

## **PERU: CAUSES FOR CONCERN**

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In this beginning of the second part of his presidential term, Mr. Alan Garcia faces a difficult domestic situation due to a number of factors only partly linked to the economic conjuncture.

While the first two years of Mr. Garcia's presidency seemed to demonstrate that Peru was finally committed to solving its fundamental problems, the events of these past few months have demolished the optimism of observers who focused perhaps too exclusively on the good macro-economic performance.

Just as the Peruvian economy was recording its first contractions, bloody clashes which took place at the start of June between the police and Indians forced the government to abandon the application of many laws on private investment in the Amazon region and led to a wave of social movements.

At the same time, the UN Office on Drugs and Crime, in its 2008 report on Peru, noted a new increase in fields devoted to raising coca... and stated in its preface that this allows a rise in the resources available to terrorist groups "like the remaining units of Shining Path."

Several days after the dramatic incidents of June, the Army was subjected to a new attack by 'rebels' on one of its bases located in one of the main areas where the illegal farming is going on.

### **Two years of success for Mr. Alan Garcia in the area of economics**

For his second presidential term, Mr. Alan Garcia did not resume the very Keynesian choices made during his first term (1985-1990) in terms of economic policy.

On the contrary, he joined the movement of opening up to neo-Liberalism initiated by his successor, Mr. Alberto Fujimori, who, for 15 years, permitted Peru to participate in the expansion of the world economy.

In the first months following his assumption of office (July 2006), a series of measures were taken to encourage investments from outside which, as an indirect consequence, led to a rise in production oriented mainly towards the export of minerals (silver, gold, copper, lead, zinc...)

In parallel, the opening up to international trade, in the framework of bilateral most favoured nation agreements, made it possible to satisfy a surge in domestic demand.

As it faced the worldwide crisis, the Peruvian economy could at the end of 2008 take pride in some solid achievements:

- continuous GDP growth at previously unattained levels (8% in 2006, 8.99% in 2007, 9.1% in 2008) ;
- a trade balance in the positive by a wide margin (+ 1.7 billion USD) supported by diversification of 'non-traditional' exports coming from the SME;
- a rate of inflation well under control in the regional context (3.93% in 2007, 6.65% in 2008) ;
- public debt reduced by half between 2007 and 2008 (from 47 to 24% of GDP) ;
- net international reserves growing regularly (27.7 billion USD in 2007, 31.2 billion USD in 2008, or the equivalent of 13 months of imports);
- a budgetary surplus for the 3<sup>rd</sup> year in a row (+1.5% GDP in 2006, + 1.8% in 2007, + 2.2% in 2008).

✓ **However, the first signs of a slowdown have appeared**

Some independent analysts signaled in April that the results of the month of February amounted to a quasi-halt in the growth of the Peruvian economy which had been interrupted for 8 years.

In mid-June, the government announced that in April the national economy had recorded its first contraction since 2001 (- 2.01% compared with April 2008). This was just a few days after the Central Bank declared that it was revising downward its growth forecasts for 2009 (3.3% instead of the 5% envisaged by the government). Some private financial institutions meanwhile estimated that the results in May would also show continued movement lower.

Despite some technical explanations seemingly reassuring provided by the National Institute of Statistics and Data Processing (INEI), experts confirm that this contraction is simultaneously linked:

- to reduced domestic demand;
- to reduced exports from the 'traditional' sector and a concomitant drop in the prices for metals on the international market (24% fall in 12 months and 70% fall in export revenues).

Added to this has been a strengthening in value of the national currency – the sol – against the dollar.

The domestic economic sectors most affected have been manufacturing, trade and construction.

On the basis of inflation which may be limited to 4.2% this year, the Central Bank has reduced its interest rate to 3%, hoping thereby to re-launch domestic consumption... though some economists believe this could also cause inflation to resume...

✓ **The priority given to the social domain takes shape, but in an unequal manner**

**As a candidate, Alan Garcia made reduction of poverty a key objective. The President confirmed it would be like in his first administration.**

He was not the first to wish to emerge from democracy said to be 'without social credibility.' In July 2002, President Alejandro Toledo had summoned the 'Forum of National Accord' which rallied around government representatives from the main political parties, labour unions and civil society. The National Accord had among its 4 objectives the call to reach by July 2021 'equity and social justice' in many areas of activity (human rights, employment, education, health, culture...), translated into 'policies of the State.'

Various plans of a social nature were written to guide the implementation of the National Accord, among them a 'national plan for the elimination of poverty' - 2004-2006.

At the start of his term in office, President Garcia took up this idea with his programme entitled 'Juntos' (Together) incorporated into the National Strategy 'Believe' which foresees in particular direct financial aid to its beneficiaries.

The government also launched many programmes relating to the development of the health sector, electrification networks and highway infrastructures, as well as access to drinking water and improvement of purification.

**With international support (UN Development Programme and EC), the objective of reducing the proportion of the poor to 30% in 2011 remains officially in effect**, though according to INEI this percentage went from 44.5% in 2006 to 39.3% in 2007 then to 36.2% in 2008.

**Nevertheless, these numbers only imperfectly reflect Peruvian reality.**

The progress recorded is very different according to whether one considers the Lima region with its 8 million residents, representing the economically most active area of the country, or the rest of Peru and more especially the region of the Andes, where the levels of poverty are stuck at a rate of 60% and government efforts with respect to equipment are slow to take concrete form.

**For a year now the effectiveness of government action in the social domain has been the subject of numerous critiques on the part of the Opposition, who denounce a partisan handling of the initiatives, poor management of funds, shortcomings in the coordination of the various plans and a lack of serious references to justify the selection of their beneficiaries.**

#### ✓ **Grave social tensions which result in a political crisis**

**On 5 June, at Bagua in the Department of Amazonas (north of the country), an action of the forces of order intended to dislodge many thousands of indigenous people who were blocking the highways turned into a drama: 24 policemen and 10 civilians were killed.**

The first warning signs of this event appeared in April, when the indigenous communities began to demonstrate their rejection of a number of decrees issued by President Garcia on the basis of powers accorded to him by Congress within the framework of the implementation of a treaty on free trade with the United States. Believing that their interests were damaged by provisions which they say will lead to the privatisation of 45 million hectares of Amazon forest and of their water resources, the Indians undertook to cut the roads, to interrupt river traffic and to shut the valves of the gas distribution network.

The government considers on the contrary that these laws make it possible to control use of the natural environment while attracting foreign investment and keep 12 million hectares of forest area for the indigenous communities and 15 million hectares as ecological reserves.

Negotiations held between representatives of the government and of the indigenous communities did not yield any concrete result and Congress decided to delay sine die the review of the contentious decrees, all of which aroused passions and led to the events at Bagua.

**These events immediately took a political turn.** Prime Minister Yehude Simon denounced manipulation of the native communities by actors 'hostile to democracy' such as the nationalists of Ollanta Humala. For his part, President Garcia said he saw the pernicious meddling of his Bolivian counterpart who, in the recent past, had addressed to an indigenous congress messages encouraging the aspirations for independence on the part of the *natives* (native peoples). For his part, Alberto Pizango, President of the Interethnic Association for

Development of the Peruvian Forest (AIDSESEP), said that the drama was linked to the signing of the free trade treaty with the United States which led to privatisation of the nation's water and land resources and to the shooting of its brethren who defended the right of all Peruvians to live in dignity on their territory.

In the end, the opposition quickly decided to try to rally all the votes needed to pass a motion of censure against Prime Minister Simon and Minister of the Interior Mercedes Cabanillas. The parliamentary group of the Peruvian Nationalist Party was the first to announce its intention to call for the departure of Mr. Simon. It was joined several days later by the National Union, then by Keiko Fujimori's Alliance for the Future. Fujimori has now moved to the top of those whom voters say they prefer in the presidential elections of 2011.

**Moreover, in the outburst of protests which followed the events of Bagua, centres of tensions appeared in the Departments of the centre and south of the country (Apurimac, Cuzco, Junin)** where farmers also demonstrated by blocking highways and demanding the lowering of taxes and the construction of roads and infrastructure. The government found it necessary to temporarily reinforce the police by bringing in Army units. The demands of the farmers grew from cancellation of the sale of an electricity generating station and of all mining concessions to include part of the demands of the Indians of the north as regards water.

**Bagua damaged the credibility of the government and the authority of the Peruvian executive.**

Several days after the bloody clashes, Congress suspended indefinitely the application of the contentious decrees by a vote which brought together the Fujimori supporters and the representatives of the party of the President (APRA). The popularity of Mr. Garcia collapsed, with only 21% of Peruvians saying they approve of the attitude of a President who has cut himself off, showing firm support for Yehude Simon while denouncing manipulation by outsiders of some thousands of anti-democrats to minimise the facts and the seriousness of the general situation. For his part, the Prime Minister rushed to the three Departments where the farmers' demonstrations turned militant in order to try to reign in the crisis before his appearance before Congress, all the while repeating that he would resign in the coming weeks. In the end, on 30 June, a motion of censure against Mr. Simon and Mme Cabanillas failed to rally enough votes, though the number of votes cast in favour of censure in these two cases was clearly above the number cast against and the abstentions taken together (56 versus 44).

**In the area of foreign relations, the events aroused high diplomatic tension** especially with neighbouring Bolivia. President Morales replied to accusations from his counterpart Garcia by calling the violence in Bagua 'genocide.' He was then called 'the enemy of Peru' by the Peruvian chancellor. President Ortega of Nicaragua did not fail to cast his 'Bolivar' stone in the garden of Alan Garcia by giving political refugee status to Alejandro Pizango, who fled Peru the day after the confrontations. Mr. Ortega went so far as to appear together with the leader of the indigenous peoples ('another brother') during a ceremony paying homage to Carlos Fonseca, founder of the Sandinista guerillas.

✓ **Drug trafficking and the narcotics warriors have taken root**

- **Drugs trafficking**

Just reading the preface to the 2008 report of the UN Development Programme on monitoring illegal crops in Peru dispels any optimism for the short and medium terms despite the efforts made by the government especially in favour of replacing coca leaf cultivation by sustainable development. We see there that for the 3<sup>rd</sup> year in a row the land

devoted to growing coca has expanded by some 4.5% or more than 56,000 hectares, all of which suggests a theoretical capacity to grow cocaine each year which has jumped to 302 tonnes of white powder. And the document states that 'in a country where less than 8% of the leaf is used for legal purposes, this expansion of the production territory, not only makes the drug more available but represents additional money to corrupt and compromise good governance, to generate more violence and resources for organised crime as well as for terrorist groups 'such as the remaining units of Shining Path.'

For good measure, and to hail the efforts of the security forces, the report notes:

- that the campaigns of eradication which were carried out on some 11,000 hectares contributed to limiting the scourge,
- that the seizures of coca paste and of chlorhydrate have doubled (from 6.2 tonnes to 11.6 tonnes and from 8.1 tonnes to 16.2 tonnes respectively).

Nevertheless, the effects of these successes are tempered by the rises in prices on the illegal markets: + 22% and + 11% respectively.

It is interesting to note that in 2008, contrary to past years during which expansion of the land area under cultivation took place in a more or less uniform manner, 55% of the new farming appeared in the two areas where the 'remaining units' of Shining Path are holding out: the southern part of the Alto Huallaga Valley (400 km to the northeast of Lima) and the entire river valleys of the Apurimac-Ene (called VRAE in Peru - 350 km to the southeast of Lima). Moreover, it is in the VRAE that one finds the best production yields of the coca leaf (50% of nationwide production).

**Meanwhile, we see changes in activities of the drug sector linked to changes outside the country** since the increase in prices for coca leaf resulted not only from the efforts at eradication in the northern part of the Alto Huallaga Valley but also from the **success of the anti-drug fight in neighbouring Colombia.**<sup>1</sup>

**In a direct line with this assertion, both experts from America's DEA and local specialists agree that there is a kind of internationalisation of the chain of Peruvian narcotics trafficking.** Thus, the activities of export and quality control are essentially in the hands of the Mexicans (especially the Sinaloa cartel). The Colombians have given up export to concentrate on domestic transport and improving the coca plants, while the Peruvians have devoted themselves to production.

**Finally, the violence linked to drugs trafficking** which ravaged the production regions and the export routes ( Alto Huallaga Valley, VRAE, border area with Colombia and Brazil of the Rio Putumayo), **has begun to appear in the urban centres in the form of bloody settling of accounts.** Many state officials engaged in the fight against drugs have since 2008 demanded measures to improve their personal security.

**Facing this deteriorating situation, the present government has not remained inactive, but** as Rómulo Pizarro, President of the National Commission for Development and Life without Drugs (Devida) said in April '***we are not winning the war against narcotics trafficking. I believe we must begin to wage war on narcotics trafficking.***' He thus supported the conclusions reached in this matter by the UODC, which recommended that budgetary efforts agreed since 2007 be used as soon as possible as the embryo of a national budget set aside for the fight against narcotics trafficking in Peru.

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<sup>1</sup> The 2008 report of the UNDP concerning Colombia says there has been a 28% drop in production of cocaine in this country (430 tonnes) linked to an 18% reduction in the land under cultivation.

Since 2007 and to this day, the staff put in place is directed by the Devida commission within the framework of the National Strategy for the Fight against Drugs, 2007-2011. It is charged with the task of:

- coordinating the actions of the various public entities involved in the struggle against drugs at at the national level (ministries of Defence, Agriculture, the Interior, Public Health...) and local level (Department administrations) ;
- quantifying and getting approval of the necessary budgetary resources from the Ministry of the Economy.

Beginning with an initial grant of 11 million soles (2.6 million Euros) in 2007, the Devida commission has gone to some 40 million in recent years but has regularly spoken of needs 4 times greater.

These resources have been used in the framework of the Rapid Impact Plan (PIR) which organises the efforts along three lines in principle: prevention (5%), interdiction (50%) and alternative development (45%).

Although the actions of prevention are directly primarily towards those in school, the actions of interdiction and alternative development are focused on the producing regions.

The initiatives of alternative agricultural development give good results but require that the areas targeted have real capability for raising other crops. At present, solutions of substitution are lacking for regions which do not exhibit these characteristics. Moreover, one observes that every long term move lower in agricultural prices leads to a return of coca farming.

As we mentioned in passing above, the actions of interdiction are presently those which have contributed the most to slowing the spread of illegal crops. We note:

- eradication of crops (11,000 hectares in 2008);
- seizures of the 2 derivative products (base paste and cocaine chlorhydrate) estimated to be 7% of the 302 tonnes of theoretical production capacity;
- controlling the fabrication, transport and trade in solvents used to extract cocaine from the leaves (kerosene, gas-oil).

This last-mentioned type of action is very effective in the short term but the authorities have confirmed the growing ability of the traffickers to reconstitute their supply networks very quickly.

#### **- Terrorists recycled into narcotics traffickers**

Seventeen years after the capture of Abimael Guzman Reynoso, creator, leader and ideologist of the Shining Path and after the end of a domestic conflict which cost 70,000 victims, some armed groups, the remainder of the Maoist guerilla forces of the 1980s who rejected the peace agreement offered by President Fujimori, still roam the *selva* of the rustic and disfranchised areas of Peru.

These 'columns' of Shining Path are mostly concentrated in the Alto Huallaga Valley (personnel believed to be 300 persons) and the valleys of the Apurimac-Ene rivers (VRAE – personnel believed to be 600 persons). Nevertheless, their drug trafficking activities have also led them to deploy detachments in other regions, particularly along the commercial routes of the drugs trade.

In fact, in order to survive and have funds, these warriors have, in the view of experts, firstly lived off of various kinds of illicit trafficking (drugs, fuel, wood), thus perpetuating a practice which is as old as their original armed revolutionary movement. Then, over the course of the last 10 years, they have gotten involved more and more in activities linked to coca.

For Jaime Antezana, a Peruvian sociologist and researcher who has specialised in the domains of domestic violence and narcotics trafficking, these Senderistas have, beginning in the year 2000, offered their services as protectors of the areas under cultivation and of those transporting drugs by human runners (*mochileros*). Beginning in 2004, they set up their own farming and their own production labs. According to Mr. Antezana, they now constitute an independent organisation of drugs traffickers whose leaders came in fact from Shining Path but whose youngest members are just the manpower and transporters of drugs.

**This situation raises the risk of confusion with Colombia which should be urgently avoided:** there remain in fact – especially in the Alto Huallaga and the VRAE – some armed ‘columns’ whose *comandantes* continue to speak in ‘revolutionary’ political terms but **the number one danger for the country comes from their power as a drugs cartel.** In fact, it seems that a number of the attacks committed by the *Senderistas* against the forces of order and especially against the police originate in the threat these forces pose to the drug traffickers’ interests rather than to the sanctuaries of revolutionaries preparing the Revolution.

**Nevertheless, one must not neglect the pernicious nature of the political message** because these guerillas have, it would seem, abandoned their old methods which consisted of sowing terror in their areas of action, taking up instead activities of ‘protecting’ the coca farmers against the security forces and initiatives of a local social character in the poor regions. **Thus, there remains the risk of seeing the supporters of a political project from another age bring in new recruits and, as a consequence, the risk of seeing the problem become more complex for the Peruvian government.** In this regard, one should reexamine the statements of General Hector Caro, ex-director of the Central Directorate against Terrorism (Dircote) exposing the infiltration of Shining Path elements into the most violent recent social movements.

**Since 2007, the government has engaged the Army and the police in offensive operations, especially in the VRAE (the operations *Tormenta* and *Excelencia*).**

The ‘offenders’ enjoyed excellent knowledge and mastery of vast areas where the State is absent and the populations were taken over by their protectors, who have modern individual and group weapons. The number of their ambushes and activities of harassment have grown.<sup>2</sup> **The results of government operations carried out with limited human and material resources, limited in number and quality, have remained modest** when confronted by an adversary who has mastered all the guerilla warfare techniques and at times awaits the attacker on prepared terrain. By contrast, military and police units regularly lose men.<sup>3</sup>

✓ **A lot of uncertainty over the future**

**The abrupt slowdown in the economy is bad news for a country which lives under the double burden of immense poverty of whole sections of society and flourishing narcotics trafficking.**

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<sup>2</sup> Since July 2003, there were 24 actions led by the Senderistas, of which 14 were since 2008.

<sup>3</sup> The number of ‘offenders’ put out of action remains tiny. After the capture of a dozen Senderistas in the second half of 2008, in 2009 the forces of order arrested just a single Shining Path leader (Alejo Maylle Tolentino, alias ‘comrade Rocky,’ the deputy of ‘comrade Artemio’ who operates in the Alto Huallaga). By contrast, the ambushes these past few years killed some sixty members of the security forces; the most recent one, in April, resulted in the death of 14 soldiers; in June an attack against a helicopter on a base in the VRAE caused the loss of a corporal.

The most pessimistic observers believe that in the Andes and Amazon regions we can see socio-economic and political contexts comparable to those in the 1980s on the eve of the domestic conflict unleashed by Shining Path and the Tupac Amaru Revolutionary Movement.

Shortly after leaving the halls of Congress and freed of the threat of a motion of censure, Mr. Simon was busy opening the first session of the Table for the Development of the Andean Peoples, which brings together representatives of the government, the Department administrations and civil society. A similar instance having a permanent character must also be established for the Amazon region. The Prime Minister announced the setting up of a secretariat consisting of civil servants especially charged with the task of follow-up to the commitments which were assumed there.

This type of initiative, which is in line with the spirit of the National Accord, is without a doubt worth categorising among the salutary measures. Nevertheless, the effectiveness of government activities will continue to suffer from the lack of the indispensable implementers as the nation becomes very fragmented, not respectful of legality in expressing its demands and a place where democracy has won over very few people. In fact, institutional fragilities such as the absence of political parties having a truly national following will probably leave the field open to local movements for a long time to come.

**Unless it draws heavily on the State reserves as Mr Garcia did during his first term in office, one may fear that the government will not have other solutions from now till 2011 than to try to avoid a general social conflagration by running from one centre of tension to another with promises of dialogue, as Yehude Simon has begun to do.**

**In these conditions, one may wonder whether the government will know how and will be able to prioritise - as well it should for the sake of the country's future – the struggle against the dangerous spread of activities linked to drugs.**

From certain statements, we understand that the authorities are fully aware of the challenge. But the move to action is slow and both the police and the Army complain that they do not see the allocation of the budgetary resources necessary for modernisation of their inventory of worn out equipment. Thus, several days after the deadly ambush of April, Mr. Simon acknowledged the need to make – without specifying them – several 'adjustments' to the 'anti-terrorist' activities while recalling that in the course of the last three years 100 million USD were devoted... to infrastructures in the VRAE.

**Otherwise, at the moment it seems politically incorrect to take into account the potential danger of seeing the Shining Path resume revolutionary struggle armed with resources financed by narcotics trafficking.** In the statements of the Prime Minister, we see in fact that Mr. Simon combines the struggle against the 'terrorists' with the struggle against drugs, but, for him, this struggle aims more at 'eliminating what remains of this disastrous part of the History of Peru'...

One year ago, people spoke in military circles about the possibility of having an American base installed at Ayacucho, a base which would replace that of Manta which the Ecuadorian Correa decided to close on his territory in November 2009. These speculations have fallen silent. In any case, after the severe sentencing of Mr Alberto Fujimoro (who succeeded him at the end of his first mandate) to 25 years in prison, Mr. Alan Garcia will no doubt not risk taking the energetic solutions which Fujimoro adopted during those years (1985-1990)<sup>4</sup>.

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<sup>4</sup> Suppression of the mutinies of Senderistas in the prisons of Lima in 1986 (248 deaths); setting up the Comando Rodrigo Franco, an anti-terrorist paramilitary structure; violence by the Army against local population suspected of supporting Shining Path and the MRTA



**It is thus prudent to expect that Peru is entering into a new phase of domestic disturbances and will tilt little by little, due to lack of resources, lack of organisation and lack of political will, towards social, political and foul violence.** This type of situation is clearly of the sort to prepare for the coming of a new caudillo in the panorama of South American executives looking towards the elections of 2011.

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