

~~SECRET~~

icy Bralbe
F 25
S

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

29 July 1965

SPECIAL MEMORANDUM NO. 19-65

SUBJECT: Prospects in Peru

SUMMARY

After two auspicious years in office, the Belaúnde center-left government is encountering a range of serious political and economic problems. Belaúnde's ambitious program of reforms is beginning to show some noteworthy results, but it is placing heavy strains on the economy and on the goodwill of the conservatives among his supporters. His agrarian reform program is opposed by the great landholders and menaced by a guerrilla movement supported from abroad. Ultra-nationalist demands for expropriation of US-owned petroleum holdings could disrupt the flow of foreign aid, vital to the financing of Belaúnde's development projects. A less immediate danger, although no less serious, is the mounting increase in the cost of living.

Belaúnde is in no immediate peril of overthrow. We believe, however, that Peru's problems will become more acute in the next few years and that instability will rise. Military rule, the most likely alternative to Belaúnde's continuation in office, would probably strengthen the radical opposition at the expense of reformists.

Declassified by 058375
date 5 August 1977

~~SECRET~~

~~GROUP 1
Excluded from automatic
downgrading and
declassification~~

COPY
Lyndon Baines Johnson Library

The Economic Situation

1. In the years between 1959 and 1964, the Peruvian government maintained a noteworthy record of financial stability. Its monetary unit, the Sol, remained stable and the budget usually balanced. The Gross National Product grew steadily at a rate of close to 6 percent a year, and the country maintained a favorable foreign trade balance. Unlike most other Latin American countries, its foreign exchange earnings have not depended heavily on a single commodity. However, the economic benefits have accrued to only a small minority of Peru's 11 million inhabitants.

2. Belaúnde, who obtained only 39 percent of the popular vote in a close three-way election, began his six-year term in July 1963. To the dismay of his conservative backers, he has attempted to carry out the economic, political and social reforms for all Peruvians that he promised in his presidential campaigns. Local elections, promised for years by a succession of Presidential candidates, were held within a few months after his inauguration. Despite the opposition of landowners, Belaúnde began to implement the agrarian reform program initiated during the military interregnum in 1962. Cooperación Popular, a domestic "Peace Corps" was also inaugurated to promote Belaúnde's literacy and self-help community projects.

~~CONFIDENTIAL~~

3. Predictably, these programs, together with heavy investments in low-rent housing projects, road building, and other public works, have unbalanced the budget and placed an unaccustomed strain on the economy. Revenues have not matched expenditures, and the foreign aid received has not been sufficient to offset the deficit. A sharp increase in the cost of living (11.2 percent in the first five months of 1965) threatens to set off an inflationary spiral that could imperil fiscal stability and discourage foreign investment.

The IPC Problem

4. A potentially serious deterrent to foreign investment and aid arises from the dispute between the Peruvian government and the International Petroleum Corporation (IPC - a subsidiary of Standard Oil of New Jersey). In September 1964 a preliminary agreement was reached between representatives of the government and the IPC, but Belaunde vetoed this settlement and has been unable to come up with any alternative that is acceptable to the IPC.*

* Although the government and the IPC have agreed on a 70-30 profit split and more recently a 65-35 split, the IPC wants it to come after all taxes are deducted. Claims for alleged unpaid back taxes are also involved. In the event of nationalization, Peruvian insistence on deducting the amount of those "back taxes" would complicate a settlement.

5. Belaúnde is aware that unless he arranges a mutually acceptable solution, future foreign investment and aid will be affected. (He suspects a connection between the IPC matter and the limited amount of US aid his administration has received.) He has expressed hope of reaching a solution on numerous occasions, but the political problem is made difficult by the fervent economic nationalism prevalent in pro-Belaúnde as well as in some opposition groups. His opponents are determined to exploit this issue regardless of how he handles it.

Insurgency and Unrest

6. The Peruvian Communist movement, while fairly vocal, is small and badly split on tactics and strategy. The pro-Soviet wing, used to temporary collaboration with anti-APRA* conservatives, has officially eschewed violence, preferring political action. The pro-Chinese faction, while scornful of Soviet "opportunism," does

* APRA (Alianza Popular Revolucionaria Americana) is a center-left party founded in 1924 by its present leader Victor Raúl Haya de la Torre.

~~SECRET~~

not feel that the time is right for violent action. Other smaller sects, such as the Trotskyites, have also been wary of advocating immediate violence. On the other hand, the pro-Castro Movement of the Revolutionary Left (MIR) is actively preparing to launch a widespread and sustained campaign of guerrilla warfare against the Belaunde regime.

7. Peasant unrest, violence, and land seizures have long been endemic in the highlands, where many landlords and their overseers are determined to keep the Indian population in a state of peonage. The MIR is only the most recent organization to seek to exploit these grievances. Originating as a dissident APRA group, APRA Rebelde, the MIR has enjoyed the blessing and a certain amount of financial backing from Peking and Havana. Some of its members have received guerrilla warfare training in China and Cuba. The recent ambush of a Civil Guard patrol by some MIRistas created a sensation in Peru, but the MIR is not yet ready to launch a sustained guerrilla campaign. It certainly intends to do so as soon as it has completed the preparation of secure base areas. The MIR contemplates a protracted struggle, not a quick overthrow of the regime.

- 5 -

~~SECRET~~

COPY
Lyndon Baines Johnson Library

~~SECRET~~

8. In order to deal with this threat, a task complicated by the inaccessibility of potential guerrilla strongholds, the government has declared a state of siege and has instructed the army to assist the poorly equipped Civil Guard in suppressing the guerrilla movement. While guerrilla activities do not constitute an immediate threat to the Belaunde government, protracted guerrilla warfare in the highlands would tend to disrupt the government's constructive efforts to improve the lot of the peasants, divert and exhaust its resources, and alienate the population. It might also subject to strain the present good relationship between the government and the military. These results are the MIR's intermediate objectives.

9. The sprawling slums of Lima are also a fertile breeding ground for violence and subversion. The continuous influx of Indians from the highlands has swollen the slum population to close to 500,000. Thus far, extremist elements have not had much success in exploiting the situation in the "barridas"; the security police have been able to bring sporadic, unorganized riots under control. Given leadership and organization or a provocative enough incident, however, the potential does exist for systematic disorder in the key metropolitan area. Despite its efforts to alleviate the

- 6 -

~~SECRET~~

COPY
Lyndon Baines Johnson Library

situation, the Belaúnde administration is handicapped by its limited resources for carrying out a very large-scale program quickly.

10. Along with its apprehension over insurgency, the Peruvian government is now becoming more concerned over pro-Communist indoctrination of university students and control of student organizations. While the pro-Communists have well-organized groups in most of the universities, their success in winning student elections can be attributed, in large part, to the intense Acción Popular*(AP)-APRA rivalry. In some cases, as in the most recent San Marcos election, the AP student party withdrew its slate and swung its support to the pro-Communists rather than see an Aprista victory. Belaúnde is now attempting to tighten his control over AP student groups and is investigating effective means of "depoliticizing" the universities. Sudden efforts to subject the AP student groups to a rigid party discipline and to restrict student political activities are likely to be resisted as infringing upon the traditional liberties of the universities.

* Acción Popular was first organized after the June 1956 presidential campaign to consolidate the diverse elements that supported Belaúnde's candidacy in that election. It still retains congeries of anti-Apristas, Belaundistas, extreme leftists and opportunists. Recently Belaúnde was forced to expel his number two man for attacking the administration.

~~SECRET~~

Political Disarray

11. Belaúnde's efforts to resolve this broad range of problems have been hampered by his lack of a congressional majority and by factionalism within his own heterogenous political following. While he remains the predominant leader of Acción Popular, he has not been able to establish a disciplined party organization. The party still depends heavily on his personal leadership, which at times has been indecisive. In addition to his allies, the Christian Democrats (PDC), are now showing signs of striking out on their own. Elated by PDC victories in Chile, they are moving further left and advocating more radical programs in order to attract support for their candidates in future elections.

12. The APRA-Odrista* opposition coalition controls Congress and has been able to delay and alter legislation about as it wished. The Apristas have finally enacted legislation in

* The National Odrista Union (UNO) was formed to support the former dictator-president (1948-1956) General Manuel A. Odría in the 1962 election. The only bond between it and APRA is a mutual interest in containing Belaúnde and the AP.

- 8 -

~~SECRET~~

COPY
Lyndon Baines Johnson Library

wished.* The Apristas have finally enacted legislation in response to Belaunde's major proposals, mainly to avoid a paralyzing dead-lock that could precipitate a military takeover, but they do not want him to succeed so well that he can insure the choice and election of his successor in 1969. The Odristas have been far less responsible in their opposition, calling for extreme measures, including a military takeover. Both the Apristas and the Odristas have taken advantage of Peru's semi-parliamentary system to interpellate and to censure Belaunde's cabinet ministers. Since February 1965, these tactics have been responsible for the political demise of three ministers for reasons that had more to do with partisan politics than the actual issues involved.

The Outlook

13. The military formerly was closely allied with the oligarchy in defense of the traditional system in Peru. In

* The present political composition of the Peruvian Congress is as follows:

	<u>Senate</u>		<u>Chamber of Deputies</u>
AP-PDC	20	AP-PDC	52
APRA	19	APRA	57
UNO	6	UNO	25

~~SECRET~~

the last few years, however, the broadening social base and increasing professionalism of the officer class has fostered within the military a strong desire to promote the modernization of Peru. So far, the military has been the bulwark of Belaúnde's administration and has cooperated enthusiastically in the reform program. The military remains bitterly anti-APRA; the Cristas and other anti-Belaúnde groups have little present military support. However, military support for Belaúnde is not unconditional. If, over the next year or two, Belaúnde should fail to make substantial progress toward solving the country's problems and the threat of social disorder should in consequence become acute, the military would be impelled to take over, as it has in the past. In that case, the advocates of the idea that an indefinite period of military rule is required to bring about the modernization of Peru would be considerably strengthened. Indeed, we cannot identify any civilian political leader as sincerely committed to reform as Belaúnde has been who could, in these circumstances, command both popular and military support.

14. If the Belaúnde government is eventually undermined and a military junta takes power, the extreme left would probably attract many of the reformist elements that had originally rallied

- 10 -

~~SECRET~~

COPY
Lyndon Baines Johnson Library

~~SECRET~~

behind Belaunde. The pro-Castro extremists would probably move to broaden further their guerrilla operations in the expectation of winning active support from such anti-military groups as the younger Apristas in a "Popular Front" type of operation. The fall of Belaunde would also have an impact outside Peru, tending to weaken the hemisphere's forces of the democratic left while encouraging extremists of both ends of the political spectrum. Strong new doubts would be raised throughout Latin America whether necessary economic and social reforms can be achieved by non-revolutionary means under a democratically-elected government.

FOR THE BOARD OF NATIONAL ESTIMATES

SHERMAN KENT
Chairman

- 11 -

~~SECRET~~

COPY
Lyndon Baines Johnson Library