Domestic Drug Prohibition as a Source of Foreign Institutional Instability: An Analysis of the Multinational Extralegal Enterprise

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Abstract
The unintended consequences of prohibition on domestic markets are well documented (Miron and Zwiebel, 1995). The enforcement of these prohibitions denies the extralegal enterprise (XLE) access to property rights and contract enforcement from the state. Consequently, XLEs must provide their own enforcement through the application of coercion and violence (Lott and Roberts, 1989; Paul and Wilhite, 1994). In this paper we focus on multinational activity by multinational XLEs in the illegal drug trade, examining the applicability of Dunning’s OLI paradigm. We find that the location and internalization aspects of the paradigm apply well, while the ownership aspect does not. Further, we argue that wherever XLEs operate, their coercive powers distort the incentives in resource and goods markets, increase corruption and reduce institutional stability. Their activities substantially reduce the size of the productive exchange economy and the attractiveness of the location for investment by legitimate businesses. These distortions are amplified by the enforcement of prohibition by governments in target market countries.

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