

December 19, 1990

## **A CHALLENGE FOR THE U.S. IN AN UNSTABLE PERU**

### **INTRODUCTION**

**Because of a decade of turmoil, Peru has become a major foreign policy concern for the United States. Peru's urgent problems include: a decade-old terrorist insurrection which has claimed over 20,000 lives; a drug trade which furnishes some 60 percent of the cocaine entering the U.S.; and a near bankrupt economy, with an inflation rate last year of 3,000 percent. The result: Peru is today one of the Western Hemisphere's poorest, most violent, and least stable countries.**

To tackle these problems, Peruvians inaugurated Alberto Fujimori as their new President on July 28. Fujimori, a centrist, replaced Alan Garcia of the leftist American Popular Revolutionary Alliance (APRA). The 52-year-old Fujimori, a former academic, engineer, and agronomist, is a political unknown of Japanese descent with no government experience. He and his "Cambio 90" (Change 90) coalition face what is almost certainly South America's toughest test of leadership. Some in Peru and elsewhere even predict that his lack of experience and vague agenda, combined with Peru's severe economic and security problems, soon could capsize his democratically-elected government. To stave off a military coup and serve out his full five-year term, he will need to initiate a bold free market economic reform package, a full-scale counter-terrorism campaign, and a vigorous anti-drug program.

**High Stakes.** The stakes in Peru are considerable for the U.S. Increased political and economic chaos in Peru could become infectious, causing instability throughout the region at a time when democracy and free market economics seem to be taking hold. Further, a breakdown in order in Peru

could lead to a rise in terrorist activity in neighboring Bolivia, Chile, Colombia, and Ecuador. Peru also is the key battlefield of the "war on drugs" in Latin America. If U.S.-Peruvian anti-narcotics efforts in Peru fail, then the flow of cocaine into the U.S. will increase greatly – although the U.S. drug crisis is caused mainly by American domestic demand rather than by foreign supply.

Perhaps most important for the U.S. is George Bush's "Enterprise for the Americas" initiative announced last June 27 in Washington. This initiative, the cornerstone of the Bush Administration's policy toward Latin America and the Caribbean, seeks to spur economic prosperity through expanded free trade, increased foreign investment, and debt restructuring. The Bush plan has received strong support throughout the Americas and was the reason for this month's trip to Argentina, Brazil, Chile, Uruguay, and Venezuela.

**Developing Healthy Relations.** As Communism collapses in Eastern Europe and the Soviet threat wanes around the world, the U.S. should focus more attention and resources on the American Hemisphere. By developing healthy relations with the Fujimori government and the Peruvian security forces, Washington can help Peru in the war against drugs. As important, Washington can help Peru promote a free-market economy, which will strengthen political democracy and human rights. To achieve these objectives, the Bush Administration should:

- ◆ Certify Peru next March as having "cooperated fully" with the U.S. in the war against drugs, under the terms of the 1986 and 1988 Anti-Drug Abuse Acts, and grant Peru the economic aid permitted by the acts.
- ◆ Support Fujimori's anti-narcotics initiative through increased technological and material assistance for Peruvian drug interdiction and eradication efforts.
- ◆ Encourage Fujimori to appoint a civilian "Drug Czar" to coordinate Peru's anti-drug efforts.
- ◆ Assist the Peruvian government to devise free market oriented programs to wean farmers from coca cultivation.
- ◆ Seek permission to install U.S.-operated radar facilities in Peruvian highlands to monitor drug shipments.
- ◆ Negotiate the construction of additional joint Peruvian-Drug Enforcement Administration (DEA) forward command posts in the Upper Huallaga Valley.
- ◆ Continue regional summits focusing on narcotics trafficking and terrorism.
- ◆ Seek to expand security cooperation with Peru's military and police forces to help defeat the terrorist groups and to cut down on Peruvian military corruption and human rights abuses.

- Seek to negotiate a U.S.-Peruvian free trade agreement to foster a free enterprise system in Peru, open up new markets for the U.S., and promote Peruvian economic growth.

## PERU'S UNCERTAIN POLITICAL FUTURE

Fujimori's stunning rise to the presidency is a clear sign that the vast majority of the Peruvian people are tired of continued economic chaos, terrorism, and government corruption. A political dark horse, who barely registered a three percent approval rating in the polls in early March, Fujimori defeated strong favorite Mario Vargas Llosa of the conservative Democratic Front (FREDEMO) coalition in Peru's June 10 elections. In what was largely seen as a "protest vote" or a rejection of Peru's traditional political leadership, Fujimori overwhelmed Vargas Llosa 57 percent to 36 percent, with seven percent of the ballots blank or null. Because of his Japanese ancestry, many Peruvians apparently see him as a leader who could bring Japan-style economic prosperity to Peru.

### PERU

**Official name** - Republic of Peru

**Political Status** - Independent republic proclaimed 1821, military rule imposed 1968, constitutional government restored 1980.

**Area** - 496,222 square miles, slightly smaller than Alaska.

**Population** - approximately 22 million.

**Population growth rate** - 2.1%

**Capital** - Lima (estimated population 5.5 million).

**Ethnic groups** - 45% Indian; 37% mestizo; 15% white; 3% black, Asian and other.

**Work Force** - About 7.5 million: 44% government and other services; 37% agriculture, 19% industry.

**Unemployment rate** - 15%, (underemployment at least 60%).

**Natural Resources** - Copper, silver, gold, petroleum, timber, iron ore, coal, phosphate, potash, and fish.

**Agriculture products** - coffee, cotton, corn, cacao, sugarcane, rice, wheat, potatoes, assorted fruits and vegetables.

**Gross domestic product (GDP)** - 18.9 billion, (per capita - \$880).

**Infant Mortality Rate** - 67 deaths/1,000. Life expectancy - 64 years.

**Adult literacy rate** - about 80%.

**External debt** - \$22 billion.

**Exports** - \$3.55 billion (U.S. 20%) - fishmeal, cotton, sugar, coffee, copper, iron ore, refined silver, lead, zinc, and crude petroleum.

**Imports** - \$2.50 billion (U.S. 23%) - foodstuffs, machinery, transport equipment, iron and steel semimanufactures, chemical, and pharmaceuticals.

**Defense Forces** - 120,000

Source: *The World Factbook 1990* (Washington, D.C.: Central Intelligence Agency), pp. 249-250.

Heritage DataChart

**Winning Praise.** Since his inauguration on July 28, Fujimori's platform has begun to take shape. He has pulled off what some label a "Menem maneuver" — referring to Argentina's president — by moving his government to the right and introducing market-based economic policies and emphasizing law and order programs, after winning the elections with a vague populist message. For these measures, Fujimori has won much-needed domestic and international praise.

Nevertheless, rumors of a possible military coup are a constant feature of Peruvian politics. As one of his first acts after being sworn in, Fujimori dismissed Admiral Alfonso Panizo, the head of Peru's Joint Chiefs of Staff and other high-level officers from their posts. Panizo, who also headed the navy, was viewed by Fujimori as untrustworthy. Peruvian government sources said, prior to the elections, that the navy would be the military branch most likely to launch a coup against Fujimori were he to win the presidency. Further, the navy had acquired a reputation in recent years for human rights violations, which concerned the new government.

While coup rumors persist, there are three key arguments against a coup: 1) a military takeover would further strengthen the Peruvian terrorist groups by polarizing Peru's political climate; 2) Peru, under a military regime, would be ostracized by the international community; and 3) Fujimori has forged close ties with the increasingly powerful Peruvian army.

## PERU'S ECONOMIC CHALLENGES

Peru is one of the Western Hemisphere's most economically chaotic countries. Five years of corruption, disastrous socialist and mercantilistic policies, price controls, high trade barriers, strict foreign investment laws, government subsidies, high taxes, heavy government spending, and the constant printing of money by the Garcia government have left Peru bankrupt.

**Dismal Legacy.** When Fujimori took office, Peru's international foreign currency reserves had been drained completely. Further, during the Garcia years, over one million jobs were lost in Peru and industrial production plummeted by 20 percent.<sup>1</sup> Inflation this July alone was 62.5 percent. Of Peru's some 22 million people, and an active labor force of approximately 7.5 million, only 1.5 million to 2 million today have formal jobs.<sup>2</sup> The rest of the workforce labors in the informal underground economy.<sup>2</sup> According to economist Hernando de Soto, a top Fujimori advisor and President of the Lima-based Institute for Liberty and Democracy, nearly 40 percent of Peru's

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1 Henry Goethals, "Fujimori Crashes the Party in Peru," *The Times of the Americas*, April 18-May 2, 1990, p. 3.

2 Foreign Broadcast Information Service, September 26, 1990 p. 12.

\$18.9 billion gross domestic product (GDP) is generated by the informal economy.<sup>3</sup> Today, one-third of all Peruvians live on less than \$30 a month. Clearly, Fujimori inherited an economy on the brink of collapse.

**Fujishock.** Despite campaign pledges to the contrary, Fujimori has imposed tough measures to regain control over the economy. Peruvians label this "Fujishock." Peru's Prime Minister and Minister of the Economy, Juan Hurtado Miller, announced on August 8 an economic reform and stabilization plan consisting of:

- 1) **renegotiating repayments on Peru's foreign debt arrears to regain the confidence of the international banking community;**
- 2) **reducing the federal budget deficit to cut inflation;**
- 3) **ending price controls;**
- 4) **floating the *inti* (Peru's currency) in relation to the dollar;**
- 5) **lowering tariffs on imports;**
- 6) **instituting tax reform;**
- 7) **upgrading customs offices, ports, airports, and similar facilities to increase commercial competitiveness;**
- 8) **strengthening domestic credit institutions;**
- 9) **liberalizing investment laws; and**
- 10) **beginning to streamline the public sector by selling state-owned enterprises.**

Fujishock may be working. According to the Peruvian government's National Institute of Statistics, the inflation rate fell to some 5.9 percent in November from its 50 percent-a-month average during the first half of 1990. Treasury reserves are up to \$500 million, and Peru has resumed payments on its foreign debt.

While these economic reforms are welcome, they do not go far enough. In contrast to what Argentina, Bolivia, Brazil, Chile, and Mexico are doing, Fujimori is moving slowly on privatization, saying that many of Peru's so-called "strategic" industries will remain untouched. Nevertheless, Hurtado recently stated that Peru "cannot afford the luxury of an excessive and

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3 For more information see Hernando de Soto, "The Lessons for U.S. Policy Makers of Peru's Grass Roots Free Market Revolution," *Heritage Foundation International Briefing* No. 18, March 1, 1989.

bureaucratic public sector.”<sup>4</sup> There are now rumors that Fujimori may step up Peru’s privatization program.

Popular support for Fujimori and his economic team remains high in Peru. According to a poll published in Lima on September 17 in the Magazine *Semana Economica*, 51 percent of those surveyed support Fujimori and Hurtado, while 33 percent expressed disapproval.<sup>5</sup> These numbers are significant because displeasure with the government’s program could, as in the past, lead to massive social arrest and violence in Lima.

### **Free Trade in the Andes**

Bush’s Enterprise for the Americas Initiative would do more than any other U.S. policy to help Peru solve its economic and narcotics problems. The Bush initiative dramatically could increase U.S.-Peru trade, increase foreign investment in Peru, and assist Peru with its debt burden. The ultimate goal of the Bush initiative is to forge free trade agreements with all Latin American countries to develop a hemisphere-wide free trade area. Peruvian exports to the U.S. last year were \$815 million, consisting mainly of petroleum products, jewelry, and coffee, while U.S. exports to Peru totaled \$690 million, consisting of mainly refined petroleum products, chemicals, and wheat. Through the Bush initiative, this commerce will be increased significantly.

A small, but important step in this direction has already been taken. Bush submitted to Congress on October 5 the Andean Trade Preference Act of 1990. It gives “basic authority to the President to grant duty-free treatment to imports of eligible articles from designated countries.” According to Bush, this trade initiative is intended to 1) “expand economic alternatives for the four Andean nations” (Bolivia, Colombia, Ecuador, and Peru); 2) “complete the program of economic assistance, drug control, and economic reforms agreed on with the Andean countries”; and 3) “provide U.S. economic support to those countries that are fighting to eliminate the production, processing, and shipment of drugs.”

**Harmful Tariffs and Quotas.** The Andean Trade Act, however, does not go far enough. One problem is that it would still manage or constrain trade between the U.S. and the Andean countries. For example, high U.S. tariffs will still be imposed on about half of the top Andean exports including textiles, fish, petroleum products, footwear, cut flowers, some vegetables, fruit, and fruit juices. As bad, U.S. quotas will continue to restrict Andean coffee and

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4 "Peru Grapples with the Shining Path, Economic Malaise," *Developing World Monitor*, October 1990, p. 2.

5 "Poll Reveals Support for Fujimori, Hurtado," *Foreign Broadcast Information Service*, October 12, 1990, pp. 28-29.

sugar. These measures not only impede Peru's economic development, but also raise the cost of goods to U.S. consumers by billions of dollars.

Peru, for its part, also engages in trade protection. The average Peruvian tariff on imported manufactured goods during the last months of the Garcia government was approximately 65 percent. To this was added a 15 percent value added tax, which resulted in an 80 percent import tariff. Further, the import of over 500 items was banned, including fresh and canned fruits, beer, liquor, and luxury goods.<sup>6</sup> Fujimori, nevertheless, is beginning to lower Peru's tariffs and is opening the economy to international trade.

## THREATS TO PERU'S SECURITY

Peru has seen an escalation of political violence. This September was one of the country's bloodiest months in recent years. According to the Peruvian government, "political violence [in September alone] caused 368 deaths: including 116 civilians, 20 members of the security forces, 229 terrorists, and 3 drug traffickers. So far this year, 2,624 people have died from political violence in Peru."<sup>7</sup> Much of this violence is linked to the Shining Path (*Sendero Luminoso*) terrorist movement, a self-proclaimed "Maoist" group which emerged in the mid-1960s as a radical student movement and seeks the destruction of capitalism, democracy, and foreign influences in Peru. Since 1980, when it launched its terror campaign, some 20,000 Peruvians, and several Americans, have been killed in the Shining Path's revolutionary campaign against the Peruvian government.

The Fujimori government also has to contend with the increasingly powerful pro-Cuban Tupac Amaru Revolutionary Movement (MRTA), as well as an escalation in anti-communist death squad activity. These security threats forced Fujimori on August 8, his eleventh day in office, to declare a state of emergency in the provinces of Lima and Callao, and 11 of Peru's 25 departments (states).

**Largest Coca Grower.** Another major concern to Lima and Washington is Peru's mounting drug cultivation and trafficking problems. Peru today is the world's largest grower of cocaine-producing coca plants. American government officials estimate that some 60 percent of the cocaine entering the U.S. is produced in Peru's Upper Huallaga Valley, some 150 miles northeast of Lima. Approximately 1 million members of the Peruvian workforce are engaged in the illegal narcotics industry, bringing an estimated \$1 billion a year to the Peruvian economy.<sup>8</sup> If economic and political freedom are to

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6 "Foreign Economic Trends and their Implications for the United States," U.S. Department of Commerce, April 1990, p. 11.

7 Andean Newsletter No. 47, The Andean Commission of Jurists, Lima, Peru, October 9, 1990, p. 6.

8 Philip Shenon, "Quayle Presses Peru to Take U.S. Military Aid," *The New York Times*, August 9, 1990 p. A10.

flourish in Peru, Fujimori will have to be more successful than his predecessors in pacifying the Peruvian countryside and defeating the drug networks.

**Maoist Insurgents.** One of the world's most violent terrorist groups, the Shining Path presents Fujimori with perhaps the most daunting challenges of his presidency. While some experts predicted that the Shining Path would weaken and relax its bloody opposition to the new Peruvian government, the guerrillas in fact have stepped-up their terrorism campaign. Example: terrorists rammed a car bomb into the President's Palace on August 15 while Fujimori was inside, damaging the building, but causing no injuries; former Labor Minister Senator Orestes Rodriguez and his son were assassinated on September 23; and the General Coordinator of Fujimori's Cambio 90 coalition, Carlos Vilcashuaman, was gunned down on September 28. These, and over 2,000 other killings this year, have made it clear that the Shining Path will not relent in its terrorist campaign until Peru's democratically-elected government is overthrown.

The Shining Path first declared war on the Peruvian state on May 17, 1980, the day Peru held general elections following twelve years of military rule. The Shining Path's founder and current leader is Manuel Ruben Abimael Guzman, who uses the *nom de guerre* President Gonzalo. Guzman, a former professor of Philosophy at the University of Huamanga, in the Andean mountain town of Ayacucho, has molded the Shining Path into a fanatical blend of Maoism, Marxism, and the rebellious traditions of indigenous Peruvian peasant groups. Besides preaching the destruction of Western capitalism, he also declares "unconditional hostility" toward the so-called "reformist" Chinese, Cubans, North Koreans, and Soviets, among others. According to Peruvian terrorism expert Gustavo Gorriti, the Shining Path "wages revolutionary war according to the Maoist people's war doctrine, keeping the orthodox course through the extensive practice of Cultural Revolution purging rituals, and maintaining unity through a personality cult of proportions that would put Orwell's imagination to shame."<sup>9</sup>

**Drug Intermediaries.** The Shining Path receives no outside military or training assistance. It is fully self-sufficient, with some 5,000 armed fighters and often recruits new members at gunpoint. It obtains its weapons by stealing them from the Peruvian military or buying them on the international arms market. Its strategy is to enter remote villages, force the townspeople to join the "struggle" against Lima, and recruit them into the drug business. When convenient, the Shining Path protects coca growers and serves as intermediaries between poor farmers and the Colombian drug cartels.

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9 Gustavo Gorriti, "The War of the Philosopher King," *The New Republic*, June 18, 1990, p. 15.



For their efforts, the terrorists collect at least \$60 million a year, from the drug business in so-called tolls and taxes. In some provinces west of Lima, it is estimated that as many as 80 percent of those farming fertile lands who refuse to participate in Shining Path activities have had to flee their farms for the relative safety of small townships, Lima, or the remote mountains and jungles.<sup>10</sup> Because of the Shining Path terrorism, over 50 percent of Peru's population lives under a state of emergency, including residents of Lima, Peru's largest city and capital.

The Shining Path has taken a tremendous toll on Peru's floundering economy. The country's industrial, transportation, and energy industries often have been targets of sabotage, forcing commerce to grind to a halt. Because of attacks, it is not unusual for Lima to go days without electrical service. Direct damage to the economy is estimated to be at least \$18 billion since 1980, with annual budget expenditures on anti-terrorism and narcotics efforts now reaching some \$3.2 billion, in a country whose yearly GDP is less than \$19 billion. Worse, according to terrorism expert Gorriti, "since the country is suffering from a near-bankrupt legal economy and an unwanted, but certain dependence on cocaine's \$1 billion a year export income, the impact of the Shining Path on the state's weakened defenses keeps increasing." [Meanwhile,] "the ragtag guerrillas of the early days, who had no military training and poor weaponry, have been replaced in several parts of the country by battle-hardened, company-size groups, armed with machine guns and rifle-propelled grenades."<sup>11</sup>

**The Tupac Amaru Revolutionary Movement (MRTA).** While not as powerful as the Shining Path, the pro-Castro MRTA also poses a serious threat to the Fujimori government. The MRTA was founded in 1983 and launched its first terrorist attacks in 1984. It is led by Victor Polay Campos, who until July 9 was in a Peruvian prison. The movement was formed by radical university students, mostly in Lima, and has an estimated membership of 500 full-time cadres. The MRTA seeks to overthrow Peru's democratic government and replace it with what Poloy calls a communist "people's regime." The forced withdrawal from Peru of U.S. government and business activities also is one of their stated objectives. According to U.S. government sources, the MRTA receives some weapons from Cuba, and had been receiving weapons from the communist Sandinistas in Nicaragua, until they were ousted in elections in February 1990.<sup>12</sup> The MRTA leadership claims that it has "no relationship" with the Shining Path and that they "have profound differences in ideology, politics, and methodology."<sup>13</sup>

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10 "The Next Nasty War?," *Newsweek*, May 21, 1990, p. 36 and Sally Bowen, "Peru's Shining Path Terrorists Open New Front in Drug War," *The Christian Science Monitor*, October 25, 1990, p.1.

11 Gorriti, *op. cit.*, p. 16.

12 "Terrorist Group Profiles," U.S. Government, Washington D.C., November 1988, p. 111.

13 "We Exist out of Necessity," *The Times of the Americas*, July 25, 1990, p. 9.

Because of the MRTA's less radical and violent stance, some Peruvian terrorism experts fear that the MRTA eventually could attract widespread popular support, thereby posing a greater threat to the Peruvian government than does the Shining Path. In a highly publicized strike against Fujimori last September 23, the MRTA boldly kidnapped Gerardo Lopez Quiroz, a leading legislator who organized Fujimori's presidential campaign. He was held for one week. Meanwhile, the MRTA has expanded its operations outside of Lima and into the Upper Huallaga Valley, at times clashing with the Shining Path. The two terrorist groups have been waging full-scale battles over control of the coca business.

Peru is the world's leading producer of cocaine-producing coca. Yet, despite joint U.S.-Peruvian efforts to halt the drug trade, the problem is getting worse. While, approximately 285,728 acres of coca were under cultivation in 1988, an estimated 327,308 acres now are. Last year, some 1,077 metric tons of cocaine paste was produced in Peru, as compared to 731 tons in Bolivia, the world's second largest producer. Peruvian cocaine paste is usually shipped to such neighboring countries as Brazil and Colombia for refining into cocaine hydrochloride (HCL), which is then ready for sale in America and Europe. Today, the terrorist-controlled Upper Huallaga Valley accounts for some 70 percent of Peru's total coca acreage. The inability of both the Garcia and Fujimori governments to gain control over these areas severely has hampered anti-drug efforts.<sup>14</sup> According to Peruvian farmers, the Peruvian guerrilla groups give them a brutal choice — "cultivate coca and take up arms for us, or die."<sup>15</sup>

### **Free Market Solution to Fight Narco-terrorism**

Fujimori has proposed a new strategy, labeled the "Fujimori Initiative," to fight Peru's drug traffickers and terrorists. Its goal: "the creation of a free market environment where peasants can find alternative crops to be economically attractive." In a speech in Lima on October 26, Fujimori called for "granting land titles to coca growers and radically slashing state controls and private monopolies that currently make cultivation of legal export crops unprofitable for small farmers."<sup>16</sup> According to Fujimori advisor Hernando de Soto, currently "there is no possibility of moving to other crops because of the restrictive regulatory environment." He points out, for example, that "it takes 45 days to go through 36 administrative steps at seven government agencies to export an alternative crop."

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14 See "The International Narcotics Control Strategy Report," U.S. Department of State, March 1990, pp. 147-156.

15 Bowen, *op cit.*, p.1

16 James Brooke, "Peru's Leader Proposes a Market to Fight Coca," *The New York Times*, October 28, 1990.

At November 1 and December 10 meetings at The Heritage Foundation, de Soto explained that "coca is the only non-regulated product that is exported from Peru. If a true free market environment were created, then farmers would have the opportunity to increase their profits through the sale of traditional legal crops." Such crops could include bananas, cacao, corn, coffee, cotton, spices, rice, and tropical nuts. Improved transportation infrastructure, reform of internal marketing systems, assured buyers, and lowered tariffs for alternative crops (especially in the U.S.) also are part of Fujimori's new economic anti-drug plan.<sup>17</sup>

The Fujimori government on December 7 created through an executive order the Autonomous Authority for Alternative Development (ADA) to oversee Peru's anti-drug efforts. This civilian agency, reporting directly to Fujimori, will coordinate the anti-drug activities of the armed forces and national police. According to de Soto, ADA also will be tasked with "designing and carrying out a strategy for alternative [economic] development based on the creation of enterprise zones, the liberalization of economic activities, the effective participation of farmers in decision-making, and the establishment of a social market economy which encourages alternative economic activities to the cultivation of the coca leaf and the products derived therefrom." De Soto stresses that without coordination between drug eradication, interdiction, crop-substitution and economic reform, "Peru will end up with a Khmer Rouge-style revolution on its hands."

**U.S.-Peruvian Anti-Terrorism and Drug Strategies.** The Bush Administration, to its credit, already has made the international drug war a high-profile endeavor. Bush traveled last February to Cartagena, Colombia to meet with Andean leaders, including former Peruvian President Garcia, to map out a coordinated anti-narcotics strategy. And in a follow-up to the Cartagena summit, Vice President Dan Quayle traveled on August 7-9 to Bolivia, Colombia, and Peru to meet with the region's new leaders and to demonstrate the strong importance the White House places on a continued partnership with the Andean nations.

To fight the drug war in the Andes, Bush unveiled immediately prior to his Cartagena trip his so-called "Andean Strategy" for reducing the flow of cocaine into the U.S. As part of a multi-year \$2 billion U.S. aid package for the Andean nations, Peru is targeted to receive some \$700 million of this assistance over the next several years.

The White House and the Congress last March certified the Peruvian Government as having "cooperated fully, or taken adequate steps on its own," in the anti-drug effort. This annual certification, required under the Anti-Drug Abuse Acts of 1986 and 1988, is granted by the U.S. government

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<sup>17</sup> For more information see "A Policy for the Control of Drugs and Alternative Development: An Initiative of President Fujimori," Lima, October 26, 1990, pp. 1-14.

to countries heavily involved in narcotics production and trafficking that cooperate with Washington in the drug war. Certification entitles those countries to receive U.S. economic and military assistance, loans, trade preferences, and other economic advantages.

**Interconnected Problems.** Strategies, however, for winning the wars against terrorism and drugs in Peru must be fought as a combined campaign because the two problems are interconnected. Colombia's Medellin and Cali drug cartels often use Peru's Shining Path and MRTA as hired guns, enforcers, and bodyguards in the cartel's Peruvian operations. For their part, the Peruvian terrorist groups use the drug syndicates as sources of money, weapons, and material. At times, however, this marriage of convenience erupts in violence.

To reaffirm his commitment to economic development over military means in the war against terrorism and narcotics, Fujimori on September 26 rejected the Bush Administration's proposed \$35.9 million 1990 military aid package. Fujimori had warned that he would not accept the aid unless it included the substantial economic assistance he feels is needed to wean Peruvian farmers away from growing coca. According to Francisco Loayza, a Fujimori advisor on internal security:

military options should be subordinated to economic development initiatives. The military should mainly provide security for development projects . . . The main thrust of Fujimori's pacification policies should be to address the structural violence and social injustice that makes subversion [and the drug trade] possible.<sup>18</sup>

Peruvian politicians warned, moreover, that a military package could lead to direct U.S. involvement in Peru's mounting guerrilla war. The aid, approved by the U.S. Congress in November 1989, however, was strictly intended to assist Peru's underfunded army with material, not to serve as a conduit for U.S. military personnel to enter the war against the drug traffickers and terrorists. The aid package would have provided the Peruvian security forces with essential munitions, clothing, equipment and rations, as well as training in anti-narcotics and anti-terrorism operations.

**Angry Military.** Many Peruvian security officers were angered by Fujimori's rejection of the U.S. military aid. Said one Peruvian police intelligence officer: "It was a great stupidity not to sign the military agreement with the U.S. The Shining Path will wipe out anything that opposes it." Added Rafael Merino, a Peruvian security analyst: Fujimori's anti-subversive program is "wishful thinking...If Fujimori thinks that he'll finish the war through

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18 Gustavo Gorriti, "The Shining Path Fights on in Peru," *The Wall Street Journal*, July 20, 1990, p. A13.

[non-military] pacification policies, it will be like riding into battle with no better dress or weapons than a tuxedo."<sup>19</sup>

Despite Fujimori's rejection of the U.S. military aid package, the U.S. and Peru have set up a working group in Lima to develop a new bilateral anti-drug and anti-terrorism strategy. The U.S. Office of National Drug Control Policy, headed until last November 7 by Drug Czar William Bennett, is optimistic that Washington and Lima soon will come to terms on a military and anti-drug package for 1991. Both governments realize Fujimori's pacification and free market strategies for reducing narcotics trafficking and fighting terrorism cannot be pursued so long as terrorists control the countryside and assassinate village leaders, farmers, and government workers. As was learned during the successful U.S. pacification program in Vietnam in the early 1970s, economic development of the hamlets required a secure environment.

An important obstacle to improved U.S.-Peruvian anti-terrorism and narcotics efforts is the U.S. congressional stipulation that American funds for Peru can be used only for anti-narcotics purposes, and not to fight terrorists. Yet, in most cases it is impossible to distinguish between the two groups since they often work together.

**Divergent Priorities.** The chief role of the Peruvian armed forces is to fight subversion and terrorism. By and large, anti-drug efforts are the domain of Peru's police forces, although this is changing — particularly in emergency zones like the Upper Huallaga Valley. Many Peruvian officials believe that the war against the Shining Path and the MRTA should be their number one priority, since it poses a direct threat to Peru's democratic survival. Conversely, U.S. lawmakers and officials tend to emphasize the war against drugs as the most urgent priority, since it directly affects U.S. lives.

This divergence in priorities is straining relations between Washington and Lima. Fujimori's rejection of Bush's military package has further complicated matters. Nevertheless, U.S. Ambassador to Peru Anthony Quainton announced last September that the U.S. still would double direct anti-drug financial aid to Peru for 1991 to \$20 million from the \$10 million it received this year. This would include assistance to the Peruvian Interior Ministry and police forces, and money for anti-drug awareness and training programs. The \$35.9 million in military aid originally destined for the Peruvian security forces is temporarily being redirected to Bolivia and Colombia.

Another area of contention between Washington and Lima is Fujimori's recent shake-up in Peru's national police force. General Juan Zarate, the head of the Peruvian anti-narcotics police force and the official with whom Washington has worked most closely in the war against drugs, was forced into retirement on August 2, along with two dozen of his senior officers. Under

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19 Bowen, *op. cit.*

Zarate, Peru's anti-drug unit developed a good working relationship with the U.S. Drug Enforcement Administration (DEA). Some U.S. intelligence officials believe that the move was essentially a power play by the Peruvian army, which has long wanted a more dominant role in the drug fight. Peru's new Interior Minister, Adolfo Alvarado Fournier, is in fact an active-duty army general. The concern in Washington is that by sacking Zarate and his team, Fujimori has lost his most experienced and best-trained anti-drug personnel.

**DEA Base in the Andes.** One area where U.S.-Peruvian security cooperation has produced results has been the American-built Santa Lucia anti-narcotics base in the Upper Huallaga Valley. Carved out of the jungle in 1987, and refortified last year, this base is manned by about 15 U.S. DEA agents and personnel from the State Department's Narcotics Assistance Unit (NAU), in addition to some 400 Peruvian "CORAH" coca eradication workers and several hundred members of the Peruvian anti-drug police. The civilian State Department employees fly eight UH-1 helicopters on anti-drug operations to destroy cocaine laboratories, coca seedbeds, and airstrips.

The Santa Lucia base was attacked by Shining Path forces on April 7, but no U.S. or Peruvian personnel were injured. In recent months, Washington and Lima have discussed plans to construct new U.S.-manned bases in the Upper Huallaga as "jump-off" stations for joint anti-drug efforts and as camps to train Peruvian security forces in weapons care, marksmanship, jungle warfare, night patrolling, map reading, and jungle health care.

A green light from Lima for additional DEA bases and the possible construction of U.S.-manned radar facilities in the Upper Huallaga region to monitor drug flights leaving the valley could help Peru's anti-drug effort. Drug seizures and eradication efforts in 1989 decreased substantially from 1988 levels. The Peruvian security forces eradicated 12,676 acres in 1988 compared with only 3,175 last year. According to the U.S. government, "the overall success of operations in 1989 was hindered by more than seven months of suspended operations, due to an escalation of terrorist violence in the Upper Huallaga Valley."<sup>20</sup>

A bankrupt Peruvian economy, distractions caused by this year's presidential elections, and an ongoing feud between the Peruvian police and armed forces over anti-drug roles also have hampered the execution of a coherent drug strategy for 1990. The U.S. Embassy in Lima, however, believes that the Fujimori anti-drug plan, recent improvements in security at the Santa Lucia base, the construction of additional bases, and increased funding assistance to the Peruvian police and military could translate into an improved anti-drug efforts for next year.

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<sup>20</sup> International Narcotics Control Strategy Report, p. 148.

**Buying Arms From the Soviets.** Had Fujimori accepted the U.S. military aid, this would have been a dramatic break with the past. The Pentagon has had no significant military ties with Peru for the past two decades. During this time, the Peruvians relied heavily on Soviet military assistance. In fact, in the 1980s, Peru was Moscow's chief military customer in South America, buying such Soviet weaponry as 350 T-54 and T-55 tanks, 45 *Sukhoi-22* supersonic fighter-bombers, significant quantities of SA-3 and SA-7 surface-to-air missiles, 42 Mi-24 *Hind* helicopters, and 14 Mi-17 Helicopter, delivered just last March. In recent years, Moscow also has stationed up to 150 military advisors in Peru, compared to approximately 65 for the U.S. After Cuba, Peru hosts the largest Soviet military presence in the Western Hemisphere. This long contributed to the correct feeling in Washington that Peru was the most pro-Soviet, anti-U.S. South American country.<sup>21</sup>

## U.S. POLICY TOWARD PERU

No longer is Peru viewed as anti-U.S. Now both Lima and Washington must develop more fully their emerging new relations with each other. The Bush administration's primary objectives should be to stem the flow of drugs from Peru; help Fujimori defeat Peru's terrorist groups; encourage Fujimori to pursue free market reforms, and promote free trade between the two countries. To achieve this, Washington should:

- ◆ **Certify Peru this March for its anti-drug efforts.** Despite a temporary downturn in Peru's anti-drug activities in 1990 and Fujimori's rejection of the U.S. military aid package, Lima is committed to defeating the Peruvian drug trade. Further, the outlook for U.S. Peruvian anti-drug cooperation next year is positive. It is expected that a new military aid and economic assistance package will be signed prior to March, and that the new Fujimori team will take concrete steps to defeat the cocaine traffickers. A U.S. vote of confidence through certification would give Peru's anti-drug efforts a much-needed boost.

- ◆ **Improve Peru's drug eradication and interdiction efforts through increased technological and material assistance.** Under Bush's Andean Strategy, U.S. anti-drug assistance for Lima, estimated at \$24.5 million for 1990 and potentially as high as \$121 million for 1991, should provide increased training for Peru's security forces, U.S.-Peruvian intelligence cooperation, and new weapons and equipment deliveries. Specifically, the U.S. should step-up joint U.S.-Peruvian anti-drug training exercises designed to bolster Peru's ability to: 1) maintain and equip U.S.-provided material, 2) locate and eradicate coca fields, 3) destroy airstrips used for drug flights, 4)

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<sup>21</sup> For more information see Michael G. Wilson, "A Ten-Point U.S. Program to Block Soviet Advances in South America," Heritage Foundation *Background* No. 658, June 22, 1988.

interdict drug shipments, 5) destroy drug labs, and 6) attack and defeat armed drug traffickers. Washington should give Peru helicopter and airplane spare parts, four-wheel drive vehicles, river and coastal patrol boats, small arms, explosives, communications equipment, and uniforms.

◆ **Urge Fujimori to appoint a Peruvian "Drug Czar."** The Peruvian government has taken an important step in the drug war by creating the Autonomous Authority for Alternative Development (ADA) to coordinate anti-narcotics activities and economic reform. Lima also would benefit from placing all anti-narcotics efforts under the control of a civilian appointed to Fujimori's cabinet, who would develop and execute a comprehensive national anti-drug strategy for Peru.

◆ **Promote alternatives to the drug trade through free market incentives and a Peruvian "pacification" program.** Fujimori's October 26 announcement that free market alternatives will be offered to Peruvian farmers to wean them away from drug trafficking should be supported strongly by the U.S. In his first major speech on fighting the Peruvian drug trade, Fujimori offered to "slash state controls" which make the growing of legal crops unprofitable, guarantee "private property rights" to coca growers, provide farmers with "investment opportunities," and begin a "crop substitution" program. As part of Washington's proposed multi-year \$700 million aid package to Peru, the Bush Administration should earmark at least one-third to helping the "Fujimori Plan" plan succeed. U.S. funds could pay for salaries, educational programs, environmental protection, irrigation projects, seeds, fertilizers, transportation, and security for farmers and the project's personnel. Fujimori's "free market pacification" program should be carried out by Peruvians rather than Americans. The U.S. can provide the training, technology, and material, but Peruvians should carry out the plan. The U.S. also can help by slashing its tariff and non-tariff barriers imposed against Peruvian export crops targeted in Fujimori's crop substitution plan.

◆ **Seek permission from the Fujimori government to install U.S.-Peruvian operated radar facilities to track and monitor drug flights.** Once coca leaves are harvested in Peru, they are processed into cocaine paste or base, and then flown to neighboring countries like Brazil and Colombia. There the drug is processed into cocaine hydrochloride (HCL), to be shipped to the U.S. and other countries. To better interdict these drug shipments, the Bush Administration should seek to build a radar and communications network in such high volume trafficking areas as the Upper Huallaga Valley to detect and track drug flights. These installations, jointly manned by U.S. and Peruvian intelligence teams, would relay information to the Peruvian military and police forces and neighboring countries which would intercept the airplanes.

● **Negotiate an agreement for the construction of new DEA-Peruvian forward command bases.** The U.S. should continue negotiating with Peru for construction of new joint DEA-Peruvian anti-drug bases in Peru like the one that exists at Santa Lucia in the Upper Huallaga Valley. Such bases act as



**“jump-off” stations for missions against drug traffickers and for coca field eradication projects. Much has been accomplished already at Santa Lucia, including the destruction of several dozen cocaine labs, some 15 airstrips, and vast tracts of coca acreage. These bases also are valuable for U.S.-Peruvian training exercises, and serve as useful reminders to the drug cartels and to the terrorist groups that Lima and Washington together are committed to winning the battle against “narcoterrorism.”**

◆ **Convene regional summits and organize a U.S.-Latin American working group to focus on narcotics trafficking and terrorism.** Following the example of the February 15, 1990 drug summit in Cartagena, Colombia, Bush should meet annually with the presidents of Bolivia, Colombia, Peru and other regional leaders to discuss fighting drug trafficking and terrorism. A U.S.-Latin American working group of top law enforcement and economic advisors should meet monthly to develop strategy in the war against drugs and terrorism.

◆ **Expand anti-terrorism cooperation with Peruvian military and police forces.** The Shining Path and the MRTA threaten the long-term survival of Peru’s fragile democracy. Because of concerns over Peru’s human rights violations and over expanding U.S. military involvement in the developing world, the Congress has stipulated that U.S. anti-drug assistance slated to Peru cannot be used to fight terrorist groups. Yet, as the Peruvians clearly understand, it is impossible to fight one without engaging the other. With drug trafficking and terrorism interconnected, U.S. military and anti-drug aid to Peru should be available not only for fighting the coca trade, but for fighting the MRTA and the Shining Path as well. Washington should urge the Fujimori government to rethink its rejection of the U.S. \$35.9 million military aid offer for 1990 and begin negotiations on the new \$39 million military package proposed for next year. The Peruvian military is severely underfunded, poorly trained, and underequipped. If Peru accepts a U.S. military aid package, some of the money should be allocated to refurbishing Peru’s U.S.-made UH-1 Bell helicopters and A-37 ground-attack jets. These could fly reconnaissance, transportation, and air attack missions against the guerrilla groups. Since Peru has fewer than 10 river patrol and gun boats, the U.S. also should consider supplying it with additional marine craft. And the U.S. should give the Peruvian security forces communications equipment, night vision gear, small arms, machine guns, motors, jeeps, field uniforms, packs, boots, maps, and training.

◆ **Seek a U.S.-Peruvian free trade agreement.** As part of Bush’s Enterprise for the Americas initiative which seeks to develop a hemisphere-wide free trade area, Washington and Lima should begin negotiating a U.S.-Peru free trade pact similar to that being negotiated with such countries as Chile and Mexico. This would build on the Andean Trade Preference Act of 1990 by eliminating all tariff and most non-tariff barriers to commerce between the U.S. and Peru. The key benefits of this to Peru would be job creation, in-

creased export earnings, and a slow down in the drug trade. The benefits for the U.S. would be increased markets for U.S. for the U.S. would be the same.

## CONCLUSION

Peru may be at the most critical military, economic, and political juncture in decades. If Fujimori fails in defeating the Shining Path, the MRTA, and the narcotics cartels, then democracy may collapse in this strategic Andean nation. Making matters worse, the Peruvian government faces the most chaotic economic conditions in South America. At stake for the U.S. and the rest of the hemisphere is Bush's Enterprise for the Americas Initiative, which depends on the active participation of Peru and other nations.

A stable and prosperous Peru will benefit not only U.S.-Peruvian relations, but all of the Americas. An economic collapse, a revolutionary take-over, or a military coup could be infectious, setting back much of the democratic and free market progress currently taking root throughout Latin America. Further, the failure of the Fujimori government also would represent a serious setback in the international struggle against drug trafficking.

**Unprecedented Opportunity.** The collapse of Communism in Eastern Europe leaves America with an unprecedented opportunity to create a new U.S.-Latin American order. Washington, at long last, can take a lead in the region that is not centered on keeping out the Soviets. This allows the U.S. to act in a way that fosters relationships of mutual respect and responsibility. Helping to promote economic development, stability, and security in Peru could serve as a springboard to achieving the Bush Administration's goal of creating a prosperous American community stretching from the Arctic Ocean to Tierra del Fuego.

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