The Economics of the Drug Trade

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**Introduction**

Economics is central for understanding the functioning of the illicit drug trade. This presentation discusses:

- Illicit drug demand
- The illicit drug supply chain
- The distribution of illicit drug proceeds
- Money laundering and the transmission of earnings

**Illicit drug demand**

- Estimating the size of global and hemispheric drug markets presents tremendous challenges
- UN estimates place total illicit drugs retail sales at $320 billion, though other estimates are lower
- The UN estimates annual drug revenues in the Americas at just under half the global total. North America occupies a dominant share of the hemispheric total.
- Approximately two thirds of total revenues accrue to retailers in consuming countries
- Wholesalers and traffickers through transit countries account for another 20-25% of revenues
Prevalence

Figure 2: Prevalence (2009)

% of the population that consumed the substance in the past year


The illicit drug supply chain

- Drug trade operations are not typically vertically integrated
- Mexican drug trafficking organizations control a substantial part of international smuggling and wholesale markets and are increasingly purchasing cocaine in South America
- Markups for illicit drugs are orders of magnitude higher than markups for legal goods
- For many substances, markups would likely fall substantially if the substances were produced, transported, and distributed as legal commercial goods.
Gross profits in the U.S. cocaine trade

- U.S. retailers ($24.2B)
- U.S. wholesalers ($5.3B)
- International wholesale (Mexico to U.S.) ($2.0B)
- Processing/trafficking to transit countries ($3.3B)
- Andean farmers ($0.5B)

Gross profits in the global cocaine trade

- Retailers ($54.0B)
- National wholesale ($10.0B)
- International wholesale ($12.0B)
- Trafficking from origin to transit countries ($8.0B)
- Value in country of origin ($1.0B)
Money laundering and the transmission of earnings

- Cash smuggling is a primary mechanism of income transfer along the drug production chain
- Traditionally, cash was smuggled from the U.S. into Mexico and then a portion was shipped onward to Colombia
- Recently, financial resources have more typically been transferred directly from the U.S. to source countries
- Drug-related proceeds available for laundering through the financial system total ≈ 0.4 to 0.6% of global GDP
- Around half of these proceeds are estimated to be laundered within the jurisdiction where profits are generated