The Drug Trade in Peru:
Don’t Get High On Your Own
Supply-Side Economics

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ABSTRACT

This paper covers the effectiveness of the United States’ anti-narcotics policy against Peruvian Coca farming in the 1980s. It finds that a supply-side oriented approach to targeting drug use, which made use of extradition, interdiction and eradication of relevant “players” was an ineffective strategy at curbing global cocaine use. It also highlights how this policy failed to account for or curb the emergence of the Shining Path, as well as Peru’s bureaucratic inefficiencies which, through organizations like ENACO, continued to make illicit coca production highly profitable for farmers.
Introduction

When President Reagan declared the United States would “fly the flag of battle” in their War on Drugs (Friesendorf 2007, 79), the hawkish maxims used in Cold War foreign policy were re-appropriated to disrupt the global cocaine and heroin industries. The Andean nations of South America became a hotbed of US intervention and military presence due to their cultivation of coca, the psychoactive leaf containing the alkaloids necessary to refine cocaine (Biondich and Joslin 2016). Of the nations in this region, Peru received a disproportionate amount of American attention due to their 60% share in coca leaf production (Seligman, 2019, Abstract). Despite massive investment into eradicating coca crops, the United States’ attempts to mitigate the issue proved largely unsuccessful. This paper argues that a failure to account for the financial importance of coca production and a poor understanding of rural-urban political and economic dynamics caused the failure of the American “War on Drugs” in Peru during the 1980s.

This paper will articulate America’s anti-narcotic approach, including its core principles of extradition, eradication, and interdiction, as well as the reasoning behind a supply-side approach to mitigate drug use. It will then elucidate the state of coca in rural Peru, specifically its historical and economic significance, and the means through which the Peruvian government and America attempted to mitigate its production. These methods will subsequently be analyzed, denoting what factors were ignored in policy implementation and how the failure to consider these elements contributed to unwanted consequences, such as the strengthening of the Shining Path, economic downturns in rural Peru, and rivalry between the National Army and police force. The paper will conclude by analyzing the impact of these policies on Peru’s government structure and the cocaine trade.

The War on Drugs

When US President Nixon declared the ‘War on Drugs’ in 1971, its scope was initially domestic. The war looked to criminalize American drug usage through the dramatic expansion of federal drug control agencies and mandatory sentencing for possession (Drug Policy Alliance 2022). This ‘battle’ of deterrence would become a ‘crusade’ under Reagan, whose 1980 campaign platform of “protecting the family nucleus” attributed the degradation of American values to the use of narcotics (Friesendorf 2007, 79). He noted that prior administrations had “flown a flag of surrender” in the face of foreign production and shipments into the US. The Reagan administration opted for a supply-side elimination of drugs, targeting raw materials, refinement, and cartel distribution as opposed to syndicates and consumers at home. This strategy relied on two philosophies. First, was the overly simplistic thought that the elimination of the product would eliminate its consumption, paralleled domestically by Nancy Reagan’s “Just Say No” campaign (Stanford Sphere 2020). Although total abstinence was undeniably optimistic, there was at least hope that reduced supply would, in turn, lead to a lower prevalence of drug abuse among the US citizenry and reduce the influence of organized crime (Del Olmo 1993, 11). The second theory
was that increasing the risk of shipping narcotics would raise prices, limiting the accessibility of hard drugs and thus the spread of consumption (Stanford Sphere 2020).

However, neither of these philosophies was sufficiently thought through; both justifications for supply-side policy had crucial and predictable counterproductive outcomes which were conveniently ignored. In the case of abstinence, the focus on eradication on a state-by-state basis ignored the strong possibility of drug industry displacement and its potential for increased production in less-regulated states. The Reagan administration could have taken note of the Nixon administration’s unintended restructuring of the heroin industry after eradicating the French trafficking network of Turkish opium (Friesendorf, 2007, 73). These policies allowed poppy production in Central Asia and Mexico to thrive, enabling more low-level, unsophisticated products to enter the American market without an entrenched monopoly to compete with (ibid). This influx of players in the heroin market enhanced its usage domestically (ibid). The coca industry thus had a strong possibility of anticipating America’s presence and shifting their plantations’ geographic position, be it within the state or internationally, accordingly. This ‘supply-oriented’ drug policing philosophy also failed to account for the uses of targeted raw materials outside the drug trade. This is especially true for coca, as its ubiquitous prevalence in traditional customs and importance in Andean medicine would prevent blanket criminalization of the plant (Biondich and Joslin 2016). The second philosophy ignores the potential effects of a ‘crime tax’ on the supply end, failing to account for the possibility that cartels would opt to increase the size of shipments to accommodate for greater risk instead of increasing sale prices (Friesendorf 2007, 81). The cartels took this approach, causing cocaine prices to drop in the United States as larger shipments increased domestic supply and consequently caused consumption to soar (ibid).

Despite these issues, the United States continued its war against international cocaine supplies, utilizing soft and hard power to do so. The crux of these soft power strategies was economic, as the United States adopted the method of selectively distributing foreign aid, with Congress passing amendments allowing for the suspension of funds to nations that did not cooperate in the War on Drugs (Murphy 1990, 1263). This power was wielded frequently to ensure compliance with the strictest anti-narcotic measures and militant ventures, many of which were reliant on foreign aid for economic development. The United States also used force in its global anti-drug mission, carrying out raids like Operation Snowcap to eradicate coca farms in the Andes, thus involving the previously disengaged Pentagon in drug enforcement matters. This latter detail proved highly unpopular, with prominent generals criticizing direct intervention as an unwinnable conflict that would only serve to diminish already faltering morale (Friesendorf 2007, 83) while also stretching thin defence and intelligence resources.

**Extradition, Interdiction, Eradication**

The crux of the United States’ military pres-
ence oriented immovably around extradition, interdiction and eradication (Schifter, 2007, 58). Each of these principles operated in a kinetic tandem to ensure not only the adequate elimination of drug supplies but also punishment for drug suppliers. This latter point was especially true of extradition, which relied on the American imprisonment of narco-criminals. Domestic imprisonment was ineffective for two reasons. First, judicial weaknesses in narco-states allowed powerful individuals to bribe their way into lenient sentences or release (Friesendorf 2007, 84-85). Second, the localization of offenders into domestic prisons allowed for continued coordination by militias and trafficking groups, perpetuating distribution and cycles of violence (ibid).

Interdiction, or the delay, disruption, or destruction of enemy supplies en route to the United States, was another Reagan administration tactic once the eradication of raw materials proved costly and ineffective. The administration concentrated on breaking the trafficking link, instead of the production one, by catching drug smuggling operations at American borders and through discovered narco-routes (Murphy 1990, 1264). Towards the end of the Reagan administration, interdiction made up 21% of the federal drug budget (Friesendorf 2007, 13).

The United States used two methodologies to fulfill their goal of limiting cocaine use. First were positive eradication measures oriented around developing alternatives to raw materials. Some examples of positive measures were crop substitutions, alternative development, and harm reduction for those entrenched in the drug market. Second were coercive measures, defined as the forceful demolition of the narcotic industry. This consisted of eradicating supplies, expanding law enforcement, increasing arrests, and forfeiting suspected perpetrators’ assets. Finally, eradication involved the destruction of the raw materials used to refine drugs and the dismantling of criminal organizations and networks.

The United States in Peru
Peru’s status in 1980 as the world’s largest producer of coca leaf (Palmer 1994, 67) made it a prime target in the War on Drugs. Much of Peru’s coca production was concentrated in the Valle de los Ríos Apurímac, Ene y Mantaro (VRAEM), a geographic region comprising the valleys formed by the Apurimac, Ene, and Mantaro rivers. The VRAEM was ideal for growing coca due to its fertile soil and comparative isolation. Within this region, perhaps the most important area was the Upper Huallaga Valley (UHV), wherein the vast majority of coca was exported and grown. The UHV is an extremely poor, primarily Indigenous, agrarian region (Peru Reports 2021). However, the economic opportunities presented by the cocaine trade caused migrations into the valley, with Tingo Maria, the region’s most populous city, experiencing huge population growth during the 1980s. Thus, due to its geographic conduciveness to coca growth, the UHV bore the brunt of American drug enforcement in Peru (ibid).

The positive enforcement methods used by the United States in this region were conceived with the understanding that coca sales were a significant portion of the region’s GDP. This
led to the formation of ENACO, or the National Coca Enterprise—a legitimate company tasked with buying and selling coca from farmers. Failure to sell coca leaves to ENACO resulted in the corporation designating these crops as illicit. Farms growing these crops were seized and destroyed if larger than 24 acres, and the farmers faced legal repercussions (Friesendorf 2007, 79). Once this designation occurred, farmers were given a two-day grace period to evacuate or risk ENACO burning their harvest (ibid). In addition to ENACO, the United States encouraged Peruvian farmers to replace coca plants with cocoa and coffee crops, providing subsidies to farmers willing to transition towards alternative products (Carpenter 2003, 107). In terms of coercive actions taken, the United States justified direct military action in Peru to the international community by claiming they were experiencing a homeland invasion by Peruvian drugs. This retaliation included military ventures like Operation Snowcap, wherein bomber jets flew over Andean coca farms razing coca crops (Friesendorf 2007, 82), and Operation Verde Mar, wherein the American army, alongside the Peruvian army, set fire to plantations in Tingo Maria (Morales 1990, 101). The United States also incentivized the Peruvian government to adopt coercive measures of its own through conditional funding for drug enforcement agencies and the police force. The most prominent of these agencies was the Control and Eradication of Coca in Upper Huallaga (CORAH). CORAH was the primary arm of eradication in the VRAEM, burning or using pesticides to destroy coca plantations not registered with ENACO.

**Underestimated Bureaucratic Inefficiency**

Conceptually, ENACO and CORAH were both solutions that sought to mitigate the trade of coca for cocaine production without fully eradicating its economic significance to farmers in the region and may have run smoother in a more bureaucratically efficient nation. However, the United States failed to acknowledge how Peru’s government, centralized around the capital Lima, might experience bureaucratic difficulties when enforcing policy in hard-to-reach rural areas (Grisaffi 2020). This slowed the transfer of information, causing rampant disorganization and miscommunication. Some notable instances of this structural weakness included failure to compensate farmers for sales or log ENACO registration. This latter bureaucratic error proved especially problematic for legitimate coca farmers, as CORAH would destroy coca farms already registered with ENACO (Streatfeild 2003, 417). This led to an extremely negative public image for ENACO among the farming population, who failed to see the benefits of registration when it would not protect their crops from destruction nor result in a timely payout.

ENACO also contained some inherent design flaws, which promoted mistrust between its executives and farmers. First, there was a significant lack of communication between the corporation and its farmers, leading to unrealistic expectations for growth and production due to a lack of industry consultation (ibid). Second, the government rarely fulfilled its promises, such as larger payments or improved conditions for farmers, causing farmers to distrust ENACO’s capability to fulfill their economic
needs (ibid). Third, an 18% sales tax on crops sold to ENACO cut heavily into profits on harvests (Grisaffi 2020), especially as ENACO struggled to sell coca leaves once harvests were purchased, causing it to be known as a “money-losing enterprise” (ibid). Thus, on top of CORAH’s perceived ‘random’ destruction of coca crops, registration with ENACO seemed like a futile and expensive venture. This can be seen through the state of illicit coca in 1992, wherein of the 247,000 hectares of coca plantation believed to be in Peru, only 18,000 were registered with ENACO, meaning between 2-11% of Peruvian GDP was tied up in illicit coca leaf sales (Pedroni and Yepes, 2011, 24-52).

Further Economic Misunderstandings

ENACO’s, and by extension the United States, failure to fully account for the economic importance of coca went beyond just organizational inefficiencies. First, coca harvests were the sole source of income for 300,000 farmers in the UHV (Palmer 1994, 67), meaning that any failures in policy implementation had severe and far-reaching consequences for the region. Efforts to encourage alternative development failed to account for what made the crop so prominent in the first place. Coca yielded four harvests a year, which could be sold at four to thirty-four times as high a price as alternative crops such as cacao and corn (ibid). Subsidies offered by the Peruvian government and funded by the United States failed to account for the farmers’ loss in revenue. These allowances focussed almost exclusively on the costs associated with making the transition, with a supplementary allowance designed to make the sales more “attractive,” which failed to create competitive pricing with unregulated sales. Additionally, the financing provided by the Peruvian government contained high interest rates to compensate for the nation’s poor overall economic performance (Morales 1990, 95). The allowance provided was insufficient to cover their debts, which, combined with the sharp decrease in profitability for plantations growing substitute products, left farmers unable to pay back these loans (ibid). This problem was worse for land in close proximity or targeted by CORAH raids, as the herbicide Spike, which was used to destroy illicit plantations, caused infertility in previously arable land (Palmer 1994, 67). As such, beyond the failings of ENACO itself, Peru’s alternative development program also caused many farmers to continue growing illicit coca to avoid dealing with the added economic hardships of product substitution.

Strengthening the Shining Path

Perhaps the most damaging consequence of the United States’ failure to implement effective anti-narcotic legislation in the UHV was the inadvertent strengthening of the Senderos Luminoso (Shining Path), whose violent tactics were hugely detrimental to rural communities. The organization was founded in 1970 by Abimael Guzman and presented itself as a Maoist-communist political body. The Shining Path was also a cult of personality oriented around four key principles. First was an emphasis on the primacy of class struggle, which was especially attractive to low-class farmers (Starn
The Shining Path’s political goal was to sever the already frayed relations between the nation’s capital and periphery, utilizing selective yet effective and brutal force to instill fear in the general Peruvian population. The Shining Path killed over 3000 individuals a year during the mid to late 1980s (ibid). Despite its roots in crime, the Shining Path’s goals were ostensibly political. The group attempted to legitimize a “new democracy” through candidates in the Peruvian election, whom they funded using cocaine trafficking in a bid to gain greater legitimacy as part of Peru’s overarching political processes (75). The patronage of the Shining Path resulted in their entrenchment in all sectors of Peruvian society. Thus, by the United States creating an environment conducive to the Shining Path’s rise in influence through the perceived othering of Andean farmers by CORAH, American drug enforcement policy had immediate and dangerous ramifications for Peruvian society.

Military v. Police Force

The emergence of the Shining Path created an additional obstacle in America’s War on Drugs by introducing rivalries between different branches of Peru’s defence force. The Peruvian government, lacking the funds to crack down on insurgencies and drug trafficking simultaneously, allocated the handling of each issue to the Minister of the Interior and Minister of Defence. The Minister of the Interior was responsible for the police force, while the Minister of Defence controlled the military.
These responsibilities remained separate, as the Minister of the Interior was believed to handle the UHV’s unique ‘autochthonal independence’ better than a combined effort (Palmer 1994, 70). The army, meanwhile, was tasked with shutting down insurgencies and guerrilla acts of violence by the Shining Path. As the conditional aid, on which Peru’s faltering economy relied, was dedicated to the comprehensive eradication of the illicit coca industry, a majority of the state’s funding, as well as remittances from the US, went towards police organizations, causing tensions between the two bodies (70-71). These rivalries were brought to a head in 1989 when the Shining Path launched a large-scale attack against the Uchiza police force while the army sat idly by despite the commander’s direct cries for help (71). The imbalance of funding also caused the army to seek out alternative revenue streams, leading them to provide protection and weapons to drug traffickers in exchange for money (ibid). Thus, failing to finance the military caused America’s law enforcement efforts to reinforce the drug trade.

The Bush-Bennet Plan

By the end of the 1980s, it was evident that the centralized supply-side approach adopted by the United States in Peru had failed, as seen by the continued expansion of coca fields, the emergence of alternative distribution networks, and a societal destabilization associated with a weakened government and economic downturn. George Bush Sr realized that changes needed to be made to America’s supply-side approach, and as such, in 1990, the National Drug Control Strategy, or Bush-Bennet Plan, was brought to Congress (Del Olmo 1993, 12). It adopted lessons from Reagan’s hard-nosed approach to create a strategy incorporating more of Peru’s needs. Some crucial differences in this plan included limited but unconditional economic assistance to cocaine-producing countries, greater emphasis on interdiction, less destruction of farming activities, and greater levels of participation by Andean armed forces in anti-drug operations (ibid). This latter point was especially crucial in eradicating the Shining Path, as patronage of the Rondas Campesinas, a protestant vigilante force composed of farmers sick of the Shining Path’s harassment, helped Peruvian forces capture Guzman (Peru Reports 2021). This, in turn, caused the insurgents to fracture and the Shining Path’s influence to wane dramatically. Increased patronage also helped the Peruvian economy restabilize itself, as failures to deal with insurgency and illicit coca sales had decreased the GNP by 30% across the prior decade (Del Olmo 1993, 66). As such, by properly accounting for the economic consequences of a reduced coca trade through an improved allowance and the empowerment of Indigenous people in the UHV, the US was able to rectify many of its prior mistakes.

Consequences Today

Three decades later, it is necessary to analyze the consequences and efficacy of America’s policing in the Andes during the 1980s. The first and most telling ramification of these policies has been their total non-effect on Peruvian coca growth. In 2020, it was estimated that illicit Peruvian coca farms could produce 810 metric tonnes of pure cocaine, whilst un-
registered coca farms made up 88.2 thousand hectares of land (The White House, 2021). The University of Reading notes that Peru is the only Andean nation to see the amount of farmland dedicated to the growth of coca increase. This is despite CORAH’s continued eradication efforts, seizing 63 tonnes of coca and destroying 25.5 hectares of farmland in 2019, demonstrating the ineffectiveness of the institutions put in place by America to mitigate its growth (Grisaffi 2020).

It is also necessary to analyze the quality of human life in areas targeted by these policies. Due to a concentration of economic opportunity in Lima, new economic development and migration have slowed to rural regions. The Human Development Index (HDI) notes a drastic contrast between parts of Peru that grew coca and non-coca-producing regions. Of the 120 districts that farm coca, 68% scored an HDI decile of 5 or below (UNODC, 9). Crucially, the disparity between coca-producing and non-coca-producing regions increased over time, with a disparity of 0.0466 points below the regional average in 2003 and 0.0984 points below average in 2012 (ibid). As such, latent trauma and stunted development have increased inequality in Peru.

Finally, the precedent set by the Peruvian government in combating the Shining Path has led to the increased use of Emergency Zones (EZ). These are areas wherein narco-terrorists presence justifies unchecked power and military force. The constitutional basis for these zones, which can be used to subvert the democratic process in Peru, is grounded in the US’ desire to take down and extradite drug barons and traffickers in the most expedited fashion possible (Grisaffi 2020). As such, the institutional frameworks put in place by the US have opened ways for the Peruvian government to circumvent checks and balances and increase their use of force. Thus, in conclusion, by failing to fully ascertain the ramifications of mitigating the coca trade, the United States’ drug control policies in Andean Peru during the 1980s failed and continue to have negative consequences today.

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