U.S. and Colombian Government officials, the amount of drug profits ultimately entering the legitimate financial and social sectors of Colombia is significant. According to official and unofficial Colombian and U.S. Government sources, estimates vary from $800 million to $7 billion annually. This range of figures is broad because it is difficult to quantify the monies generated by the drug trade and the underground economy. It also is difficult to determine what percentage of the GNP is drug-related. Most drug money laundering takes place in the underground economy. The substantial parallel or black market in Colombia makes it difficult to track the country's economic figures on both illicit and licit activities. There are too many exogenous factors affecting the economy to determine the amount of illegal proceeds entering Colombia. Contraband activity is one of the sources of these illicit proceeds. However, trade reforms passed in 1991 liberalized the importation of previously restricted goods and have reduced the amount of contraband trade. Nevertheless, the contraband sector still is used extensively for drug money laundering.

MACROECONOMIC PERSPECTIVE

On a macroeconomic level, the amount of drug money entering Colombia has affected the monetary and fiscal policies currently being pursued by the government. Prior to 1992, Colombian citizens were not authorized to hold U.S. dollar accounts, and the only exceptions to this rule were import/export businesses. However, in January 1991, as a result of the *Apertura* program, the government liberalized and/or eliminated many foreign exchange controls. Currently, Colombian citizens and all types of businesses are authorized to hold U.S. dollar accounts. Consequently, hundreds of millions of dollars worth of drug-related U.S. currency has been flowing into Colombia.

Currently, Colombian citizens and all types of businesses are authorized to hold U.S. dollar accounts.

The flood of U.S. currency entering the country has saturated the Colombian economy, causing demand for U.S. currency to decrease. This in turn has caused the value of the U.S. dollar to fall. Conversely, demand for, and the value of, the *peso* have increased as U.S. dollars are exchanged for *pesos*. This effect has caused the price of the U.S. dollar in the "black market" to drop below the official market price and the repercussions of the heightened demand for *pesos* have placed the government's Central Bank in a dilemma.

The Central Bank attempted to maintain annual inflation below 25 percent but the continuing flood of drug- and contraband-generated U.S. dollars has spread throughout the legitimate economy, causing inflation to rise above 25 percent. Furthermore, attempts to maintain inflation below 25 percent caused the government to implement measures that contracted the *peso* money supply. However, due to the constant flow of drug dollars, this action caused the value of the *peso* to appreciate and, in turn, domestic production costs have increased. This increase has reduced demand for export from overseas markets; at the same time, the stronger *peso* has increased demands for imports.

Drug money from cocaine markets overseas has been entering the economy disguised as foreign investments. Foreign businesses and/or private institutions established by Colombian cartels or their associates, have been "legitimately" investing drug profits in the public and private sectors of Colombia's economy. Most economic activities from infrastructure development to stock market investment have been tainted by the proceeds of drug sales from all over the world. According to the president of the Colombian National Association of Industrialists, Carlos Arturo Angel, the flow of drug dollars will continue to increase unless money laundering laws are enacted.

MICROECONOMIC PERSPECTIVE

On a microeconomic level, every individual in Cali or Medellín is affected directly or indirectly by drug-tainted money. For example, a $10 million deposit of drug money in a bank in Cali or Medellín may end up in the construction of an apartment complex. Employment is created for the construction, capital expenditures increase, as does consumer spending. The initial investment of drug money eventually trickles down to the purchase in the local economy of everyday goods and services.

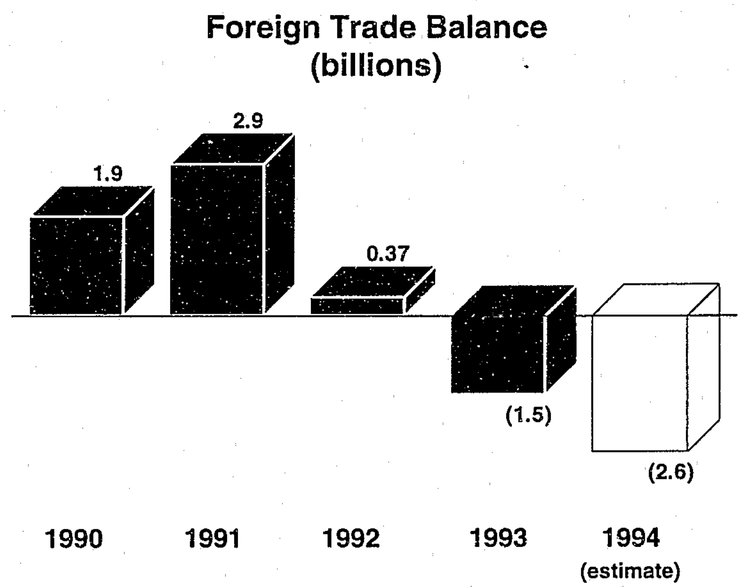
The Colombian cities of Barranquilla, Cali, and Medellín are economically dependent upon the drug trafficking industry. Without the investment of drug proceeds, which ultimately enter everyday society in Barranquilla and Medellín, these cities would not be able to maintain their current standard of living. There is no other viable source of income for these cities that can generate as much revenue as the drug industry. In Barranquilla and Cali, construction of condominiums, luxury homes, shopping malls, and office buildings has been increasing. Paradoxically, many of the large western-style shopping malls are practically empty of customers and offer relatively few attractive items for sale.

According to a reliable Colombian source, drug trafficking proceeds have been a primary source of revenue for Cali and Medellín since the mid-1980's and more recently for Barranquilla. The city of Medellín, historically a regional trading center, boomed in the early to mid-1980's due to the cocaine trade, but fell into a deep recession in the late 1980's and early 1990's. Many suspect that the collapse of Medellín's economy can be attributed to the violence and extortion payments extracted from businesses by Pablo Escobar. Consequently, legitimate business revenue, as well as drug trafficking revenue, was diverted away from Medellín. During the period of the Medellín Cartel's decline, the city of Cali saw dramatic increases in international trade and commerce. Recently, a Colombian source revealed that Medellín also is experiencing a dramatic economic recovery following Escobar's death. A flow of investments sharply increased commerce as businesses and entrepreneurs returned, including the smaller drug traffickers who previously had competed with Pablo Escobar.

THE EFFECTS OF THE *APERTURA* PROGRAM ON TRADE

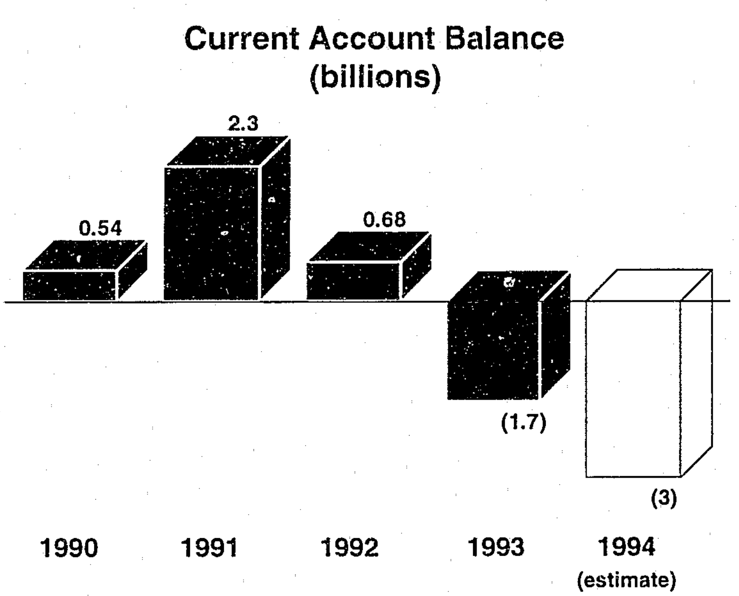
As a result of the *Apertura* program, the increase in the real value of the *peso* has been causing an increase in demand for imported goods. The real value of the *peso* jumped more than 25 percent against the U.S. dollar over the past 2 years. In 1992, the United States posted a $433 million trade surplus with Colombia, compared to a $787 million trade deficit in 1991. U.S. merchandise exports to Colombia grew 69 percent to $3.3 billion in 1992, an increase of $1.3 billion over 1990. The appreciation of the *peso* and subsequent increase in the *peso's* "real value" have significantly hurt manufacturing and agricultural producers in Colombia. Colombia's agricultural exports fell by 6.5 percent in 1993, according to Agriculture Minister Jose Antonio Ocampo. Bananas, coffee, and flowers suffered the largest fall in value. Manufacturing businesses ended up with fewer purchase orders as retailers chose the cheaper imported product. The damaging effects being suffered by these industries have caused the Colombian Government to reintroduce legislation placing a tariff or quota on selected foreign goods to help domestic producers compete with cheaper imported goods. In spite of the drop in exports and the record increase in imports, Colombia's gross domestic product (GDP) increased 4.4 percent during the past 2 years and is expected to increase again in 1994.

Figure 3



Source: International Monetary Fund (International Financial Statistics).

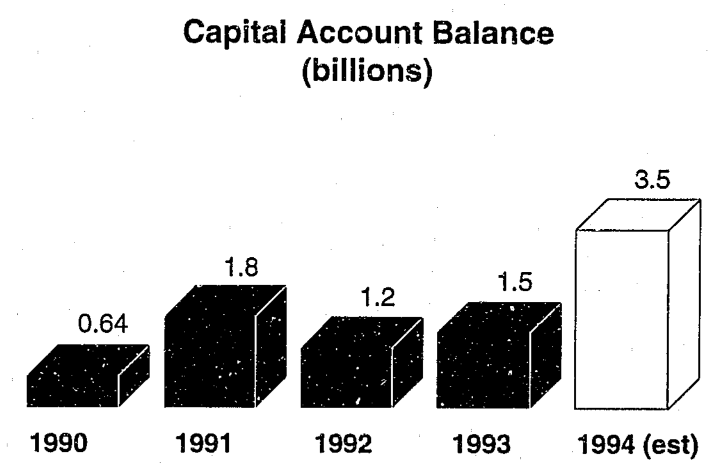
Figure 4



Source: International Monetary Fund (International Financial Statistics).

The combination of increased imports and a reduction of exports has reduced legitimate revenue in the country's balance of payments. The current account deficit which partially makes up the balance of payments is affected greatly by this disparity in exports and imports. Normally, a trade balance deficit would be followed by government measures to depreciate the currency in order to stimulate exports. However, due to the immense inflow of drug proceeds into the Colombian economy, these measures have had very little effect and the peso has continued to appreciate. The Colombian Government is concerned about the flood of foreign currency into their country. Despite the success of the *Apertura* program in increasing foreign investments, the government now has been forced to reduce the interest rate in an effort to stem the flow of investments into Colombia. This action may have the effect of only reducing legitimate investments, while disguised drug money investments continue. It is anticipated that Colombia's international currency reserves will rise to $8.7 billion by the end of 1994, up from $7.9 billion in 1993. It is believed that the drug industry largely is responsible for the country's foreign account surplus, especially the U.S. dollar reserve account.

Figure 4



Source: International Monetary Fund (International Financial Statistics).

In 1993, non-oil foreign investments in Colombia amounted to $437 million—an increase of 25 percent over 1992. The United States remained the largest foreign investor in Colombia, with 35 percent of total foreign investment in 1993. Venezuela was second, with a total investment of $66 million, overtaking the level of investment from Europe. The amount of trade between Colombia and Venezuela in 1993 totalled a record $1.3 billion, with Colombia running a $200 million deficit. Since 1992, trade between the two countries has increased in value by almost 200 percent. The importation of luxury goods by Colombia and their subsequent sale has increased suspiciously by 105 percent since 1992. Many of the purchases have been luxury automobiles and four-wheel-drive vehicles that have saturated the Colombian automobile market. Although Colombian exports to Venezuela increased in 1993, Venezuelan exports to Colombia increased much faster, led by sales of gasoline, four-wheel-drive vehicles, and aluminum.

U.S. Federal Government law enforcement agencies have been investigating numerous Colombian and Venezuelan car dealerships that have been receiving large numbers of four-wheel-drive vehicles from the United States. It is suspected that these vehicles were purchased with drug proceeds in the United States and shipped to Venezuela en route to Colombia as a means of laundering drug proceeds. A number of U.S. car dealerships in the Miami area have been implicated and fined for violating the IRS Rule 8300 requirement that calls for certain businesses to file reports on cash purchases of $10,000 or more.

In another development, Colombia recently signed a trade agreement with Cuba. The implications of this trade agreement may be serious for law enforcement officials. Cuba is potentially an attractive location for the influx of drug proceeds to a country that desperately needs hard currency. In addition, the Cuban Government recently legalized the use of U.S. dollars and has been liberalizing its economy.

PRIVATIZATION OF PORTS

The privatization of government-owned ports also is part of Colombia's trade reforms. By privatizing the ports, the government has established free trade zones throughout the country. These zones are designed to attract foreign investors and provide incentives for international trade. In March 1994, the Buenaventura port, which is located along Colombia's Pacific coast, was transferred to the private sector. The port contains general cargo and petroleum piers, 10 warehouses, and modern cargo-handling equipment. This is the last port in Colombia to become privatized, and it is expected to become the trading door to the Far East. Free trade zones now are located in Bogotá, Cali, Cartagena, and Medellín. Private companies can build and maintain their own ports, docks, and piers for cargo-handling operations of their own products and materials. This will have significant implications for law enforcement authorities in Colombia and elsewhere. Through these ports, drug trafficking organizations will be subject to minimal or nonexistent government controls, allowing them to facilitate their illicit activities.

CONCLUSION

If the Government of Colombia continues to allow exports to decrease, a major source of the country's legitimate revenue will decrease. At the same time, if the Government of Colombia continues to allow the substitution of export revenue with revenue from illicit sources, and does not address its attention to the influx of illicit proceeds, Colombia's entire economy will become vulnerable to volatile changes in the drug industry. Colombia may be the first country to become economically dependent upon the drug trafficking industry. Although the injection of drug money into the economy may have a short-run positive effect, in the long-run, economic dependency on this illicit source of income will have a serious detrimental effect on the social, economic, and political sectors of the nation and will weaken regional stability. As drug-generated proceeds become the primary source of revenue, the country will become increasingly susceptible to the influence of criminal elements.

Ultimately, the criminal kingpins in Colombia will have, if they do not already, significant influence on the Colombian Government's decision-making process. Critical economic and legislative decisions will be affected in favor of protecting and increasing the assets of the drug kingpins, regardless of the implications these pose to the country. Unless the Colombian Government enacts and strictly enforces money laundering and asset forfeiture laws, the drug kingpins' activities and influence will spread throughout the region and elsewhere threatening to destabilize the Colombian Government and other governments throughout the region.

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