ON THE UNDERSTANDING OF NARCOTRAFFIC IN PERU COCA, CONFLICT, AND THE CHALLENGES FOR DEVELOPMENT

By Paola Lazarte

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Supervisor: Professor Thilo Bodenstein

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ABSTRACT

In less than twenty years, Peru has gone from being a producer of coca leaf to the second largest producer of hydrochloride cocaine in the world. This is the result of the adhesion of new local actors in the complex network of narcotraffic. Thus, more than an externality created by the increasing international demand for cocaine and the effects of anti-narcotic policies implemented in key regional countries, it seems evident to assert that narcotraffic also emerges due to the existence of domestic conditions. This research aims to shed some light in the understanding of the factors that have led to the expansion of narcotraffic in Peru, as well as the threats that the latter implies. The general conclusion is that narcotraffic in Peru can be explained by three main variables: depression of the agricultural sector, the degree of horizontal inequalities in Peruvian society, and the perpetuation of a fragmented and weak State. Finally, the apparent inactivity of the cocalero movement seems to be the result of a more "harmonic" policy towards coca-bush cultivation, and a set of devices created by the peasants to cheat the law. In particular, the opportunistic politicization of the issue, and the presence of Shining Path are the biggest threats for the integrity of the nation-state and the foundations of democracy in Peru

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INTRODUCTION

The jump from the mere production of coca leaf to the status of net exporter of cocaine hydrochloride paste is not a natural transition of countries where narcotics naturally grow; economic, political, social, and trans-border conditions are at interplay for such shift. The antiterrorist/anti-narcotic policy followed in the second half of 1990 in Peru forced the exit of Colombian cartels from the country, shifting the integration of the full range of activities involved in the production of cocaine hydrochloride in Colombia. The US anti-narcotic policy on Mexico has currently shifted the production of cocaine hydrochloride to Peru. Besides the economic advantages that Mexican cartels may find to expand their activities in Peruvian territory –seaports, migration requirements, geographical concerns– we may wonder what the social and political factors that facilitate their operations are.

There is a large body of literature on the Colombian and Mexican cases regarding the political and social origins of narcotraffic (Castro 2003, Garcia 2004 Hernandez 2008), as well as on the current war on drugs (Chabat 2002). On the other hand, the literature on narcotraffic in Peru is not as abundant as their counterparts; nevertheless most of the available research on the issue has mainly focused on the problem of the coca leaf and the *cocalero* movement (Pariona 2004, Rospigliosi 2005), whereas recent research has begun to analyze the market and their derivates, providing a better approximation on the processes and the actors involved in narcotraffic (Macroconsult 2008, Glave and Rosenberg 2005), while there is vast available literature and data on the performance of the *Alternative Development* project in the website of the Office of the United Nations against Crime and Drugs.

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This literature does not properly explain the domestic factors that create narcotraffic in Peru and facilitate its extension within the society; indeed, there is an abuse of the international dimension of the problem in order to explain it, which basically denies the possibility of a structural understanding of the issue. In comparative terms, one may ask why in Bolivia, a country with one of the highest rates of poverty of Latin America and the Caribbean, narcotraffic has not reached the level of Peru and Colombia. What is behind these outcomes and what makes the Peruvian case special?

In order to fill the gap in the literature, this research aims to provide a basic understanding of what creates and strengthens narcotraffic from a domestic perspective, and why its presence is harmful for the construction of a cohesive society in Peru. In this way, this paper aims to contribute to the generation of new research focused on the analysis of the structural factors that give rise to the problem of narcotraffic, and only so, provide key arguments for the developing of policy recommendations. Thus, in the light of these purposes, two general hypotheses are developed: there are three main variables explain the emergence and strengthening of narcotraffic, the situation of the agrarian sector, the degree of horizontal inequalities and the strength/functionality of the State. The second hypothesis states that narcotraffic indeed represents a conflict within the Nation-State as it constitutes the clash of two rival orders. This conflictive situation becomes one of the most striking problems for Peruvian society as it limits the achievement of economic development and cohesion of society. In terms of methodology, this research provides confirmatory empirical evidence of the presented hypotheses, making use of quantitative data. This way it contributes to the state of knowledge providing key elements for further indepth research to be embarked in the future.

In order to understand the phenomenon, it is first necessary to understand the basics of narcotraffic and cocaine production. Chapter 1 briefly introduces the reader to the world of cocaine and the production chain behind it. In particular, it distinguishes between the productions of cocaine base and hydrochloride cocaine, providing early insights on the actors involved and how extension of the activities over local population turns the problem into a systemic one. Chapter 2 presents the evolution of narcotraffic in Peru. Chapter 3 presents the working hypotheses and research questions. Chapter 4 and 5 develop the two hypotheses of this research and provide evidence to refute them; Chapter 6 presents the conclusions and some alternatives for policy recommendations in the light of the findings presented.

CHAPTER 1: THE PRODUCTION CHAIN AND THE ACTORS INVOLVED: THE DISINTEGRATED PRODUCTION OF COCAINE HYDROCHLORIDE

The production chain of cocaine hydrochloride starts with the illegal cultivation of cocabush. Peruvian legislation recognizes the traditional consumption of coca leaf of Andean population, and has allowed the commercialization in a modest scale of derived products such as coca tea and flour. ENACO (Empresa Nacional de la Coca in Spanish) is the State enterprise of private law created in 1949 to mediate the coca leaf market¹. Currently, it is the only institution entitled to produce, manufacture, and trade (for domestic and international market) coca leaf and its derivatives². The role played by ENACO is part of the national policy on drug control and prevention, outlined by the Convention on Narcotic drugs of New York and Geneva (1961 and 1972, respectively) where the figure of a State enterprise as the sole responsible of the commercialization of coca leaf and its derivatives was proposed. Indeed, ENACO is not only responsible of the commercialization but also of the registration of legal coca producers. Thus, ENACO performs as the collector, trader -to pharmaceutical enterprises and Coca Cola- and manufacturer of coca leaf. As collector it counts with operational units of purchase in the main areas of licit coca-bush production. However, ENACO faces two problems in the storage and purchase from local farmers of the essential input of cocaine hydrochloride. These are:

¹ Institutional information available at: http://www.enaco.com.pe/empresa/infinstitucional.php

 $^{^2}$ The New York convention of 1961 wrongly considers coca leaf as a drug rather than a narcotic; therefore it raises serious obstacles for its international trade and possibilities of industrialization. For more details, see ENACO Plan Estrategico 2005-2009.

- i. ENACO does not cover the entire coca growing areas of the country. This is partially explained given the high costs of its operations in remote areas where coca bush grows (Andean and high jungle areas), and the cost structure of the enterprise. In particular, ENACO works with collection and purchasing offices in a limited amount along the country, leaving a considerable space for informal private agents to absorb the rest of the market.
- ii. The prices paid by ENACO are not competitive compared to the prices that informal agents, and are obviously smaller than the prices paid by the narcotraffic. ENACO purchases coca leaf at a single and unique price per area regardless the quality, seasonality, and other geographical considerations within the area of production, which rests competitiveness when compared with the informal purchasers who do not set any quality requirement for the leaf, made in-home purchase, and provide financial assistance, making transaction costs smaller to the peasants producing coca leaf. Moreover, ENACO as a formal institution is subjected to the payment of taxes. Therefore, the prices it pays to purchase coca leaf are less attractive than those offered by the informal.

The consequence of the problems caused by the monopolistic figure of ENACO as an intermediary between the grassroots production of coca leaf by the peasantry and the legal demand (traditional and industrial consumption) is that the enterprise only covers the 40% of the coca leaf market (ENACO, 2004); the remaining 60% is covered by informal buyers who provide the local population for traditional consumption, and to the narcotraffic. Informal collectors are mainly constituted by local population of the coca areas. There is evidence that these agents provide financial and technological support to coca producers (Macroconsult, 2008), this seems to suggest that the informal channel that coca takes whether legal or illegal,

is built over bounds of trust and repeated transactions. This means that there is a dynamic construction of social capital built along these transactions, which in the case of illegal coca becomes a structural factor hard to reverse with the current anti-narcotic policy narrowly focused in the eradication and crop substitution³.

Table 1 presents the difference in prices paid by ENACO and the informal agents, and the prices of cocaine derivatives. It can be observed that in average, the national price of coca leaf paid by the informal is two times bigger than the price paid by ENACO. In addition, there are differences in the ENACO price among areas; in particular ENACO pays a higher price in Inambari and Aguaytia areas where the program of eradication works in a relatively less restrictive way than in High Huallaga given the presence and control of *Shining Path* in the region. Thus, it is not coincidence to observe that the price paid by the informal agents is the highest in the High Huallaga region than in the rest. This confirms that wherever ENACO do not intervene, the informal agents do.

CEU eTD Collection

³ There has been a shift in the anti-narcotic policy followed by the partnership between the Peruvian government and the international aid: from the forced eradication of coca bushes to the more developmental approach accompanying the eradication with an active role of the Peruvian Government through DEVIDA. Eradication is still compulsory but the general policy encompasses a broader scope of action on projects (i.e. infrastructure, building of local capacities, financing of alternative activities, etc.), a remarkable example of this partnership is the province of Tocache.

Month	High Huallaga		Apurimac		Inambari		Aguaytia		Average in Soles	
	ENACO	Informal	ENACO	Informal	ENACO	Informal	ENACO	Informal	ENACO	Infor- mal
Jan	5.2	10.0	4.3	7.0	-	-	5.4	7.8	5.0	9.0
Feb	5.2	10.4	4.3	7.8	-	-	5.2	7.8	4.9	9.4
Mar	5.2	10.6	3.9	6.5	6.3	9.6	5.2	7.8	5.2	9.3
Apr	5.2	9.7	4.3	6.5	8.3	7.4	5.2	7.8	5.8	8.5
May	5.2	10.7	-	7.4	8.3	8.3	5.2	7.8	6.2	9.3
Jun	5.2	10.1	4.3	6.5	4.8	9.6	5.2	7.0	4.9	8.9
Jul	5.2	10.7	4.3	-	-	-	5.2	8.7	5.2	10.2
Aug	5.2	11.6	4.3	-	3.9	12.2	5.2	8.7	4.8	11.1
Sept	5.2	11.5	4.3	10.4	3.9	10.4	5.2	10.1	4.7	10.9
Oct	5.2	11.9	4.3	11.3	3.9	11.2	5.2	7.8	4.7	11.0
Nov	5.2	13.5	4.3	10.4	3.9	10.3	5.2	7.8	4.7	11.5
Dec	5.2	9.7	4.3	7.8	3.9	10.3	5.2	7.8	4.7	8.8
Annual average	5.20	10.86	4.26	8.16	5.24	9.92	5.22	8.08	5.07	9.83

Table 1Peru, monthly prices of coca leaf paid by ENACO and informal agentsper area, New Soles per kilogram, 2004

Source: ONUDD (2005)

A percentage of informal collectors provide coca leaf for legal uses to the local population for traditional consumption, whereas another percentage provides the essential input to the first processing stage of final cocaine hydrochloride. The sequence of production of cocaine hydrochloride has two differentiated stages: the processing of cocaine base, and the purification of the latter called cocaine hydrochloride or simply final cocaine⁴. Currently, all the stages take place in the rural areas of Peru but this has not been always the case. Traditionally, Colombian cartels directly participated and supervised the production of cocaine base in Peruvian territory to be later exported to Colombia in order to process cocaine hydrochloride. Originally, the participation of Peruvian peasantry was marginal, and mostly came in the form of drug lords performing as nexus to the Colombian cartels. Therefore, it seems to be a mistake to assert that Peru has jumped from the condition of exporter of

⁴ The chemical inputs and sequence may change according to the producer. Indeed, cocaine hydrochloride can be directly obtained from cocaine paste depending of the use of chemicals or *precursors*.

cocaine paste to a producer of cocaine hydrochloride. Certainly the production of cocaine hydrochloride under Colombian regime counted with the participation of Peruvian peasants, nevertheless in a lesser scale and initiative than the current context. Therefore, it seems to be a mistake to assert that Peru has been an exporter of cocaine base as it has been essentially conducted and led by an international actor with the marginal participation of local population in the production chain. Then, it is proper to state that Peru has jumped from being a producer of coca leaf to exporter of cocaine hydrochloride. This is important for the analysis as it captures the real qualitative change in the situation of narcotraffic from a systemic perspective. This way, in twenty years Peru not only has changed its condition of mere producer of the basic input, but has become the second largest producer of cocaine hydrochloride in the world. In the light of the knowledge of the current process of narcotraffic, which is the replacement of Colombian drug cartels by Mexican (more details upcoming in the next section) and the outsourcing of activities, this evidences the adhesion of new local agents in the narcotraffic in Peru.

The technology of cocaine production has changed over years and has become more accessible partially due to the economic bettering in the rural areas as a consequence of the economic boom experienced in the last years. Back to the production of cocaine, all the sequences of cocaine hydrochloride take place in the rural areas where coca-bush grows. The processing of cocaine base and the washing of cocaine paste are not abysmally different processes and do not require of sophisticated technology and infrastructure, indeed they only differ in the use of lime and sodium permanganate. Cocaine paste elaboration takes place in small concentrations of land and can be easily produced with domestic artifacts (i.e.

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microwaves, batteries), whereas the washing of cocaine pulp takes place in maceration pits. On the other hand, the production of cocaine hydrochloride takes place in rudimentary laboratories of less extension and sophistication than those currently utilized by Colombian narcotraffic under the control of the Revolutionary Armed Forces of Colombia (FARC)⁵. In Peru, the inhospitable geography of the Andean Peruvian jungle facilitates the creation of these maceration pits and laboratories that are many times unnoticed by the local authorities and army forces.

What can be said about the profile of the population involved in each step of the production chain? There is a common denominator along the sequences carried: the eminent participation of Peruvian peasants that have acquired basic knowledge on the management of chemicals and drug production. Therefore, the expansion of narcotraffic in Peru has an indigenous peasant origin that goes from the cultivation and harvest of coca leaf to the production of cocaine hydrochloride. The current state of narcotraffic has outsourced the activities behind the final production of cocaine, and has found fertile conditions in impoverished peasants and local residents of intermediate cities for the transportation of the drug. Thus, the qualitative change that narcotraffic has taken in the last fifteen years consists in the decentralization of activities under the cartel control (currently, Mexican drug cartels).

In the middle management of the circuit, narcotraffic has an indigenous face. However, the production chain is disintegrated, which means that the agents that participate in one step of the sequence do not necessarily participate in the following ones. What are the factors that prevent the integration of the whole production chain?

⁵ These larger and more sophisticated maceration pits and laboratories are also found in Peru in the Putumayo, where FARC also exercises control. This is an exemption rather than the rule; nevertheless it is still a serious problem to bear in mind.

This disintegration is merely due to the lack of organizational capacities and infrastructure limitations to exploit economies of scale. In addition, the anti-narcotic policy implemented by the Peruvian State in partnership with the US and European aid (*Alternative Development* program) has intensified its control over crops, and relatively improved the proximity to local authorities and leaders; which explains the fact that more disintegrated activities are harder to detect and therefore, able to continue surreptitiously. In conclusion, the exploitation of the existing social capital in indigenous-rural areas has certainly helped to flourish and expand the scope of action of narcotraffic but it has not provided the sufficient conditions for the emergence of an integrated drug production. If the capacities of the local population were improved due to stronger action of the drug cartels through training and education towards the reproduction and strengthening of the network would lead to a more systemic situation where different strata of Peruvian society became involved in the illicit activity. Certainly, if Peruvian peasants had the conditions, this could be the case.

CHAPTER 2: EVOLUTION OF NARCOTRAFFIC IN PERU

Narcotraffic is not a recent problem but the result of a long process that finds its origins in the second half of 1960 decade. The phenomenon emerged as a consequence of the original demand of the United States of North America, which was initially supplied by organized groups mainly from Colombia and Mexico known as drug cartels. Broadly speaking, there are three periods in the evolution of narcotraffic in Peru as identified by Antezana (2008): the overflow of traditional consumption (1960-1979), the coca boom (1979-1998), and finally the new narcotraffic (Antezana and Garcia, pp. 187-189, 2008).

Traditionally, Peru has been the provider of coca leaf to the narcotraffic ruled Colombian drug cartels, which commanded the production of cocaine base in Peruvian territory with a modest local participation. Thus, the first stage of narcotraffic in Peru happened under the rule of Colombian cartels when the cultivation of coca-bush surpassed the mere traditional consumption quota, which specially took place in the regions of High Huallaga (department of San Martin) and the Valley of Apurimac River (departments of Ayacucho, Cusco, and Junin). The first period coincides with key political facts that affected the course of the country's democratic history. In first place, this stage of narcotraffic coincides with the initial period of return to democracy after the second wave of military Coup d'Etat in the Peruvian republican history (Juan Velazco Alvarado 1968-1975, and Francisco Morales Bermudez 1975-1980). Thus, the action of the central government regarding narcotraffic was limited and incipient given the political instability of the country and the slow process of democracy building. Moreover, it coincides with the controversial Agrarian (land) Reform of 1969 during Velazco's regime, which had as cornerstone the devolution of land ownership from the landlords of *haciendas* to the peasants, expropriation was the mechanism utilized to carry out such mandate⁶

The second period of narcotraffic (1979-1998) was characterized by the explosion of coca-bush production and production of cocaine base. Such explosive growth that took place between the 1980 and 1990 became Peru the first producer of coca leaf and cocaine base in the world. This is basically explained by two factors: the emergence of local "lords" of the drug business working for Colombian cartels (Cali and Medellin) and the emergence of insurgent movements such as Peruvian Communist Party "Shining Path" (Sendero Luminoso) and the Tupac Amaru revolutionary movement (MRTA). The presence of local drug lords indeed produced the strengthening of cartel control over the coca areas of the Peruvian jungle, whereas the insurgency weakened the power of the State. Thus, this period is characterized by the inaction of the Peruvian State in relation to the issue of narcotraffic. The capacity of maneuver of the State on the issue of terrorism caused by the insurgent groups was limited in part due to the prevailing high degree of social fragmentation of the country. Shining Path started its operations in the highlands of Ayacucho⁷ and it was not until the second stage of its operations (the war from the countryside to the city) where terror was brought to the city, that the political begun to react. In addition to the political weakening of the State, the biggest economic crisis of Peruvian history rested

⁶ Private owners were given non-tradable government bonds that later on lost their value given the hyperinflationary episodes of Peruvian economy (Velarde, 1992)

⁷ The Truth and Reconciliation Commission of Peru (CVR) estimated 26,259 deaths only in Ayacucho and 69,280 for the whole country during the conflict. Deaths include those executed by the rebels and the army forces. For more information see the first chapter of CVR's final report available at http://www.cverdad.org.pe/ifinal/index.php

operational means to face the problem of narcotraffic that started to take a systemic dimension with the incursion of new local drug lords.

In 1995 the cultivation of coca bush slowed down as a consequence of the dismantling of Shining Path and MRTA during Alberto Fujimori's first government (1990-1995) but mainly due to the implementation of a broader methodology in the antinarcotics policy (designed by USAID) that incorporated more integral strategy in the Alternative Development framework. In addition, Fujimori's policy of national recovery meant a serious blow to narcotraffic since during his regime the main network of clandestine airports were destroyed, and the already empowered lords of drugs were captured. This meant the weakening of the narcotraffic network, and besides the influence of other regional factors, indeed produced the exit of Colombian drug cartels from Peruvian territory. As a general result, evidently coca bush cultivation fell, and so the, production of cocaine base, which ultimately led to the reduction of the international prices of cocaine hydrochloride.

2.1 The new narcotraffic (1998 – 2010)

The third period of the evolution of narcotraffic corresponds to the years from 1998 until today. This period is characterized by the revival of coca leaf production and the recover of the international prices of cocaine hydrochloride. This can be observed in figure 1 that presents the tendency of the coca leaf prices, whereas figure 2 presents the tendency of cocaine derivates. Data on these variables is available in appendix 1.



Figure 1a Peru, prices of coca leaf – trend (1998-2009)

Source: SIMDEV - DEVIDA Notes Prices paid in Peruvian territory



Figure 1b Peru, prices of coca derivates (1998-2009)

Source: SIMDEV - DEVIDA Notes Prices paid in Peruvian territory Two facts can be extracted from figure 1a and 1b that are consistent with the classification of the periods. First, there has been indeed a recovery in the prices of coca leaf and cocaine derivates. In the case of cocaine derivates, the increasing tendency is less smooth than the trend of the coca leaf; moreover, the prices of cocaine base and washed pulp of cocaine are in average just 30% and 60% smaller than cocaine hydrochloride, respectively (see appendix 1). In addition it is also be observed that the price of coca leaf is infinitively smaller compared to the price of cocaine hydrochloride, which shows indeed that the biggest winner of the business is not the peasantry but the international drug cartels. Second, there seems to be a correlation in the behavior of the three variables that seems to be determined by the behavior of the prices of the cocaine hydrochloride. This means that the prices of coca leaf for instance, are determined by the prices set by the narcotraffic for cocaine hydrochloride and washed pulp. Indeed, the correlation is stronger in the case of the cocaine derivates for which the trend in prices follows the same pattern.

Three regional-global variables explain the change in the situation of narcotraffic for the third period: the evident expansion and increase of the international demand, the implementation of Plan Colombia in the neighboring country that exercised a stronger control over the production of coca leaf and drug-derivates –as well as the dismantling of drug-cartels in the country, and the stronger presence of the US in Mexico's war on drugs and the shift in the Mexican policy towards narcotraffic based on the militarization of the conflict. These regional-global conditions had repercussions in Peru and let to two circumstances: (i) the replacement of Colombian drug cartels by Mexican-based cartels, and (ii) the outsourcing of

cocaine hydrochloride production to local rural firms. Currently Peru is the second largest producer of cocaine hydrochloride in the world; the reader should have realized that we are not talking anymore of essential inputs or intermediate commodities but of the final product that is globally commercialized.

On the quantity side, given the improvement of the international prices of cocaine derivates, this period is marked by the expansion of coca bush cultivation and production of cocaine derivates; this is presented in table 2. The expansion of coca bush production mainly took place in the areas of High Huallaga, valley of the Apurimac and Ene River, and Aguaytia. This explosion indicates an improved productivity due to the highly organized Mexican network, as well as an enhanced access to artifacts and agrochemicals explained by the economic bettering experienced by the rural population who now have more financial means to access precursors and other inputs (ONUDD, 2007). Given the reduction of crops in targeted areas of Peru as a consequence of the program of eradication (see appendix 2 for detail on eradicated surface), the international supply of coca leaf decreased, producing as consequence the improvement of the international prices of cocaine derivates, and therefore of coca leaf. This pattern has been already showed in figure 1a and 1b

Years	Coca bush ⁱ	Cocaine hydrochloride ⁱⁱ
2000	43,400	141
2001	46,200	150
2002	46,700	160
2003	44,200	230
2004	50,300	270
2005	48,200	260
2006	51,400	280
2007	53,700	290
2008	56,100	302

Table 2 Evolution of coca bush cultivation and cocaine hydrochloride in Peru(2000-2008)

Source: DEVIDA

Notes

(i) Hectares of coca bush surface

(ii) Potential production of cocaine hydrochloride in tons metric

The main difference of this period respect to the previous ones is the *modus operandi* employed by the Mexican-based cartels. Different from the Colombian, neither did Mexican cartels (mainly, Guadalajara, Tijuana, Juarez, and Sinaloa) have direct participation in the production of any of the steps prior the production of cocaine base, nor required of any special investment in infrastructure for the delivery and transportation of the drug. Instead, Mexican cartels outsourced the cocaine circuit to Peruvian organizations and made use of the existing (legal) infrastructure for the export of cocaine hydrochloride cocaine. Who are these organizations? There are three: first, the peasants cultivating coca bushes that participate in the production of cocaine base and washed pulp of cocaine, then we have local and regional firms. Thus, narcotraffic currently incorporates new agents in the narco-chain; this is graphically represented in figure 2.





Notes

Cocaine hydrochloride can be either obtained directly from cocaine base or from the prior "washing" stage.

In the production of cocaine base, the main actors are peasants cultivating coca bush. Thus, they perform as producers and processors holding their own maceration pits in their own housing (Antezana, pp. 196, 2008), these are called *narcococaleros*. These are indeed small units of cocaine base production that is mainly family based, absorbing an important sector of the local labor force in processes such as coca leaf collection, coca treading, etc. In this period, the presence of peasants in the production of cocaine base is not marginal as in the previous periods; it is rather pronounced and significant. This pattern is repeated in the production of washed pulp of cocaine.

The figure changes in the final production of cocaine hydrochloride. Rather instead of family-based organizations of small scale, there are local and regional firms located in the valleys of the Apurimac and Ene River and intermediate cities that are in charge of the final refining of cocaine hydrochloride. These firms are also based in family ties; however their scope of action is considerably larger than the small units of cocaine base production, and they make extensive use of relatively more sophisticated technology. Local and regional firms run the laboratories where cocaine is refined; these are located inside the valleys, in the periphery, and medium size cities. Moreover, local and regional firms carry out money laundering and coordinate the transportation of the cocaine hydrochloride to the main cities of the country (Estela, 2008). National firms are responsible of the final collection of cocaine hydrochloride for its final destination, the Mexican cartel. Cocaine hydrochloride is mainly exported through seaports, which explains the presence of the representatives of the Mexican cartels in the main coastal cities, having as final destination Europe. As the reader may see, the organizations involved in the narco-chain may overlap in their functions as figure 3 shows; however it would not be correct to assert for instance, that all coca producers are involved in the processing and refining of cocaine. Further rigorous analysis of the profile of the actors involved in each step is needed.



Figure 3 Overlapping processes and organizations involved in narcotraffic

CHAPTER 3: RESEARCH HYPOTHESES

The Peruvian case seems to provide evidence on the transnational capacity of maneuver of narcotraffic to switch to other countries if restrictive antinarcotics policies are applied in the country of origin. In other words, drug cartels shift their operations to those countries were the cost of doing so are comparatively small. Such costs are given by the institutional order defended by the Nation-State, this means the weaker this order is, the easier and cheaper for the narcotraffic to operate. Thus, the happening of narcotraffic in a society is an endogenous issue and cannot just be merely explained by the influence of exogenous factors such as the international demand and the international drug cartel. The international dimension of the problem is at interplay with the domestic conditions for it to happen.

Provided the general picture of narcotraffic in Peru, this research aims to shed lights in the domestic reasons that give place to the emergence and strengthening of this phenomenon in the country. For that purpose, it aims to aims to answer the following questions:

- i. What are the factors that give place to narcotraffic and strengthen it?
- ii. Has Peru the conditions for the problem to become systemic?

In the attempt to answer such questions, four hypotheses have been formulated:

(H1): The depression of the agricultural sector that led to the impoverishment of the peasantry builds the conditions for international cartels to capture the peasantry in the production of coca leaf for narcotraffic and in the cocaine base production.

(H2): The existence of high horizontal inequalities, defined as inequalities among culturally defined groups, is the factor that triggers the expansion of narcotraffic to different strata of the Peruvian society. The unequal access to social, political and economic resources by different cultural groups provides the sufficient motivation for the population that forms the State to challenge its own institutional order. In particular, the strength of indigenous politics help to restrict the extension of narcotraffic to the extent it may become systemic.

(H3): The current participation of the peasantry in the cocaine production chain is disarticulated in the link between production of cocaine and the access to the market, this means that the peasantry is able to produce in an integrated way the final output (cocaine hydrochloride) but cannot engage in the commercialization and market access of the drug. This is the result of the lack of capacities of the targeted population, such as lack of financial liquidity, access to chemicals, physical capital for the distribution and transportation of the drug, and security in their activities. The creation of such capacities is limited by the poor level of education and management of financial tools and as well as other tools that allow their integration with different regions and activities.

(H4): The current presence of Shining Path in High Huallaga and the Valley of the Apurimac and Ene River explains the inexistence of voluntary eradication of coca leaf as part of the governmental program Alternative Development. In these regions, their presence replaces the State and so, becomes a clash of two states: the formal state (represented by the government) and the "real" state, represented by the subversive

organization. The control over the region, the shift in their strategy, and the closeness to *cocaleros* provides the basic conditions for the transformation of Shining Path to a drug cartel as happened in the case of FARC in Colombia.

The next chapter develops in extension each of the listed hypothesis and presents the relevant empirical evidence to refute them. The provided evidence corresponds to confirmatory evidence, which aims to provide provisionary understanding on the causal relationship of the variables at study. Certainly, the objective of this research is to start a body of literature that studies the problem of narcotraffic in Peru at a structural level.

CHAPTER 4: EMPIRICAL EVIDENCE

Four hypotheses have been presented in the previous chapter. This section provides the empirical evidence to refute each of the hypotheses formulated. Further information on the utilized primary data is available in the appendixes.

4.1 Hypothesis 1

The depression of the agricultural sector that led to the impoverishment of the peasantry builds the conditions for international cartels to capture the peasantry in the production of coca leaf for narcotraffic and in the cocaine production.

In general terms –and for scope and purposes of this research– two variables can be recalled to explain the current depression of the agricultural sector in Peru: the land reform embarked at the end of the 1960 decade that given its means of implementation and course of action, limited the opportunities to create a modern industrialized agricultural sector, and the state of backwardness of the peasantry in terms of education. Education is an important variable since the implementation of any sort of policy aiming to revitalize of modernize the sector requires of basic human capital⁸ for the implementation of innovative policies or intensive in technology.

At first glance, the land (agrarian) reform meant a structural break in the situation of the Peruvian agrarian sector. It was the process that started in 1962 with

⁸ A distinction needs to be made between human capital and education. Human capital refers to the process of knowledge and skills accumulation where more factors intervene besides education. (i.e. social environment, health, etc.) However, for the sake of simplicity, education is taken as the proxy variable of the more general human capital variable. For more details on the distinction, see Figueroa 2006.

the first law of agrarian/land reform, and reached its radical point in 1969 during Velazco Alvarado's military dictatorship with the expropriation of private lands and the creation of peasant cooperatives and related forms of property administration. There are basically three factors that triggered the emergence of the land reform in Peru. First, the decay of the traditional "hacienda" system, which was unable to face the change in the market relations order in rural areas such as the emergence of new rural classes of rich peasants that led to a loss of control over the closed local economies. The raise of new elites happened accompanied by effervescent demands for land of the peasantry (Eguren, 2006). Second, the new economic elites in the urban areas displaced hacendados or landlords from the core national power. Third, the wave of revolutionary movements in Latin America did not have its exception in Peru, the presence of the Revolutionary Left Movement (MIR) and the latent demands of the peasantry for lands created the conditions for a highly feasible revolution. Thus land/agrarian reform was a political reform, an attempt of the military government to restrict and stop any further advance of revolution in the country to legitimate their government, as happened in other countries of the region like Bolivia.

In short, the land/agrarian reform was a process of land deconcentration and redistribution through the method of expropriation where land in hands of few landlords was given to the peasantry. Therefore it meant a qualitative change in the agricultural model of the country: from a model of entrepreneur landlords to a model of corporatization of the peasantry with cooperatives in the highlands, and Agrarian Social Interest Societies (SAIS) in the coast⁹. Such model did not succeed and instead, created an agricultural sector of small parcels. There is vast literature on the effects of

⁹ The reform did not compromise the Amazonian jungle as the agricultural activity was mainly concentrated in the coast and highlands.

the land reform in Peru (see Vegas de Cáceres 2008, Dávila 2003, and Zegarra 1999), however there is general agreement in what the reform led to the fragmentation of property in the country that led to the loss of economies of scale that limited the opportunities of the peasantry to become the agricultural sector into a dynamic one. In particular, the model of cooperatives failed given the lack of rural capacities to manage credit and ownership, thus the general outcome was the restriction of the scope of private initiative to even create a national exportable supply of agro-industrial commodities, and more transaction costs –as they as small producers became more insignificant for the productive chain– to access domestic markets.

What are the implications of these outcomes to the emergence of narcotraffic? The land reform and the subsequent set of policies implemented by the government on the sector did not contribute to the construction of a modern, competitive and productive agricultural sector; on the contrary they contributed to its loss of power in the domestic production/distribution chains, the limitation of agro-industrial initiatives with exportable perspectives, and to its exposure to international shocks. In general terms, the general outcome was the depression of the agricultural sector. The logic behind the first hypothesis is that the depression of the sector made Peruvian peasants to resort in new forms of subsistence such as the production of illicit coca bush. This situation first originated to the incursion in the first productive stages of cocaine (such as illicit production of coca leaf and cocaine base production), and due to the increase in the profitability of the "business" allowed the expansion along years of the peasantry participation in the whole production chain of cocaine hydrochloride. This means that drug cartels were able to exploit the precarious situation of the

Peruvian peasantry to expand the scope of their business to the extent of their interests.

Table 3 presents a comparison of the land size and farming units ex ante and ex post land reform for three coca regions¹⁰ in Peru for 1961 and 1994, which are years of agricultural censuses. The table contains the number of farming units and the total surface per department. Two facts can be observed from the table: the number of farming units dramatically increased for the three departments, particularly for lands with less than five hectares. Moreover, the majority (around the 80% of the total farming units in the three departments) belongs to units that do not exceed five hectares. This situation is stronger for the case of Ayacucho, which needs to be taken with special rigor given that it corresponds to the region of origin of traditional Shining Path, and currently corresponds to the areas of emergency: Valley of the Apurimac and Ene River (VRAE) where one of the factions of the remaining of Shining Path has taken territorial possession. Thus, table 3 presents evidence (without any assertion on the intensity) of the land fragmentation in the coca areas, which in the analytical framework presented above vanished the economies of scale and restricted their access to the domestic market. In particular, the department of Ayacucho exhibits a larger fragmentation of small size lands, which seems to suggest the existence of larger economy-peasantry-based that ultimately seems to be correlated with the existence of Shining Path in its two phases: the origins, where it was a peasantry-rooted movement, and current days that correspond to narcotrafficbased phenomenon as FARC in Colombia.

¹⁰ Peru is divided in twenty five regions, which coincides with the twenty four departments that the country has and the Constitutional Province of Callao. Each department is organized in provinces, and each province in districts.

Land size in Hectares (Has) /	AYAC	CUCHO	JUI	NIN	PASCO		
Regions	1961	1994	1961	1994	1961	1994	
Less than 5 Number of farming units	55 439	157 151	47 734	86 109	8 707	18 510	
Percentage (%)	87%	90%	88%	73%	83%	66%	
Surface	86 865	1 829 389	56 187	113 739	10 375	24 786	
Percentage (%)	14%	53%	5%	5%	2%	24,700	
0 ()							
5-500 Has Number of							
farming units	8,261	16,996	6,120	31,831	1,648	9,391	
Percentage (%)	13%	10%	11%	27%	16%	33%	
Surface	168,755	322,848	210,049	732,963	78,536	423,442	
Percentage (%)	28%	9%	17%	32%	15%	42%	
More than 500 Has Number of							
farming units	137	379	149	420	84	178	
Percentage (%)	0.2%	0.2%	0.3%	0.4%	0.8%	0.6%	
Surface	347,014	1,278,178	943,938	1,418,028	428,663	549,579	
Percentage (%)	58%	37%	78%	63%	83%	55%	
Total							
Number of							
farming units	63837	174526	54003	118360	10439	28079	
Surface	602,634	3,430,415	1,210,174	2,264,730	517,574	997,807	

Table 3Peru, size of the land before and after agrarian reform in three cocaregions (1961 and 1994)

Source: Results of agricultural censuses 1961 and 1994, INEI *Notes*

The selection of the three regions exclusively obeys to the public availability of data as censuses before 1990 decade are not available at INEI website and were extracted manually.

The second variable that explains the current depression of the agricultural sector in Peru is Education. Appendix 3 shows the regional results of the national tests of reading comprehension, mathematics and communications run by the Ministry of Education of Peru for primary and secondary school for 1996, 1998, and 2004. The results indicate that the regions with the worst academic results in the evaluations

correspond to three of coca regions in the country: Huanuco, Ayacucho, Apurimac. The rest of coca regions such as Puno, Junin, and Pasco do not show dramatic differences in the academic results in relation to their peers.

Overall, the picture indicates differentiated results for both areas with a negative balance for the rural areas. The lower rate of class attendance –which has improved in the latest years–, can be explained by cultural factors or to the fact that children are considered to work in the field. Cueto (2007) finds the correlation of such poor results with economic poverty rates, this means, the poorest regions in the country exhibit the poorest levels of academic achievement, which is expected to be correlated to the development of local capacities in those regions. Certainly, this evidence that coca regions are lacking the necessary conditions for the creation of local capacities for development; this creates the fertile land for the emergence of the narcotraffic.

In order to get closer to the relationship between poverty and development of narcotraffic, figures 4 and 5 provide data on poverty and extreme poverty for the "coca districts" in the country, twenty six in total. Then data corresponds to the last national census of 2007, therefore it is just a cross-section. However, poverty is a *viscose* variable, which means it is hard to change or remove along time. Moreover, the national data presented above evidences that the situation of the peasantry did not have experienced a significant change in the living conditions and economic opportunities in the last thirty years; therefore it is valid to assume that the data available for 2007 reproduces a historical pattern that provides arguments for the refutation of the first hypothesis.

In detail, figure 4 and 5 show the rates of total poverty and extreme poverty for eight of the twenty six coca districts in Peru. These districts correspond to the top four districts with the highest rates of poverty and extreme poverty, as well as the four bottom districts with the lowest rates. From these figures, it can be observed that the highest rates of poverty surpass the national rate in no more that ten percent. The same happens in the case of extreme poverty; however the district of Puerto Bermudez in Pasco region exhibits an important rate of extreme poverty of 51% in comparison to the national rate that reaches 37%. Certainly, the general picture that these graphics offer is that the coca districts are indeed areas of high poverty, which is consistent with the proposition of the first hypothesis. Moreover, the areas with higher rates of poverty and extreme poverty correspond to those areas of VRAE where narcotraffic is managed by the faction of Shining Path leaded by comrade "Artemio", which are the districts of Pichari and Kimbiri. The most critical district corresponds to Puerto Bermudez that corresponds to the area of Alto Huallaga, under management of the other faction of shining path leaded by comrade "Jose". Thus, the poorest coca areas correspond to those where the State has little presence and effective power.



Figure 4 Peru, percentage of the population in state of poverty in eight coca districts (2007)

Notes

SM: Region of San Martin, HU: Region of Huanuco, AY: Region of Ayacucho, CU: Region of Cusco, PA: Region of Pasco



Figure 5 Peru, percentage of the population in state of extreme poverty in eight coca districts (2007)

Source: National Census, 2007

Notes

SM: Region of San Martin, HU: Region of Huanuco, AY: Region of Ayacucho, CU: Region of Cusco, PA: Region of Pasco

Source: National Census, 2007

There are currently two factions of Shining Path, one operating in the VRAE leaded by *Artemio* sympathizing with the former founder of the organization *Abimael* Guzman, and the other one operating in High Huallaga leaded by comrade "Jose" opponent Guzman's doctrine. Currently, Shining Path works in a similar fashion as FARC worked with the drug cartels in Colombia, charging taxes and providing security to the narcotraffic activities, Moreover, there seems to be evidence that Shining Path (with its two factions) is participating in micro-commercialization of cocaine hydrochloride in direct contact with the drug cartel. Thus, VRAE and Alto Huallaga are areas under domain of this new strategy of Shining Path called by experts as narco-terrorism. Indeed, these areas have been the scenario of narco-terrorist ambushes against the army forces in the last years.

Data on coca bush and cocaine hydrochloride is available from 1997 onwards. Figure 6 shows the evolution of coca bush production (panel A) and potential production of cocaine hydrochloride in the country (panel B). There is an evident correspondence of the two variables in the sense that an increasing trend in cocaine hydrochloride production is associated with an increase of coca bush production. This evidence that the expansion of the coca leaf production has been mainly directed to the provision of the basic input to the narcotraffic; moreover, the general trend is increasing which means that there is a social niche for this phenomenon to happen. This has been evidenced previously with the high rates of poverty of the coca districts in the country that indeed confirm the existence of an impoverished peasantry with scarce means of subsistence. A different case seems to stand in the province of Tocache, where the districts of Polvora, Uchiza and Tocache present the lowest rates of poverty of the set of districts. A possible explanation for such result corresponds to the change of the "productive matrix" from coca bush to other crops such as coffee, cocoa, and palm oil as a partnership between the international cooperation, the community and their leaders, the Peruvian government, and the private enterprise. This model certainly expanded the opportunities for development of the province, decreasing drastically the rates of poverty that were higher in the 1980 decade for instance.

Figure 6 Peru, potential production of cocaine hydrochloride and production of coca bush (1997-2008)



Source: DEVIDA-Statistics *Notes*

Unfortunately, there is not data on cocaine hydrochloride production per districts. However, given the correspondence between coca bush production and cocaine hydrochloride –which has been also documented by other sources (see Macroconsult, 2008), it is valid to infer that the expansion of coca bush production in the coca regions has been a result of the higher demand of production of cocaine hydrochloride in the country. Appendix 4 presents data per valleys of production,

Given the illegal nature of the activity, data on cocaine hydrochloride corresponds to estimations of potential production. Coca bush production: surface in hectares, Cocaine hydrochloride in tons metric.

having as main producers of coca bush the VRAE and High Huallaga, which as mentioned above corresponds to districts with highest rates of total poverty and extreme poverty of the set. Therefore, there is sufficient evidence to assert that the precarious conditions of the agricultural sector in the coca districts has set the conditions for the expansion of coca bush production and to the participation of the peasantry as some in-field-research have documented (Glave and Rosenberg 2005, Macroconsult 2008, ONUDD 2009)

4.2 Hypothesis 2

High horizontal inequalities trigger the expansion of narcotraffic to different strata of the Peruvian society. In particular, strong indigenous politics restrict its extension to it may become systemic.

Horizontal inequalities differ from the traditional definition of inequalities utilized in most academic research. These refer to unequal access to political, economic, social resources by different cultural groups (Stewart 2005, p.5). This new conception of inequality is multidimensional as it goes beyond the mere consideration of economic elements that define social welfare of individuals, it indeed acknowledges that the well being of individuals and the social stability of societies are also determined by political and social factors, and that the differentiation in the access to those recourses is what draws the line between peace and conflict. The core hypothesis of this approach is that the coincidence of cultural differences with inequalities in the resources access is a powerful mobilizing agent that may lead to political disturbances (Stewart, 2005 p.4). For the Peruvian case, such cultural marker comes with ethnicity. The variable has been already identified to be an important factor that explains different outcomes in social processes (Patrinos and Hall, 2010). In particular, there is evidence provided by the World Bank that indigenous populations in Latin American and the Caribbean exhibit the highest rates of poverty and have less access to basic services and goods such as education and health insurance. This is not the exception in Peru, and certainly there is a vast body of literature on the topic of ethnicity and inequality¹¹ such as Østby (2006), Barron (2008), Paredes (2008), and Figueroa and Barron (2005).

In particular, Østby's work presents results of horizontal inequalities for Peru and other countries from 1986 to 2003. Horizontal inequalities were estimated from Demographic and Health Surveys (socio-economic dimension of the variable), political regimes and electoral and electoral systems (political dimension of the variable), and from data on discrimination to approximate to political exclusion (exclusion of political participation). The result for the Peruvian case was the existence of high and persistent stable horizontal inequalities for the period of work (Østby, 2006, p. 11). This work is reinforced by the findings of Figueroa and Barron, who found the lowest levels of education and the highest rates of poverty in the indigenous regions for 1994 and 2002. The measurement of ethnicity, whether by mother tongue or self-identification, is not perfect. This research paper follows the approach proposed by Figueroa and Barron (2005) for Peru that provides as ethnic marker the place of origin since in Peru the indigenous population is concentrated mostly in rural areas, whereas mestizos (mixed) are spread out almost everywhere in the country (Figueroa and Barron, 2005, p.9). Figueroa and Barron identified seven ethnic regions, which are presented in table 5.

¹¹ For more details, see the work conducted by the Center of Inequality, Social Security and Ethnicity of Oxford University http://www.crise.ox.ac.uk/

Ethnic regions	Definition	Coca areas			
Lima-core	Residential districts of Metropolitan Lima	-			
Lima periphery	Lima periphery Province of Callao and all the districts of Metropolitan Lima not included in Lima – core				
Local core	Districts that are capital of provinces that are capital of their departments (except for the district of Lima)	-			
Rest coast	Excludes Metropolitan Lima and Local core	-			
Amazonian	Excludes Local core	Х			
Central and Northern Andes	Excludes Local core	Х			
Southern Andes	Excludes Local core	Х			

Table 4 Peru, ethnic regions and coca areas

Source: Figueroa and Barron (2005), p.55

Table 5 shows the detail in the definition of each region and also, presents the match between the regions and the coca areas. Lima-core, Lima periphery and Local core are not indigenous regions, whereas the rest is considered as indigenous majority regions in the country. Evidently, the ethnic regions do not fully correspond to the coca districts as not all the ethnic regions are coca regions; however table 5 provides the match between the regions and indeed shows that the population involved in the narco-chain is mainly of indigenous origin. The second hypothesis of this research states that the horizontal inequalities between indigenous and non-indigenous *are* the factor that triggers the expansion of narcotraffic to different strata of the Peruvian society. In terms of figure 3, the horizontal inequalities are what make the indigenous peasant go from the mere production of illicit coca bush to the creation of small units of production of cocaine base and, if possible –depending on the availability of resources– to the creation of local/regional firms for further production of cocaine

hydrochloride. Despite the fact that hypothesis two deals with the whole concept of horizontal inequalities, it makes a special emphasis on the strength of indigenous politics defined as the degree of participation and representativeness that those groups have in the public-political life of the country. In relation to the first hypothesis presented in this research, the core argument is that economic factors (the economic dimension of the horizontal inequalities) are indeed the condition of first order for the emergence of narcotraffic but it is the political exclusion of the peasantry that allows the expansion of the narco-chain to new strata of society, resting legitimacy to the nation-state and building a new order ruled by the big regional/national firms and the representatives of the Mexican drug cartels in the country.

Why is the political dimension important? Because it determines the easiness and feasibility of these populations to create leaderships to ultimately set the opportunities of development for communities. Political exclusion does not allow communities to transform their pledges into effective agendas for public policy making, and indeed create the conditions for grassroots conflicts within the nationstate. In operational grounds, political participation refers to the degree of presence of indigenous movements in the country, as well as the presence of strong indigenous organizations that find in the electoral system a place of effective expression (Paredes, 2008). In Peru, indigenous movements have emerged in a weak form mostly focused in minority groups defending regional affairs. This is the case of the organizations in the Amazonia and Cusco as Muñoz (2006) reported in his study about collective action in Peru. This situation is specially contrasting to the Bolivian case where the strength and capacity of indigenous organizations –supported by electoral system that allowed the inclusion of ethnic groups and the development of self-management political organizations at the local level– led to the creation of strong movements like the *cocalero* movement, which indeed was able to raise the coca issue to the national agenda and generated important reforms in the sector. In Peru, the *cocalero* movement is not as strong as the Bolivian but has certainly got more presence in the political arena due to the active collective action performed in the last ten years Muñoz (2006). The process of strengthening of the Peruvian *cocalero* movement has two pillars: one is the reactive collective action performed modestly between 1985 and 1990 that reached its peak in the period 2000-2005.

Data on collective action summarized in table six¹² shows that out of the period of twenty years, the collective actions as consequence of the protest against the coca bush eradication policy were considerable and represent indeed a different phenomenon than the rest of collective actions in response to the agricultural policies. In particular, the protests and strikes organized by the *cocalero* movement were significantly intense and large in terms of the scope of the manifestation as it entirely encompassed the coca regions. From table 6 it can be observed that the period of greatest activity corresponds to the years between 2000 and 2005. However, despite this change in intensity that partially led to the participation of *cocaleros* in the national Congress, the movement is still incipient and unable to generate political leadership to address the problem of coca and narcotraffic as a regional developmental strategy framed in a broader national policy. Indeed, *cocalero* congressmen reached the Congress as a consequence of the emergence of new anti-system political parties of radical discourse such as the Nationalistic Peruvian Party

¹² The criterion of selection consisted in the relevance and impact of the particular action in the localregional arena. This way, only collective actions with repercussions for regional and national governance were selected, for example, labor union's manifestations were excluded from the dataset, whereas regional organizations advocating for changes at the regional scale (i.e. peasants organizations, regional fronts of defense) are considered as relevant collective actions.

that absorbed this sector of the population. In fact, the Nationalistic Peruvian Party won the last elections (for the Congress and local authorities) in the indigenous regions as per classification presented in table 5, and was only defeated in the presidential elections due to the "informal" coalition made by the rest of non-left wing parties; this is documented in detail by Paredes (2008).

Periods	Against coca crops eradication policy	Land conflicts	Against national economic policy	Others
1980 -1985	1%	17%	52%	30%
1985-1990	5%	1%	65%	29%
1990-1995	4%	6%	33%	57%
1995-2000	-	2%	37%	61%
2000-2005	8%	3%	47%	42%

Table 5Peru, collective action by source of motivation/nature of the action(1980-2005)

Source: Table 2, Muñoz (2006)

Notes

- (i) The category "others" embraces collective actions against the following problems: centralism of government, privatization, against private companies performing extractive activities, and actions of organizational nature such as conferences, referendums, etc.
- (ii) Total number of registered collective actions: 436

Thus, the *cocalero* movement rather than being the root for the creation of a new political party or leadership able to set in the national agenda the coca and other regional problems, it is a movement that only reached a modest representativeness in the National Congress given the emergence of political parties that capitalized the unsatisfied demands of a large sector of cocaleros and other excluded groups of society, most particularly indigenous population. In particular, the Nationalistic Peruvian Party is a party of not less than ten years, which has been highly questioned

regarding transparency issues such as financing, and international connections with other international governments. Indeed, the political party system in Peru is comparatively relaxed in terms of financing, party discipline and accountability; moreover, the political system is extremely fragmented as a consequence of the reforms implemented in Fujimori's regime, which seriously compromised the quality of the system. Therefore, the emergence of new political parties so far have been the result of improvised coalitions aiming to capture political niches lacking of serious economic programs on relevant issues of public policy. The adhesion of some leaders of the *cocalero* movement to the Nationalistic Peruvian party is not an exception.

However, not all the picture is negative regarding the political participation of *cocaleros* in the political public arena. In spite of the limitations of the movement at the national scale, *cocalero* organizations have indeed helped to stopped at some point a deeper expansion of narcotraffic in the coca regions. This is the case of the province of Tocache where the collective action of *cocaleros* became the first step for the development of an interesting partnership between the Peruvian government, the international aid, and the local leaders represented in this case by regional authorities and coca leaders. This relatively successful partnership is indeed consistent with the comparatively low rates of extreme poverty among the coca regions. Local leaders of Tocache coincide to confirm the importance of *cocaleros* organization for the achievement of Cocaleros of Tocache, in a radio interview asserted that "(...) in our organization we achieved many things, among them the support to the province of Tocache specially regarding the coca fights, which was important in order to make possible the inflow of money for the alternative development program; if coca did not

exist and cocaleros did not protest then these millions of dollars would not have come to Tocache. In the work of the organization we have proposed laws defending the coca leaf among other things" (Interview with Luis Cabrera, radio Concierto Tocache, 27th May 2010)

The province of Tocache represents an exceptional case of indigenous politics that has achieved important results for the local development of the province, which is reflected in relative the low rates of extreme poverty and supported by documented testimonies. Collective action indeed shows the degree of political participation of the community regardless the obstacles that the political system may raise. Despite the attempts to encourage decentralization (i.e. the implementation of participative budgets, and the creation of Roundtables of the Fight against Poverty), the general picture in Peru corresponds to weak indigenous politics given the lack of institutional mechanisms to best represent the indigenous population. The current political system encourages the creation of improvised political parties –as the requirements to create a new party are relaxed and regulations on party discipline are almost non-existent– that rather than creating leaderships able to transcend the local arena, becomes predator political agents mainly looking for political profits. There is not sufficient space for indigenous politics in the national system, which therefore, excludes this population from the benefits of democracy and national policies.

4.3 Hypothesis 3

The participation of the peasantry engaged in the narco-chain is disarticulated, which means that the production of cocaine is not vertically integrated. This is the result of the lack of capacities of the targeted population, such as lack of financial liquidity, access to chemicals, physical capital for the distribution and transportation of the drug, and security in their activities.

The study and analysis of the narcotraffic is complicated, and provided the illicit nature of the business, data and documentation is limited. Qualitative information on the profile of the actors involved in narcotraffic as well as the characteristics of the stages of the process is scarce. There is however, recent literature that has analyzed the problem from a market perspective. In particular, Macroconsult (2008) has researched the topic and offered information based on infield work in the coca regions. This work provides evidence that there is some degree of integration of the activities before the commercialization of cocaine hydrochloride; this means that the identity or differentiation of individual peasants, small units of production, and local firms is blurred specially in the transit between coca bush cultivation and small units of production (Macroconsult 2008, p. 159). This fact is also documented in the film produced by BBC London in 2003 that showed the incursion of peasants in the cocaine production in Peru, showing the precarious living standards and the rudimentary techniques of production employed by the local population to produce cocaine derivatives in small scale. UNODD also documents this fact in the World Drug Reports produced annually by the organization.

The disarticulation of the narco-chain in Peru is contrasting to the high integration of stages of cocaine production in Colombia. What are the factors that explain this difference? The third hypothesis states that these factors are the lack of capacities to organize a network of international scope. This is evidenced by the fact that Peru does not have any national drug cartel like Colombia and Mexico do. In Colombia narcotraffic is handled by FARC that has as main market the USA, whereas the production of cocaine derivatives in Peru is decentralized and of small scale. The creation, organization and running of a drug cartel certainly require of organizational skills and military means to secure the commercialization of cocaine, such organizational skills and capacities are partially explained by the stock of human capital of the local communities where the production of cocaine derivatives takes place. Appendix 3 shows that the level of local capacities in the rural areas of the country is low and limited, PISA tests in the recent years evidenced problems of reading comprehension and mathematics among Peruvian students, who certainly had the lowest results of the evaluation, particularly the indigenous population. This seems to be a limitation for the creation and running of international drug cartels, in addition the increasing strength and presence of the Mexican cartels in Peru may represent an obstacle for the creation of a national cartel able to exploit economies of scale for the commercialization of the drug.

4.4 Hypothesis 4

Shining path: the creation of a possible national drug cartel in Peru

The last hypothesis develops the proposition that Shining Path may be in a transition: from an insurgent organization of terror to an administrator of the cocaine activities in the VRAE and High Huallaga (both taken by different factions), becoming a monopolistic agent that ensures the "normal" progress of narcotraffic in the region. Unfortunately, there is not systematized data to refute this hypothesis. Nevertheless, it seems logic to infer *ceteris paribus* that the process experienced by Colombian FARC may be repeated with Shining Path in the case of Peru. First,

FARC had started with a strong insurgent ideology that conducted to rebellion to replace in the second half of the 1990 decade the former drug cartels in the administration and command of the full chain of cocaine production in the northern country. Thus, both FARC and Shining Path started as political insurgencies but extended their actions to the field of narcotraffic. Shining Path is currently working in the areas of VRAE and High Huallaga, where Peruvian media has reported in the last six years a number of attacks against the national army forces made by the organization.

This argument finds its logic in the fact that narcotraffic may provide Shining Path the financial means to operate, and the legitimacy it lacks after the armed conflict of the 1980 decade once it starts to defend and advocate the refusal of eradication programs, and the staunch defense of coca leaf cultivation. This seems to be somehow consistent with the theory of crime-terror nexus of Cornell that explains the interaction between existing rebellions and narcotics (lootable resources). The exploitation of narcotic production offers rebellion not only financing means for their operations but also the support to increase their capabilities and extension (Cornell, 2005). However, currently neither FARC nor Shining Path stands in their strong ideological doctrine as they seem to be motivated by economic reasons/profits.

Shining Path has conveniently absorbed the peasantry in the areas of VRAE and High Huallaga, becoming become a "friend" of cocaleros who radically oppose to the programs of eradication and even deny the legitimacy of DEVIDA (Pariona, 2004). The radicalization of this sector has evidently provided the conditions for Shining Path to exert considerable control of these two areas: they offer protection to

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the small units of production and the peasantry involved in the illicit activity in exchange of financing other resources to operate. The "alliance" with *cocaleros*, and lords of drugs may provide Shining Path not only of economic resources to survive and extend their radio of action, but also the legitimacy to become a stronger player in the narco-chain raising the likelihood of becoming a drug cartel as FARC did.

CHAPTER 5: CONCLUSIONS AND POLICY IMPLICATIONS

The problem of narcotraffic is complex and multidimensional that needs to be understood in a structural way. Through the analysis of the domestic factors that led to the emergence and expansion of narcotraffic, this research has arrived to two general conclusions: the necessary conditions for the emergence of narcotraffic are the state of poverty of the local population where coca bush grows but it is only the access to political resources that triggers the conflict between the institutional order that the narcotraffic requires for its operations, and the institutional order that the legitimate State defends. This means that the sufficient condition for the expansion of narcotraffic among the different strata of the Peruvian society has been the exclusion in the access of political rights of the indigenous population. These political rights come in the form of political representation in key institutions such as the Congress and at other instances of policy decision making at the national and regional level. It has been already proved that in Peru indigenous politics are weak and the indigenous/regional organizations involved in collective actions did not succeed to create legitimate leadership at the national level to materialize their demands for development and welfare. In particular, the coca problem is perceived to be the problem of *cocaleros* but at the citizenry level, the problem is ignored. Moreover, the undisciplined political parties system, and the relaxation of regulations to create political parties that led to the atomization of the party system, has created a predator political class unable to propose technical and feasible policies for the general social problems of the national population. This sets obstacles for the creation of a constructive cocalero movement and indeed polarizes the situation creating conflict that ultimately fragmentizes the Peruvian society.

Therefore, the problem of coca and cocaine is not merely a problem of international demand and international cartels, but a consequence of domestic factors that set the conditions to make it a systemic problem. The daily news in the country announcing murders of Mexican and Colombian citizens in Peruvian territory, high jacking of airplanes with destination to the coca regions, and so on are indicators that narcotraffic is becoming stronger and the State weaker in the defense of the democracy. In concrete, the control executed by Shining Path in the Valleys of the Apurimac and Ene Rivers, and High Huallaga evidences the fragility of the Peruvian State, and the failure of the programs supported by the international aid on crops eradication. If eradication is to be made in exchange of development and the creation of new economic opportunities, why does Shining Path exists at the expenses of narcotraffic and why do these regions refuse to participate in the Alternative Development program? Certainly, this is not only explained by concerns on the change in the productive matrix of the coca regions, but also by the degree of inclusion in the society and the level of trust that the population has on the Peruvian State. In this regard, the Peruvian State lacks of legitimacy since it is unable to create better opportunities for citizenry, and moreover, radicalizes the already horizontal inequalities basing its strategy of economic growth in the mere exploitation of natural resources in hands of transnational companies with a weak regulatory architecture.

Thus, the problem of coca in Peru is also a problem of the weakness of the State, given its absence organization as drug cartels providing security to the local population involved in their activities, as well as Shining Path are allowed to exist. Indeed, the problem of coca and cocaine goes beyond the problem and encompasses general issues of policies for development. However, concentrates in the issue at the core, and so provides arguments of analysis for policy guidelines. Three suggestions are formulated from the findings of this research:

- i. Alternative Development, and obviously any policy of forced eradication, is not enough to solve the problem. Programs restricting the supply of the essential input of cocaine hydrochloride, by the law of market, produce an increase in the international prices of cocaine derivates, which makes more profitable the illegal activities that narcotraffic offer. Thus, any national policy mainly based in the eradication of coca bush surfaces is condemned to be ineffective.
- ii. The problem of narcotraffic in Peru goes beyond the scope of the country and the international aid agencies; it needs to consider Colombia as strategic partner. Joint international policy can be made between the two countries on migratory issues, control of precursors, and the encouragement of stronger presence of both States in the borders where narcotraffic has considerable power. Since narcotraffic has a "domino" effect in the countries that produce coca bush, the anti-narcotic policy in Peru needs to consider regional partners besides those financing programs of questionable effectiveness.
- iii. The agricultural sector is a key piece in the puzzle of narcotraffic. The depression of this sector provides the fertile land for the production of illicit coca bushes. Thus, the modernization of the sector is vital. This needs to be accompanied by the necessary conditions on capital human formation. In particular, the implementation of an alternative system of technical education focused in the agricultural sector, directed to develop and improve the productivity of the sector (i.e. education on new techniques related to the

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production and improvement of crops, exploitation of natural-geographical conditions for irrigation, etc.) may bring benefits in the industrialization of the sector, and moreover, to the creation of local capacities able to generate a self-sufficient population able to recognize different economic alternatives.

iv. Finally, the issue of ethnicity needs to be tackle from the perspective of political rights and indigenous effective participation in the policy process. The processes of decentralization have proved not be enough, so the creation of new institutional devices to enhance the representativeness of political organizations/parties in the Congress and other key institutions is vital.

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APPENDIXES

Appendix 1: Average prices of the coca leaf, cocaine base, washed pulp of cocaine, and cocaine hydrochloride in Nuevos Soles, Peru (2005-2008)

Year	Legal coca leaf (ENACO)*	Cocaine base	Washed pulp of cocaine	Cocaine hydrochloride ^{iv}
1998	4.1	627	1,143	1,928
1999	5.9	716	1,688	3,220
2000	7.2	1,060	1,799	3,452
2001	8.3	1,061	2,079	3,751
2002	8.8	855	2,143	3,381
2003	8.9	811 ⁱ	1,816 ⁱⁱ	3,077
2004	9.1	1,244	2,435 ⁱⁱⁱ	3,677 ^v
2005	8.8	1,050	2,079	3,341
2006	7.3	806	1,957	3,060
2007	7.3	1,080	1,894	3,095
2008	9.8	1,011	2,151	3,318
2009	9.8	1,181	2,253	3,448

Source: SIMDEV- DEVIDA

Notes

* Prices of legal coca leaf correspond to those paid by ENACO, prices of cocaine derivates correspond to prices paid in Peruvian territory

(i) April is not available

(ii) Result is the average of January, February, March, and May, the rest is not available

(iii) Average for 2004 does not count with January, February, and April

(iv) Series not complete from 1999 to 2004

(v) Result is just the average of June and December

Eradicated hectares (Has)								
Year	Programmed eradication	Self-eradication	Total					
2001	6,436	-	6,436					
2002	7,133	1,005	8,138					
2003	7,454	4,291	11,745					
2004	7,605	2,733	10,338					
2005	8,958	3,266	12,224					
2006	10,136	2,550	12,686					
2007	11,056	1,016	12,072					
2008	10,143	-	10,143					
2009	10,025	-	10,025					

Appendix 2: Peru, eradicated surface of coca bushes (2001-2009)

Source: SIMDEV – DEVIDA

	Primary school							Secondary school				
Regions	2 year	4 y	ear	6 y	ear	Average	3 year	4 y	ear	5 y	ear	Average
	2004	1996	1998	1998	2004	ranking	2004	1998	2001	1998	2004	ranking
Huancavelica	17	17	14	15	18	16	22	23	24	19	22	22
Huanuco	21	16	15	21	17	19	18	21	14	15	18	17
Puno	11	14	19	20	19	16	24	22	16	20	24	22
Cajamarca	16	11	11	11	14	13	19	13	9	12	19	15
Amazonas	12	4	10	14	15	11	20	7	12	10	16	14
Ayacucho	20	23	22	17	21	21	13	20	6	17	14	14
Loreto	24	21	23	18	23	22	21	16	20	16	20	19
Apurimac	23	24	24	24	24	24	23	18	22	24	21	22
Ucayali	22	20	20	23	20	21	17	24	23	22	23	21
Piura	14	10	12	9	12	12	9	14	10	9	10	10
San Martin	18	18	21	22	16	19	15	17	13	21	14	16
Pasco	13	6	17	13	13	13	10	8	11	14	9	10
Junin	10	8	6	4	8	8	6	4	3	2	5	4
Ancash	15	12	8	6	11	11	16	11	17	7	15	14
Cusco	19	15	16	12	22	17	14	15	19	13	13	15
La Libertad	8	1	4	7	6	6	5	6	5	6	6	6
Lambayeque	6	9	7	8	7	7	8	9	8	11	8	9
Arequipa	4	2	1	1	3	3	2	1	1	3	2	2
Lima	3	3	2	2	2	3	4	2	4	1	4	3
Moquegua	2	5	3	3	4	3	3	5	7	5	3	4
lca	5	13	9	10	5	8	12	10	15	8	12	12
Madre de Dios	9	22	18	19	9	14	7	19	18	18	7	13
Tacna	1	7	5	5	1	3	1	3	2	4	1	2
Tumbes	7	19	13	16	10	12	11	12	21	23	0	15

Appendix 3: Peru, regional ranking of national tests results for primary and secondary school (1996, 1998, 2001, 2004)

Source: Cueto (2007), p. 415

Valleys/Years	Coca crops surface - Hectares (Has)									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Alto Huallaga	13,636	14,481	15,286	13,646	16,900	16,039	17,080	17,217	17,848	
Apurímac-Ene	11,475	12,600	14,170	14,300	14,700	15,530	15,813	16,019	16,719	
La Convención - Lares	13,914	13,980	12,170	12,340	12,700	12,503	12,747	12,894	13,072	
San Gabán	s.d	s.d	s.d	470	2,700	292	446	465	500	
Inambari - Tambopata	1,511	2,520	2,430	2,260	2,000	2,250	2,366	2,864	2,959	
Aguaytía	2,529	1,051	1,070	510	500	917	1,570	1,610	1,677	
Marañón, Putumayo, Amazonas	s.d	1,250	1,250	450	500	500	968	1,065	1,209	
Palcazú - Pichis - Pachitea	340	350	350	250	300	211	426	1,148	1,378	
Kcoñispata	s.d	s.d	s.d	s.d	s.d	s.d	s.d	s.d	298	
Alto Chicama	s.d	s.d	s.d	s.d	s.d	s.d	s.d	400	400	
Total	43,400	46,200	46,700	44,200	50,300	48,200	51,400	53,700	56,100	

Appendix 4: Peru, coca crops surface per regions (2000-2008)

Source: DEVIDA - SIMDEV