

The Evolving Transnational Crime-Terrorism Nexus in Peru and its Strategic Relevance for the U.S. and the Region

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In September, 2014, the anti-drug command of the Peruvian National Police, DIRANDRO, seized 7.6 metric tons of cocaine at a factory near the city of Trujillo. A Peruvian family-clan, in coordination with Mexican narco-traffickers, was using the facility to insert the cocaine into blocks of coal, to be shipped from the Pacific Coast ports of Callao (Lima) and Paita to Spain and Belgium.²

Experts estimate that Peru now exports more than 200 tons of cocaine per year,³ and by late 2014, the country had replaced Colombia as the world's number one producer of coca leaves, used to make the drug.⁴ With its strategic geographic location both on the Pacific coast, and in the middle of South America, Peru is today becoming a narcotrafficking hub for four continents, supplying not only the U.S. and Canada, but also Europe, Russia, and rapidly expanding markets in Brazil, Chile, and Asia. In the multiple narcotics supply chains that originate in Peru, local groups are linked to powerful transnational criminal organizations including the *Urabeños* in Colombia, the Sinaloa Cartel in Mexico, and most recently, the First Capital Command (PCC) in Brazil. Further complicating matters, the narco-supply chains are but one part of an increasingly large and complex illicit economy, including illegal mining, logging, contraband merchandise, and human trafficking, mutually re-enforcing, and fed by the relatively weak bond between the state and local communities.

In this illicit economy, the residual elements of the terrorist group Sendero Luminoso, now concentrated principally in the region known as the VRAEM (defined by the Apurimac, Ene, and Mantaro river valleys) play a relatively minor role, principally taxing narcotrafficking and other criminal activities in the limited areas under their influence. Yet the marginal role of Sendero Luminoso as one among many players does not make the collective challenge of the growing illicit economy any less severe.

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The combination of narcotrafficking and other criminal activities represents not only a significant challenge for Peru's neighbors and the region, but also a significant distortion of the national economy, which already includes a large informal sector, consisting of people who work in businesses from selling food to merchandise, generally on a cash basis, without being registered with, or paying taxes to the state. The rapid growth of that economy during the past decade has been driven principally by exports from extractive industries such as mining and petroleum, complemented by traditional agriculture and fishing sectors. Yet slowing growth in the People's Republic of China has driven down prices for both Peru's mining and petroleum exports. These prices, in combination with social unrest in the mining sector, have also delayed new investment

in extractive industry projects. The combination of these factors has caused the nation's growth, once among the highest in the region, to fall to 2.4 percent for 2015.⁵

What is at Stake

Terrorism, narcotrafficking, and the transnationally connected criminal economy in Peru form a destructive and reinforcing dynamic. Both the terrorist group Sendero Luminoso and other criminal groups are sustained by the revenue from narcotrafficking and other illicit activities. The intimidation by both Sendero Luminoso and local criminal elements, complemented by the dependence of local residents on the illicit economy limits cooperation with legitimate authorities and the ability of the state to combat the threat. The same violence and pressures also block development



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Lima, Peru 2013. Though the country is rich in culture and natural resources, Peru is beset by profound corruption and poverty.

projects such as highways, that could transform economically marginal regions, locking local populations into dependence on the illicit economy and alienation from the state. In the context of limited and ineffective state presence and weak government bonds with the local population, the expansion of illicit activities in affected zones means even more revenues for criminal organizations to corrupt law enforcement, win over local populations, and conduct operations of expanding scale with impunity, with implications not only for Peru, but for the region more broadly.

The ability of Peru's government to arrest this destructive dynamic will play a key role not only in the future of the nation itself, but also of the Americas, and the increasingly important group of nations in both Asia and Latin America defined by their proximity to the Pacific Ocean. The strategic importance of Peru and its ability to successfully address the challenges of terrorism, narcotrafficking, and the transnational criminal economy can be understood by an examination that moves from the domestic to the regional to the international.

Peru is a culturally rich country endowed with a wealth of natural resources, from petroleum and minerals to agricultural potential, yet beset by profound inequality, corruption, and poverty. It is a nation with a diverse ethnic mix, reflecting a historic legacy as a center of the Inca Empire, Spanish colonial government, and migration from Asia. Peru not only has both significant economic weight and potential, but the choices that it faces, as it weathers the current narcoterrorism-criminal challenge, mirror those facing all of Latin America, and by extension, the Pacific community: the relationship between the state, the private sector, and the global economy in the pursuit of prosperity and development, as well as the

incorporation of ethnic diversity as a component of national identity. Peru currently reflects not only a delicate balance between state-led and free-market-led orientations to development, but also a balance between populist and clientelistic, versus rule-of-law based approaches to addressing social and ethnic inequality.

Moreover, more than any nation in the Americas, Peru currently maintains a balance in its economic, political, and military relationships with the United States, China, and Russia. While its current government maintains strong political and security relationships with the United States and a pro-trade, free market economic orientation, its military primarily uses and buys Russian equipment, and sends significant numbers of personnel to Russia for professional military education and training. At the same time, the People's Republic of China has become Peru's principal trade partner and the most important investor in the mining sector, key to the Peruvian economy.

Within the region, the course that Peru follows on these political and economic matters could lead to the rise of a populist socialist leader there, similar to what occurred in Venezuela in 1998, with significant consequences for Peru's neighbors and the stability of the region. In Venezuela, the late populist leader Hugo Chavez captured power in democratic elections by appealing to the economically marginalized, yet once in office, progressively consolidated political and economic power in his own hands, significantly curtailed cooperation with international law enforcement, allowing the country to become a haven for terrorist groups, organized criminal activity, and extra-hemispheric actors such as Iran and Russia, pursuing activities in the region

opposed to U.S. interests. If deteriorating conditions in Peru lead to a Venezuela-style populist revolution in that country as well, the consequences would include not only significant economic hardship and the loss of political freedom for Peruvians, but the emergence of a hub of criminality and violence at the heart of South America and its relationship with Asia.

Similarly, the direction taken by Peru could influence whether the region seeks multilateral governance mechanisms which exclude the U.S. and Canada such as the Union of South American Nations (UNASUR) and the Community of Latin American and Caribbean States (CELAC). Both of these multilateral organizations were established in recent years as *de facto* alternatives to the Organization of American States (OAS) to address matters of interest to the region in a venue that explicitly excludes the United States and Canada. Both venues have also been notably silent on deviations from democratic processes by member nations, while CELAC has actively pursued engagement with extraregional rivals of the United States including China and Russia. The evolution of these organizations as the principal multilateral forums for the region would both undermine representative democracy in the hemisphere, and deal a blow to the strategic position of the United States globally.

Looking across the Pacific, the choices made by Peru regarding whether to pursue a model for engaging with Asia that emphasizes transparency, efficient markets, and rule of law, vice the state-to-state model of engagement adopted by the Bolivarian Alliance of the Peoples of the Americas (ALBA) will influence the type of regime that prevails in the “Community of the Pacific.” These alternatives are reflected in the respective trade pacts the

Trans-Pacific Partnership, vice the China-proposed alternative “Free Trade Area of the Asia-Pacific.” The latter appears to demand far fewer provisions regarding dispute resolution, protection of investments and intellectual property important to sustain the type of international regime in which developed nations can collaborate without fear that free trade will rob them of the fruits of the technologies and capabilities that they have invested to develop.

The Challenge

The security challenge that currently confronts Peru is a complex, interdependent, reinforcing mixture of terrorism, narcotrafficking and other illicit activities. These both feed off of, and help to sustain, poverty, inequality, and corruption, in the context of an economy characterized by a large informal sector in which the generation of profits, the identity of clients, and the payment of workers are not registered with the state.⁶ While Peru’s informal sector is not atypical of Latin American and Caribbean states, it particularly complicates combatting illicit activities, since it serves as a basis for both the recruitment of manpower by criminal organizations, and the concealment of their earnings.

Sendero Luminoso.

The relative emphasis on narcotrafficking versus terrorism in this challenge has shifted over the past four decades with the rise, defeat, and re-emergence of Sendero Luminoso as a terrorist organization, and the emergence of Europe, Brazil, and Asia as important consumers in the global narcotics trade.

Sendero Luminoso was formed in the 1960s and 1970s in Ayacucho by Abimael Guzman as a dissident faction of the Peruvian Communist Party, espousing a Maoist

ideology. The group initiated its armed struggle against the Peruvian State in the town of Chuschi, Ayacucho on May 17th 1980, by burning ballot boxes to obstruct voting in the election marking the nation's return to democratic governance following a period of military rule. During the height of Sendero Luminoso in the 1990s, the organization is estimated to have had some 10,000 members. Per the estimate of Peru's post-conflict "Truth and Reconciliation Commission," the armed struggle that it waged in the Andean highlands against the Peruvian state cost an estimated 69,000 lives.⁷ During the presidency of Alberto Fujimori, the group was substantially reduced in power by the Peruvian security forces, principally through the application of traditional counterinsurgency tactics, culminating with the imprisonment in 1992 of its leader Abimael Guzman.

Sendero's 1993 negotiation of a "peace accord" with the Peruvian state led to a split within the remnants of the group between those led by Forindo Eleuterio Flores Hala ("Comrade Artemio"), who followed the "Guzman" line of thinking, and whose faction operated in the Upper Huallaga Valley; versus the Quispe Palomino "clan," which principally operated in the "VRAEM," and which rejected the Guzman truce and the specifics of his ideology.

The re-emergence of Sendero as an active terrorist threat in Peru was marked by the group's 2003 attack against an oil installation in Ayacucho operated by the Argentine firm Techint, including the taking of 71 hostages.⁸ Although the attack led the Peruvian government to declare a state of emergency in the region, the level of violence remained relatively limited until Sendero ambushed a police patrol in December 2005, in the Department of Huanuco, killing eight officials.⁹

Although the Upper Huallaga group first recognized and exploited the potential of taxing the cocaine business as a source of revenue, it was the Quispe Palomino clan in the VRAEM which, in the end, became most immersed in, and dependent on, the cocaine business. During this time, the two factions of Sendero not only rejected each other in their discourse, but in 2009, Senderistas from the Quispe Palomino clan traveled to the Upper Huallaga valley in an apparent attempt to infiltrate and undermine the Upper Huallaga group, and by so doing, appropriate the international recognition of and support for the entire Sendero Luminoso movement for itself.¹⁰

The Quispe Palomino faction also sought to expand its operations beyond Vizcatán, where they were concentrated, including sending an exploratory force into the eastern part of the province of La Convención, in an apparent attempt to bolster their ability to extort money from oil companies operating in the strategically important Camisea gasfields¹¹ and pipeline.¹² The group's presence in the province was dramatically highlighted by its kidnapping in April 2013 in Cusco of 36 workers of the petroleum service company Skanska, coupled with a badly-executed rescue attempt by the government, both of which received national attention.¹³ In addition to extorting companies involved in the local gas industry, Sendero's move into La Convención also appeared designed to position it to control the area and to exploit its value as a potential narco-trafficking route connecting the region to the province of Madre de Dios.

With respect to Sendero's expansion plan more broadly, former head of the special military command for the VRAEM, Leonardo Longa, argues that the attempts at territorial expansion of the group both toward the

northeast and southeast were guided by opportunities related to narcotrafficking and other sources of revenue in the illicit economy in the interior of the country, such as illegal mining and logging. He argues that Sendero sought to extend its influence 1) toward the northeast, through Pucallpa, to Colombia, and 2) toward the southeast, through Cuzco and Puno, to Bolivia.

The Peruvian campaign against Sendero's resurgence arguably began in earnest in 2008, with the establishment of an integrated military command in the VRAEM, and a major offensive against the group in Vizcatán, Operation Excellence 777, leading to high casualties among government forces without producing enduring results against Sendero.¹⁵ In 2012, the Peruvian government extended the geographical zone of focus to include the Mantaro river valley, an important trafficking route for cocaine and precursor chemicals, and renamed the region the "VRAEM."¹⁶ The police were placed under a special military command in the zone. The 4th Division of the Army, as well as the Frente Policial VRAEM, were assigned to the command, both headquartered in Pichari, located in the center of the zone. Over the course of recent years, the government has established some 60 temporary and permanent bases at strategically selected locations, and has continued to adapt to evolving circumstances, including the deployment of the 33rd Counter-Terrorist Brigade to the province of La Convención to block advances by Sendero Luminoso in the area.

Despite the effort in the VRAEM, ironically the government's most significant initial victories occurred in the Upper Huallaga Valley, where the police command for the zone was not subordinated to the military, and

where the government simultaneously pursued a significant forced eradication program for coca. In February 2012, the government captured Artemio, the principal leader of the Huallaga faction,¹⁷ then leveraging the victory, proceeded to dismantle the Sendero military organization in the area.

As the government consolidated its position in the Upper Huallaga valley and shifted attention to the VRAEM, it also began to achieve strategic victories there as well, including the killing of the organization's principal sharpshooter, Victor Hugo Castro Ramírez ("Comrade William") in September 2012 in Huanta (Ayacucho),¹⁸ followed in August 2013 by Operation "Lobo," in which it killed VRAEM-based leaders Alexandro Broda Casafranca ("Comrade Alipio"), and Martin Quispe Palomino ("Comrade Gabriel").¹⁹ By 2014, the Sendero organization in the Upper Huallaga Valley had largely been eliminated, and its faction in the VRAEM had been reduced to an estimated 80 core combatants, with 300-500 members in total, under the direction of Víctor Quispe Palomino ("Comrade José") and his brother Jorge ("Comrade Raúl"). While the members' precise whereabouts were not known, the group was generally believed to have taken refuge in Vizcatán, whose rough topography, almost constantly obscured by clouds, makes it difficult for the government both to survey and to operate in the area.²⁰

In the political arena, in parallel with the resurgence, then military setbacks of Sendero Luminoso, formerly jailed members of Sendero and lawyers defending the group established a front organization for it in 2008, MOVADEF.²¹ The organization, led by Alfredo Crespo and Manuel Fajardo, aligned with the remnants of those following "Guzman thinking" in the Upper Huallaga Valley, while

publicly rejecting the Quispe Palomino clan as mere narcotraffickers who had forsaken the group's ideology.²² In November 2011, MOVAREF was blocked in its attempt to register as a political party, yet continued to organize and proselytize in Peruvian universities where Sendero had previously had some following among students, including Universidad Nacional Mayor de San Marcos and La Cantuta in Lima, Universidad Nacional de San Cristóbal de Huamanga in Ayacucho, and Universidad Nacional Jorge Basadre Grohmann in Tacna.

Following the *modus operandi* of Sendero from the 1960s through the 1990s, MOVAREF also continued to build a presence within the national teachers' union, SUTEP, paralleling the approach that its founder Guzman had used in the 1960s and 1970s, using sympathetic educators to help disseminate the

ideology of the group in the remote villages of the region. To some degree, however, the ability of MOVAREF to regain a foothold in SUTEP in the current era has been limited by a new merit-based teacher promotion system established under the second presidential administration of Alan Garcia (2006-2011), since the new system has made achievement a viable alternative to organized protest for teachers to increase their salaries.²³

Similarly, the following of MOVAREF within Peruvian universities to date has been limited, due to the less isolated character of contemporary university students, even in the countryside. Nonetheless, Peruvian experts interviewed for the present research project worry that the lack of awareness among the new generation of Peruvian youth of the abuses committed by Sendero during the 1980s and 1990s create the opportunity for



Galería del Ministerio de Defensa del Perú

COIN soldier in the VRAEM, April, 2012

MOVADEF to resurrect the organization as a mere movement for social justice.

The Growing Criminal Economy

While the military successes of the Peruvian government against Sendero Luminoso in the VRAEM and Upper Huallaga Valley are laudable, as suggested previously, Sendero is only one element of a far larger problem which threatens both the long-term health and stability of the country, and the region more broadly: an extensive and expanding, internationally-connected criminal economy which is fueled by, and in turn, deepens, the profound malaise in the Peruvian government's relationship with the population in the interior of the country.

At the core of the challenge, the Peruvian state has never had a particularly strong presence in the interior of the country, or strongly incorporated the local population (particularly indigenous peoples) into the national system of governance. Nor has it effectively connected the region to the rest of the country and the broader global economy through transportation and communication infrastructures. Largely disconnected from an absent state, the informal economy has flourished,²⁴ including illicit narcotics production, illegal logging, human trafficking, and increasingly, the lucrative business of illegal mining.²⁵

From the perspective of the illicit drug business, Sendero is one small piece in a larger, internationally-connected business connecting farmers and family clans who organize the production and transportation of cocaine and intermediate products within Peru, to the far larger and more powerful players of the global criminal economy, including transnational criminal organizations (TCOs) such as the Sinaloa cartel,²⁶ Colombian criminal

bands (BACRIM), and increasingly Brazilian groups such as Primer Comando Capital (PCC).

It is the "family clans" who comprise the narcotics infrastructure within Peru,²⁷ buying the coca leaf from local farmers, smuggling precursor chemicals to production sites, producing intermediate products and cocaine itself, and arranging the transportation of those products out of the region, via persons on foot ("mochileros"), in hidden compartments of vehicles, via river, and with light aircraft from clandestine airstrips "rented" from local landowners.²⁸ In this process, the Mexican, Colombian, and Brazilian organizations reportedly take delivery of the product only at the final collection points before it is to leave the country, including the "narco airstrips" in the VRAEM, or the ports on the north Pacific coast, such as Callao, Paita, Chimbote, and Piura. With the financing of the external organizations who are their clients, the family clans pay "protection money" to Sendero, but it is they, and not Sendero, who link Peru's illicit economy to the TCOs.

The strategic landscape of Peru's drug trade is in continuous evolution. As state organizations such as the national police counter-drug organization (DIRANDRO) and the counter-narcotics organization (DEVIDA) seek to better control precursor chemicals and smuggling routes, the narco-clans are adapting their tactics. Some are shifting from producing finished cocaine in the VRAEM, to exporting intermediate products to Bolivia to complete the production process there, where controls are less strict and precursor chemicals are easier and cheaper to obtain. Some clans have transported intermediate products to the suburbs of Lima for processing there, believing it cheaper and easier than smuggling precursor

chemicals into areas like the VRAEM and Upper Huallaga valley. Similarly areas used for collection and transportation are evolving with government enforcement efforts, with Pichis Palcazu, north of the VRAEM, recently becoming a more important hub. In addition, some coca growing and production activities have reportedly returned to the Upper Huallaga valley, despite the defeat of Sendero's main organization, and an extensive forced eradication campaign there.²⁹

In recent years, light aircraft, flying from clandestine airstrips, have played an increasingly important role in exporting cocaine and intermediate products from the country. An estimated six to ten such "narco flights" per day now leave the VRAEM for neighboring Bolivia and Brazil. Peruvian government efforts to destroy the airstrips have proven costly, risky, and ineffective,³⁰ leading the government to declare a "no fly zone" over the VRAEM in February 2015,³¹ and to consider resuming aerial interdiction of suspected narco flights, a practice that it engaged in between 1995 and 2001.³²

The role of Sendero Luminoso in the narcotics trade, as noted previously, centers on controlling and taxing the cocaine business and other activities in the areas under its influence.³³ Yet even within the VRAEM, where Sendero continues to have a military presence, its reach is limited. Much of the coca growing and drug production activity that occurs south of the police and military base at Pichari, reportedly does not pay a tax to Sendero. Indeed, in some cases, production and movement of coca paste and cocaine in that area are said to be guarded by members of the same communal defense organizations that the government has built up to fight Sendero.

According to Peruvian sources interviewed off-the-record, such organizations, which in some cases have received arms and funding from the government to protect their communities against Sendero, use the same arms when their members "moonlight" to escort drug shipments, while their teenage and young adult children serve as "mochileros" to transport drugs overland.

Yet narcotrafficking is not the only source of revenue for Sendero. The group reportedly also taxes illegal logging, and to a lesser extent, informal mining in a small part of Huancavelica. Sendero also reportedly is engaged in extorting petroleum operators in the Department of La Convención, to which, as noted previously, it continues to project forces.³⁴

With respect to the broader illicit economy, criminally-tied money flows through the country, distorting all aspects of the economy and political system, including fueling widespread corruption. Illicit money is increasingly moving beyond the formal financial system to include use of businesses, real estate, and associated notary public transactions to launder money.³⁵ Experts interviewed for this study suggested that the nation's cooperative credit organizations,³⁶ expanding network of private universities, and part of the expansion of middle and upper-class suburbs in the previously poor neighborhoods north of Lima (the "trápiche") are, to some extent, fueled by the proceeds from criminal activities. With respect to growing corruption and criminal ties at the political level, an estimated 700 candidates in Peru's October 2014 election, and four of the 25 regional (state-level) governors who won, are under suspicion for corruption.³⁷

Obstacles to the Government Response

As suggested previously, Peru's government has made progress in combatting Sendero, and to a lesser extent, the illegal economy, yet that progress has been limited by several factors. The principal obstacle to the effectiveness of the Peruvian government response is arguably corruption. At the unit level, in the VRAEM, although military officers are typically limited to spending two years in the zone, it is common for policemen to be recruited locally, trained in regional centers, and to spend their entire careers there. Moreover, by contrast to military bases which are closed to the local population and fortified, police stations must serve and be open to the community. The combination of protracted living in, and developing ties in the zone, daily exposure of the police facility to potential threats, and immersion in an economy and system dominated by illicit money, facilitates corruption.

With respect to the military, the armed forces deployed in the VRAEM are arguably less effective than their ample numbers and the strategic positioning of their bases might suggest. The deployed forces there are relatively isolated from the local populations with which they could build relations of influence and gather intelligence to support the fight against Sendero. The problem, according to multiple experts interviewed in Peru for this study, is a "mutual lack of confidence," with the Armed Forces believing that most local townspeople are collaborating with criminal groups (and under the control of Sendero), while the local community views the Armed Forces as an external force whose presence undermines, rather than contributes to, its livelihood. Some suggested that the military itself is not oriented to the type of civil affairs

or psychological operations work that could help build confidence with local communities, reinforcing a disconnect between its presence in the zone and the development-oriented activities of other Peruvian government organizations there.

Although the Armed Forces support actions by the police in the zone, multiple experts interviewed concurred that those forces often do not exercise significant initiative in such operations, preferring to avoid contact with potential enemies, rather than taking actions that could produce casualties potentially giving rise to a legal investigation. The Armed Forces have conditional legal authority to operate domestically in conjunction with the police under Legislative Decree 1095,³⁸ yet correctly or not, many interviewed for this study expressed concern that the military is inadequately protected from criminal prosecution for actions stemming from the exercise of their military duties. Similarly, in a recently published book on the struggle against Sendero, former head of the Special Command for the VRAEM, General Leonardo Longa, urges a political commitment by the state, and an adequate legal framework as key elements of his proposed national strategy to defeat narcoterrorism.³⁹

In addition to such concerns, operations such as conducting patrols have been limited by the operational cost of the equipment involved, including maintenance and spare parts for the riverine hovercraft and helicopters operating in the zone.⁴⁰

Some of the greatest public successes achieved by the government against Sendero, including the killing of William, Alipio, and Gabriel, have been through an elite group of military and police units focused on high-value targets, directed by Vice-Minister of the

Interior (later Vice-Minister of Defense) Ivan Vega. Yet this approach also has its detractors, including those who suggest that the civilian Vice-Minister is too senior to be personally directing military operations in the field, and that reliance on the special organization is not healthy for either the military or police as institutions.

Important parts of the struggle have also, arguably, become too influenced by politics. A coca eradication program by Peru's counter-narcotics organization DEVIDA (principally in the Upper Huallaga Valley) was largely abandoned for a less successful crop substitution program,⁴¹ following the May 2014 ouster of the pro-eradication head of DEVIDA, Carmen Masias.⁴² Peru's proposed resumption of aerial interdiction against suspected narco-flights has

also been influenced by politics. The law itself⁴³ was sponsored Peruvian congressman and retired Admiral Carlos Tubino, affiliated with the (opposition) party of former President Alberto Fujimori. Although the proposal was approved on March 9, 2015 by the Defense Committee of the Peruvian Congress,⁴⁴ the Humala government has avoided calling it for a vote before the full Congress, reportedly to avoid conflict with the United States, for whom resumption of the flights is a sensitive issue. Legal implementation will require several months, as will the establishment of procedures and the training of pilots and other personnel. The acquisition of radars to provide adequate coverage in the complex terrain of the VRAEM⁴⁵ will similarly



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The Madre de Dios region, one of the many remote areas of Peru, is host to a variety of illicit activities including cocaine production, and illegal mining and timber operations.

require both time and funds which have not yet been publicly allocated.⁴⁶

Ironically, Peru's fight against narcotrafficking has proven more difficult than its campaign against Sendero. Even if the government succeeds in reducing narcotrafficking in the Upper Huallaga Valley and the VRAEM, the problem is already migrating to other areas. In recent years, narcotrafficking activities near Peru's border with Brazil and Colombia have increased, reflecting the growth of coca and production of cocaine on the Colombian side of the border, in Putumayo, and prompting the Peruvian government to deploy an additional infantry brigade to the region. Possible displacement of narcotrafficking activities into the northeast (Loreto), the east (Ucayali), and the southeast (Puno), are also a concern, even though the soil and climatic conditions in these regions yield coca with a lower alkaloid content, requiring more hectares of coca to produce the same amount of cocaine.

Nor would success against cocaine production in the region alone bring the illegal economy under control. To some degree, other illicit activities such as informal mining and illegal timber operations are becoming even more important sources of revenue than cocaine. This is particularly the case in Madre de Dios, rich in both mineral resources and timber, and long isolated from the central government in Lima.

While economic and social development have been important components of the government's effort to restore effective state presence in areas such as the VRAEM, the design and implementation of development strategies has been problematic. Although the government has initiated (and sometimes completed), infrastructure projects such as roads and bridges to connect the population to

markets for their products, important works like the highway from Quinua (Ayacucho) to San Francisco have been delayed, and significant amounts of project budgets are reportedly consumed by corruption.

Getting resources for development projects is further complicated by difficulties in coordinating between different levels of government (local versus regional versus national), and between national government agencies. The VRAEM is comprised of the relatively unpopulated fringe areas of five of Peru's 25 regions (Junin, Huancavelica, Ayacucho, Apurimac, and Cusco). The regional governments often prefer to invest resources in more populated urban centers outside the VRAEM, where their constituents are, rather than relatively isolated VRAEM itself. Further complicating matters, regional and local elections in October 2014 brought new leaders to power in each of the regions involved. As these leaders assumed power in January 2015,⁴⁷ the Humala administration had to begin, almost from scratch, the process of coordination with them.

At the national political level, a cabinet-level committee called the CODEVRAEM, has responsibility for coordinating the efforts of individual ministries to achieve development and other national strategic objectives in the VRAEM. While its current head, Luis Rojas Merino, a retired colonel, appointed in February 2012, is reportedly a man of much experience who knows the VRAEM well, his organization lacks staff, funding, and statutory authority to effectively shape the priorities of Peru's ministries to implement a coherent national plan.

Lessons Learned

The dynamics of the expanding criminal economy in Peru, including the interdependent,

mutually reinforcing problems of terrorism, narcotrafficking and international organized crime offer lessons that can benefit the U.S. and other countries facing similar challenges of terrorism and transnational organized crime. As noted above, although the fight against Sendero Luminoso continues to be a matter of priority for the Peruvian armed forces, the group in its currently reduced form is but one of many enablers of a criminal economy which presents growing risks to the Peruvian state and the region more broadly.

Lessons suggested by the foregoing analysis include the following:

- First, the inability to permanently eliminate Sendero Luminoso in 35 years of armed struggle shows the limits of military assets and technology in eliminating an opponent, (even of limited size), who has taken refuge in difficult terrain with which he is familiar, nurtured by an illicit revenue stream, and able to blend into the local population. If political leaders promise too much, adversaries can win symbolic victories simply by surviving.
- Second, the military conflict cannot be won, and a healthy order established, without severely limiting the illicit economy. Whether narcotrafficking, illegal mining, or human smuggling, such activities are the fuel which empowers terrorists, insurgents, and criminals to operate, intimidate, corrupt institutions, and ultimately, to create alternative vehicles of governance.
- Third, within a substantial illicit economy, controlling corruption is fundamental. Corruption negates both the government's plan, and the ability of international partners to help. Corruption in institutions such as the police and military not only impairs operations such as drug interdiction, but

also sows doubts that undermine intelligence sharing and coordination across the government. Moreover, among domestic constituencies and foreign partners, corruption transforms confusion and lack of information (which always exist), into a presumption against the state.

- Finally, the government's relationship with the population is a center of gravity. The population is not only a key source of intelligence, but its cooperation is fundamental to public order, and its participation in civic activities is the key to holding rival systems of authority at bay. It is not possible to prevail against terrorism or the criminal economy when the state is a "stranger in its own territory."⁴⁸

Conclusion

Peru's success in managing the challenges of Sendero Luminoso, cocaine production, and other parts of the illegal economy will be key to shaping the future dynamics not only of organized crime and terrorism, but also of governance, and political choices in the region regarding suitable paths to development. It is difficult to identify another nation in the region whose characteristics make it simultaneously as impactful, and as potentially fragile, as Peru at the present time. From the perspective of the global criminal economy, Peru is the geographic nexus for narcotrafficking, illegal mining, and other criminal enterprises tying South America to traditional drug markets in the U.S. and Canada, emerging illicit markets in Brazil, Europe, and Russia, and the potentially even more significant markets for drugs, mining products, and other goods in Asia.

With high levels of ethnic diversity and economic inequality, the combination of criminality, social unrest, and terrorism manifested

in Peru in recent years suggests that the nation's socioeconomic fabric is fraying. The nation is a timebomb at the center of one continent, and an important nexus for three others with respect to international criminal, commercial, and financial flows. A significant deterioration of the will or capabilities of the Peruvian state to fight organized crime would not only ripple throughout the criminal economy of South America, but would have significant impacts on North America, Europe, and Asia as well.

Beyond the illicit economy, however, Peru is also a key player in mining and trans-pacific trade, and its destabilization would have significant repercussions for the global economy. As noted previously, the nation is also at the center of the divide within Latin America regarding how to engage Asia, the question of what kind of relationship the region will maintain with Russia, and the struggle over whether multilateralism in the hemisphere will include, or exclude the U.S. and Canada. As goes Peru, may tilt the hemisphere.

While detailed recommendations for addressing these challenges are beyond the scope of this article, Peru deserves strategic priority within the U.S. administration and relevant bureaucracies such as the State Department, Defense Department, Drug Enforcement Administration, and others, not only as a partner that needs U.S. support, but as one in which such support can make a critical difference. U.S. support should include, but not be limited to, increased intelligence, technology, and mobility support for operations against criminal groups operating in the country, complemented by strengthening of law enforcement and judicial institutions, including capabilities to help purge corrupt officials and provide ongoing monitoring to

deter future corruption, particularly at the local level. In this fight, extradition to the U.S. is a tool which has proven highly effective elsewhere, and should be embraced in the present context where applicable. The U.S. should also resolve its own legal and political impediments to helping Peru establish an effective air interdiction capability which minimizes the risk to innocent lives, while not neglecting overland, riverine, and maritime interdiction capabilities as well.

As a center of gravity in the struggle, the United States should work with Peruvian security forces to establish meaningful and positive state presence in the remote interior areas of the country most vulnerable to illicit activity. It is the prerogative of the Peruvian military not to become more directly involved in operations against organized crime, but the U.S. should make it clear that, while continuing to support the Peruvian struggle against terrorism, the lion's share of U.S. resources will be dedicated to those security organizations focused on eliminating the space in which the criminal economy can prosper.

The ability of the United States to help Peru prosper as an ethnically pluralistic democracy committed to free markets and the rule of law will stand as an example, either positive or negative, for the rest of the region, as it wrestles with its own challenges of inequality, ethnic pluralism, and engagement with Asia and the rest of the world economy. The United States has a strong vested interest in working with Peru to ensure that it succeeds.

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Notes

¹ Dr. R. Evan Ellis is Research Professor with the Strategic Studies Institute of the U.S. Army War College. Dr. Ellis would like to thank those who dedicated time to speak with him in Lima, Peru about the issues discussed in this article during his recent research trip to the country, as well as his research assistants, Allen Church and Isaac Schlotterbeck. The views expressed in this article are strictly his own.

² "Urresti presentó 7.6 toneladas de cocaína incautadas en Trujillo," *Peru21*, September 1, 2014. <http://peru21.pe/actualidad/droga-cocaína-dirandro-daniel-urresti-policia-nacional-trujillo-2197279>.

³ Loren Riesenfeld, "Peru Shoots Down Narco Plane Heading to Bolivia," *Insight Crime*, March 2, 2015. <http://www.insightcrime.org/news-briefs/peru-shoots-down-narco-plane-heading-to-bolivia>.

⁴ United Nations Office of Drug Control, "Perú: Monitoreo de Cultivos de Coca 2012," September 2013. http://www.unodc.org/documents/crop-monitoring/Peru/Peru_Monitoreo_de_Coca_2012_web.pdf.

⁵ Andrea Jaramillo and John Quigley, "Velarde Opens Door to Peru Rate Cut as GDP Rebound Falts," *Bloomberg*, January 29, 2015. <http://www.bloomberg.com/news/articles/2015-01-29/peru-to-have-room-to-cut-rate-as-inflation-slows-velarde-says>.

⁶ For a good exposition of the interdependent nature of the terrorism, narcotrafficking, informality, and underdevelopment challenges in Peru, see Leonardo José Longa López, *Narcoterrorismo en el Perú*, Lima: Impresión Creativos Perú, 2014.

⁷ Truth and Reconciliation Commission, *Final Report*, August 28, 2003. <http://www.cverdad.org.pe/ingles/ifinal/index.php>.

⁸ Abraham Lima, "PERU: Sendero Luminoso Guerrillas Stage a Comeback," *Inter Press Service*, July 3, 2003. <http://www.ipsnews.net/2003/07/peru-sendero-luminoso-guerrillas-stage-a-comeback/>.

⁹ "Estado de sitio en Per por el ataque de Sendero Luminoso," *Perú Noticias*, December 22, 2005. <http://perunoticias.net/22-12-2005/estado-sitio-en-por-ataque-sendero-luminoso>.

¹⁰ Longa, 31. See also Gustavo Gorriti, "La estrategia del sueño," *IDL Reporteros*, June 14, 2012. <https://idl-reporteros.pe/columna-de-reporteros-83/>.

¹¹ In October 2012, *Sendero Luminoso* destroyed three helicopters in Cusco belonging to Camisea oilfield contractors Helisur and Los Andes, allegedly for not having paid protection money to the organization. See "Helicopters face high risk of attack

in Peru's VRAEM region," *IHS Jane's Intelligence Weekly*, October 29, 2014. <http://www.janes.com/article/45176/helicopters-face-high-risk-of-attack-in-peru-s-vraem-region>.

¹² For a discussion of the document in which *Sendero Luminoso* calls for attacks on the Camisea gas pipeline, see "El nuevo manual de Sendero: regreso a los ochenta en el Vraem," *Panorama*, October 26, 2014. <http://panamericana.pe/panorama/nacionales/168150-nuevo-manual-sendero-regreso-ochenta-vraem>.

¹³ "Gustavo Gorriti: El drama de Kepashiato muestra la compleja y vulnerable situación del VRAE," *La República*, April 13, 2012. <http://www.larepublica.pe/13-04-2012/gustavo-gorriti-el-drama-de-kepashiato-muestra-la-compleja-y-vulnerable-situacion-del-vrae>.

¹⁴ Longa, 51.

¹⁵ Esteban Valle Riestra and Gustavo Gorriti, "Métricas de Guerra," *IDL Reporteros*, January 20, 2015. <https://idl-reporteros.pe/metricas-de-guerra/>.

¹⁶ "Peru Plans to Step Up Security, Inclusion In Coca Growing Region," *Peruvian Times*, June 29, 2012. <http://www.peruviantimes.com/29/peru-plans-to-step-up-security-inclusion-in-coca-growing-region/16136/>.

¹⁷ "Artemio' capturado," *IDL Reporteros*, February 12, 2012. <https://idl-reporteros.pe/artemio-capturado/>.

¹⁸ "Cómo murió 'William'," *IDL Reporteros*, September 6, 2012. <https://idl-reporteros.pe/como-murio-william/>.

¹⁹ "Tras muerte de 'Alipio' y 'Gabriel': ¿Qué otros cabecillas tiene Sendero?" *El Comercio*, August 12, 2013. <http://elcomercio.pe/peru/lima/muerte-alipio-y-gabriel-que-otros-cabecillas-tiene-sendero-noticia-1616591>.

²⁰ Reportedly the Peruvian military has suffered significant casualties on virtually every occasion in which it has launched operations in the zone, such as those by its high mountain battalions.

²¹ "Movadef es la fachada electoral de Sendero Luminoso", advirtió el JNE," *Peru21*, January 28, 2015. <http://peru21.pe/politica/modavdef-fachada-electoral-sendero-luminoso-advirtio-jne-2210536>.

²² John C.K. Daily, "Peru's Shining Path in Decline as Its MOVADef Political Arm Broadens Appeal," *The Jamestown Foundation*, May 15, 2014. http://www.jamestown.org/programs/tm/single/?tx_ttnews%5Btt_news%5D=42368&tx_ttnews%5BbackPid%5D=26&cHash=84d5655d2aa215d28a3c516242fd5e7a#.VR1pFU1021s.

²³ The Peruvian police and armed forces are currently working to counter such perceptions through both national-level propaganda and their

own outreach campaign in the nation's universities and secondary schools.

²⁴ By one estimate, 90% of the economy of the VRAEM is "illegal and informal." Longa, 38.

²⁵ A leading example is the extraction of gold in the Madre de Dios region. See "La minería ilegal en Madre de Dios tiene los días contados, asegura Daniel Urresti," *La Republica*, April 16, 2014. <http://www.larepublica.pe/16-04-2014/la-mineria-ilegal-en-madre-de-dios-tiene-los-dias-contados-asegura-daniel-urresti>.

²⁶ As of the end of 2014, approximately 200 Mexicans were imprisoned in Peruvian jails, mostly on narco-trafficking charges, the highest number for any nationality. Ana Lescano and Héctor Jara, "Droga a la mexicana," *Correo Semanal*, October 10, 2014. <http://correosemanal.pe/del-impreso/droga-a-la-mexicana/>.

²⁷ It is estimated that Peru's drug trade is organized by approximately 40 "family clans." See Kyra Gurney, "Peru Dismantles Major Precursor Chemical Trafficking Group," *Insight Crime*, November 4, 2014. <http://www.insightcrime.org/news-briefs/peru-dismantles-major-precursor-chemical-trafficking-group>.

²⁸ While *Sendero Luminoso* reportedly accepts payment from farmers in coca leaves, and has operated a small number of its own sites for transforming the coca leaf into intermediate products, there is little evidence to suggest that members of the group are directly engaged in either growing coca or producing cocaine on a significant scale.

²⁹ See, for example, Esteban Valle Riestra and Nancy Vidal, "Ahorita nos erradican, mañana ¿qué comemos?" *IDL Reporteros*, February 2, 2013. <https://idl-reporteros.pe/%e2%80%9cahorita-nos-erradican-manana-%c2%bfque-comemos%e2%80%9d/>.

³⁰ The Peruvian government estimated that a quarter of the airstrips destroyed by the government in 2014 had been rebuilt—a process requiring less than 24 hours. See David Gagne, "24-Hour Turnaround to Rebuild Peru's Narco-Airstrips," *Insight Crime*, October 14, 2014. <http://www.insightcrime.org/news-briefs/6112-peru-vraem-narco-airstrips-rebuilt>. See also "Interdicción de 'narcovuelos' en el VRAE" *IDL Reporteros*, December 17, 2013, <https://idl-reporteros.pe/interdicion-de-%e2%80%98narcovuelos%e2%80%99-en-el-vrae/>.

³¹ "Peru declares no-fly zone in its most lawless coca-growing region," *Reuters*, February 4, 2015. <http://www.reuters.com/article/2015/02/04/us-peru-drugs-idUSKBN0L82MU20150204>.

³² Peru ceased the program in 2001 following the accidental downing of a plane carrying U.S. Baptist missionaries over the jungle near Iquitos,

causing the death of a mother and her seven-month old child.

³³ Indeed, its attempt to move from its stronghold in Vizcatán to establish a presence in the province of Concepción in 2012 was motivated, in part, by interest in dominating a new overland smuggling route from the VRAEM through Madre de Dios.

³⁴ See, for example, "VRAEM: Ataque terrorista a base temporal deja un militar herido," *Peru.com*. November 18, 2014. <http://peru.com/actualidad/nacionales/vraem-ataque-terrorista-base-temporal-deja-militar-herido-noticia-301927>.

³⁵ In many cases, the properties and businesses used to launder the illicitly-gotten gains are located in the same zone as the operations of the family clans, which in combination with government infrastructure and business promotion programs, has helped to create a net urbanization of the VRAEM in recent years.

³⁶ In Pichari, a city of approximately 3,000 persons, for example, 27 credit cooperatives exist. Moreover, so long as such organizations do not take or lend money to persons outside of their own organization, they are not subject to the nation's mainstream banking regulations and associated oversight.

³⁷ Marguerite Cawley, "Peru Elects Suspected Drug Traffickers as Governors," *Insight Crime*, October 8, 2014. <http://www.insightcrime.org/news-briefs/6088-peru-elects-suspected-drug-trafficker-governors>. In addition, the head of the region of Cajamarca, Gregorio Santos, was actually re-elected in that contest, while in prison. Such corruption is believed to be principally driven by the familial clans, funded in part by outside criminal organizations, rather than involving Sendero Luminoso.

³⁸ Ana Lescano and Carlos Navea, "Fuerzas Armadas inician lucha contra inseguridad ciudadana," *Correo Semanal*, November 23, 2014. <http://correosemanal.pe/actualidad/fuerzas-armadas-inician-lucha-contra-inseguridad-ciudadana/>.

³⁹ See Longa, 62–68.

⁴⁰ Recently, however, the Peruvian government has acquired 24 new Russian transport helicopters, primarily destined to replace the aging helicopter fleet currently operating in the region.

⁴¹ David Gagne, "Peru's Coca Substitution Program Stalls Before it Starts," *Insight Crime*, March 3, 2015. <http://www.insightcrime.org/news-briefs/peru-coca-substitution-program-not-working>.

⁴² Gustavo Gorriti, "Un cambio abrupto de estrategia antidrogas," *IDL Reporteros*, May 28, 2014. <https://idl-reporteros.pe/un-cambio-abrupto-de-estrategia-antidrogas/>.

⁴³ The legislation was proposed law 2891.

⁴⁴ The full name of the committee is the "Comisión de Defensa Nacional, Orden Interno, Desarrollo Alternativo y Lucha Contra las Drogas."

⁴⁵ "Perú anuncia compra de radares para controlar aviones narcos" *El Universo*, May 22, 2014. <http://www.eluniverso.com/noticias/2014/05/22/nota/2997681/peru-anuncia-compra-radares-controlar-aviones-narcos?source=mod-ult-not>.

⁴⁶ See Gustavo Gorriti, "De la paciencia a la negligencia," *IDL Reporteros*, June 26, 2014. <https://idl-reporteros.pe/de-la-paciencia-a-la-negligencia/>.

⁴⁷ "Nuevas autoridades regionales y municipales asumieron hoy sus cargos" *Andina*, January 1, 2015. <http://www.andina.com.pe/agencia/noticia-nuevas-autoridades-regionales-y-municipales-asumieron-hoy-sus-cargos-537695.aspx>.

⁴⁸ From a conversation with a colleague in Lima, Peru, March 2015.