



ALEXANDRIA UNIVERSITY

Faculty of Commerce

Department of Economics

The Economic Effects of illicit Drug's Trade, with Application on Egypt: An Analytical Study

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By

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Executive Summary

All over the world different countries are affected by the devastating consequences of drug abuse and illicit trafficking, like its adverse effects on health; the upsurge in crime, violence and corruption; the draining of human, natural and financial resources; the destruction of individuals, families and communities; as well as the undermining of political, cultural, social and economic structures .

From this point the study gaining its importance through addressing the economic aspects of the problem and its effects on society. The objectives of the study are determining the size of the problem of illicit trade of drugs at the global and domestic market by using the economic analysis tools, as well as determine the economic costs of illegal drug trade and analyze its impact on the economy. The main assumption of the study is “the illegal drug trade has a negative impact on the economy ”. The Study is adapting the descriptive analytical method by using graphical and mathematical tools to achieve its objective and test its hypotheses.

The study divided into two main parts: first Part focusing on analyzing the economic dimensions of the problem, while the second parts presenting recommended policies for drug control from an economic perspective. **Part I** divided into two subparts, the first provides a theoretical analysis of the problem and explains the suitable economic tools that could be used to analysis the problem - Chapter II-. **Second one** is applied Part on both the global market – chapter III – and Egyptian market in chapter IV.

Chapter II presents the economic aspects of the problem using appropriate economic analysis in microeconomics and macroeconomics theory, the chapter concluded that drugs have the same nature as other economic goods, whether in terms of production, distribution, or consumption, such as the rest of the legitimate goods. In addition institutions in illegal drug sector take similar structures to other institutions in the formal sector such as cartel and vertical integration and international activity.

Then the chapter illustrates the supply and demand sides in drugs markets by determine the functions and identify the major factors that affect both the supply and demand sides , starting

by describe supply curves for drug farmers and retailers and how intermediation margin affect pricing through the different premium risk level , market structure and efficiency of the mediation.

The total demand curve represents drugs Users fall into two general classes: addicts and neophytes or occasional users. Addicts are linked to drugs by their pathological or psychological characteristics combined with their response to the effects of exposure to the drug. These relations are, in turn, influenced by the socio-economic conditions that addicts face. Neophytes are likely to be motivated by curiosity or the pursuit of occasional thrills. A crucial factor for these non-habitual users is accessibility of the drug in an atmosphere conducive to experimentation. The total demand curve is represented by a relatively steep curve, reflecting the price elasticity of demand is relatively small; however, the price elasticity is not zero.

At the end of the chapter illustrates in details the economic effects of illegal drugs at both the micro and macro levels; at the **micro level** the study clarifies different effects of drugs on the consumer welfare using indifferent curves by presenting the shape of the curve, the income and substitute effect. In addition the analysis shows how drug abuse lead to productivity loss by the time in different types of these drugs. On the other hand, at **macro level** the study uses “The Macroeconomics Circulation Model” with its four aggregate macroeconomic sectors (household, firms, government and the external sector) to show the effects of illicit trade of drugs on the economy as a whole. As well as using production possibility frontiers to determine how this trade contribute to waste communities resources and undermine the development process.

The Analytical part –covered in chapters III and IV –focusing on the real analysis for the drugs as an economic commodities by dividing global and domestic markets to submarkets and analyzing the production, distribution, pricing and consumptions in these submarkets .

In **Chapter III**, the study analyzes the economic aspects of illicit drugs all over the world through determining the scale of the trade and the economic impact on the global economy. Chapter, as well as recognizing the volume of world trade of illicit drugs and the proportion of its acquisition of the global market compared with the size of the legitimate trade in the world. In addition, the chapter explains in detail the global trends for trafficking in illegal main markets (opiates, cocaine, cannabis and amphetamines) during the period (1990 - 2009).

Chapter IV, analyzes the economic aspects of illicit drugs in Egypt. The main objectives of this analysis are: **First**, to measure the size of the illicit drug in the Egyptian market during the

period (1991- 2010), by dividing the Egyptian market to three main markets and 11 submarket. **Second**, to calculate the economic costs of this problem.

The Study used the “Cost of Illness Framework” for calculating the elements of the economic costs attributable to illicit drugs in Egypt in 2009. Costs were estimated in six broad areas: medical care, lost productivity, the opportunity cost, and welfare losses cost, apprehension and conviction cost and costs for prevention and research. The findings were: the economic costs of drugs in Egypt totaled summarized about 12.2 billion L.E, where the estimated the investment opportunities cost about 115 million L.E, productivity loss as a result addiction was \$ 1.8 billion L.E, consumer welfare loss was about 10 billion L.E, while the costs of health care for the treatment of addiction about 73.7 million L.E., Finally the cost costs for prevention activities and research related to the issue were 19 million L.E

At the end of study **chapter V** presents the recommended strategies to combat illicit drugs from an economic perspective, which is based on the tools of economic analysis and study findings. The study analysis the trade-off faced by the Egyptian government between prevention policies (aimed at reducing the demand for drugs) an enforcement policies (aimed at reducing the production and trafficking of drugs), and shows how the optimal allocation of resources between these two alternatives.

Therefore the study conducted comprehensive evaluations for the implementation of the national drug control strategy. Which were divided into two types . The first is “**Supply Reduction**” which includes efforts to combat smuggling, manufacturing, agriculture, trafficking and illegal drugs possession. In this part the study presents a model for a drug law enforcement policy, whose objective is harm reduction, including the net cost of law enforcement, social harm and surplus of agents. Analysis shows that a trafficker-oriented law enforcement regime can avoid counter-productive policies. Moreover, repressive policy with high sanction and with different levels for detection or decriminalization is optimal under some conditions depending on the relationship between social harm and consumption.

The second type is “**Drug Demand Reduction**” which include all **Prevention** actions that support government and civil society to plan, implementation, monitor and evaluate a range of evidence-based interventions for the prevention of drug abuse .In addition the **Treatment** by Identify, develop and sustain centers of excellence for training on drug treatment and care, establish community-based treatment programs, establish drug treatment networks to identify

and exchange best practices and finally, develop and implement minimum standards of treatment and care.

Finally Based on the extensive research in all aspects of the problem the study concludes that: preventing drug use before it begins is the most cost-effective, common-sense approach to promoting safe and healthy community.

Researcher

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