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# Peru: Prospects for Increased Soviet Bloc Influence

Special National Intelligence Estimate

~~Secret~~

SNIE 97-85  
November 1985  
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SNIE 97-85

PERU: PROSPECTS FOR  
INCREASED SOVIET  
BLOC INFLUENCE

Information available as of 31 October 1985 was used  
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National Foreign Intelligence Board on that date.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

*The following intelligence organizations participated in the preparation the Estimate:*

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organization of the Department of State.

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## SCOPE NOTE

There are a variety of indications that the Soviet Union believes that its political, economic, and military relations with Peru can be significantly improved under the new administration of social democrat President Alan Garcia. The Soviets have been generous in rescheduling much of Peru's nearly \$2 billion debt on concessionary terms, and they have offered to improve military ties as well. For his part, Garcia reportedly has requested increased economic and military aid from the Soviets, and he also looks to improved relations with Cuba, Nicaragua, and North Korea.

On the other hand, there are limits to just how much increased influence Garcia is willing to allow the Soviet Bloc in Peru. A dispute over leadership on the Latin debt issue has at least temporarily strained relations between Garcia and Cuba's President Castro. Garcia also wants to reduce Peruvian arms expenditures, and he shows signs of a desire to reduce the Soviet military advisory presence in Peru.

This Estimate assesses the prospects for increased Soviet Bloc political, economic, and military links to Peru over the next five years, as well as whether these ties will result in enhanced Soviet Bloc influence both there and in the region. It also addresses the implications for the United States of potential Soviet inroads in Peru.

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## KEY JUDGMENTS

The victory of Alan Garcia and the American Popular Revolutionary Alliance (APRA) in Peru's April 1985 national elections brought to power a government significantly less sympathetic to the United States and more inclined to pursue a nonaligned foreign policy than its predecessor. We believe that, as a consequence, Garcia will present frequent challenges to US policy interests in the region, and that the Soviets will be able to expand their already extensive ties to Peru.

We anticipate an increase in Peruvian-Soviet trade as well as a growth in Soviet technical assistance and some increase in development loans, although we do not foresee a massive commitment of economic assistance to the Garcia government. Moscow is also likely to provide increased military assistance, despite a possible short-term reduction of the Soviet advisory presence in Peru. At a minimum this aid will include expanded training and a moderate acceleration in sales of military equipment to the Peruvian Army and Air Force, and it could be greater if Garcia is unable to conclude an arms limitation agreement with Peru's neighbors. Beyond this, there will be some possibility of Soviet equipment acquisitions by the Peruvian Navy.

Despite this intensification of Peruvian-Soviet ties, we expect, especially over the short term, only modest gains for Soviet influence in Lima. Moscow is likely to be in a better position to augment its contacts with Peru's military and with leftist political and labor organizations, and it may have a marginal impact on Garcia's foreign and domestic economic policies. We judge, however, that Garcia's nationalism and commitment to nonalignment, as well as the military's traditional anti-Communism, will be important constraints on Soviet influence. Garcia does not appear to have any sympathy for Soviet policy goals, and has stated his desire to keep Peru on a path "between the two imperia-lisms." Nevertheless, the Soviets already have extensive ties to Peruvian political, labor, and media groups, and we know little about the attitudes of younger military officers who have been exposed to Soviet influence.

Moscow apparently has decided to court Garcia, but will probably work to avoid being seen as trying to significantly improve its influence during his term in office. The USSR has undoubtedly been encouraged by Garcia's postelection overtures. Moscow also will be watching for opportunities, such as a break between Garcia and his Western creditors, to increase its economic leverage in Peru, all the while

calculating that continuing economic and social disintegration will eventually enhance the prospects of its radical allies in Lima. Moscow risks overplaying its hand, however, with overbearing demands in return for increased economic assistance. Moreover, Soviet prospects would be likely to wane if Peru were able to make economic progress without a sharp break with the West. Even without an economic crisis, exposure of any Soviet collusion with leftist insurgents would induce Lima to draw down significantly its ties to Moscow.

US interests in the hemisphere are likely to be adversely affected even in cases where Soviet influence in Peru remains limited. To the extent that the Soviets are able to maintain the image of a responsible and dependable ally, their chances for inroads into other Latin American countries will be enhanced. In these circumstances, Peruvian-US disputes will have potentially more damaging consequences for US interests in the region than they might have had under the previous regime. These disputes are likely to present new opportunities, if not direct gains, for the Soviet position in Lima. For example, Garcia's confrontation with US oil companies in Peru, if not resolved, may give the Soviets the chance, at relatively small cost, to aid Peru with crucial technical assistance and thereby reap substantial good will. The debt issue, trade disputes, and new arms needs might offer the Soviets similar openings.

In no case do we believe Moscow will obtain sufficient leverage, while Garcia is President, to utilize Peru as a base for its own military use or for the active subversion of US regional security interests. We do not believe it likely that any developments in the economy or domestic security situation will be sufficiently adverse to push Garcia beyond these limits. It is unlikely that the insurgency will become a serious threat to the Garcia government during the period of this Estimate, although a considerable effort will be required to keep it contained.

Nevertheless, if the Garcia government is unable to solve Peru's serious economic and social problems, the stage could be set for a victory in the 1990 national elections by an overtly pro-Soviet leftist coalition. Although we believe it unlikely, the armed forces might possibly acquiesce in the assumption of power by Peru's first Marxist regime if its traditional anti-Communism were sufficiently undermined.

## DISCUSSION

1. The victory of the American Popular Revolutionary Alliance (APRA) in Peru's April 1985 national elections and the subsequent assumption of the presidency in July by Alan Garcia (see figure 1) brought to power a regime significantly less sympathetic to the United States and more inclined to pursue a non-aligned foreign policy than its predecessor. Moreover, Garcia's decision to take a highly nationalistic, confrontational approach to resolving Peru's severe external debt problem has complicated relations with the West, and with the United States in particular. Under these circumstances, we judge that the Soviet Union—which has had significant political, economic, and military ties to Peru since the early 1970s—and its allies will be well placed to expand their relations with Peru. We anticipate, however, that a number of factors, especially Garcia's strong nationalism, will work over the next year or two to sharply limit any leverage over Peru the Soviet Bloc might gain as a result of increased economic and military aid. Nevertheless, there is some danger that Soviet influence within the Peruvian political system and armed forces could grow over the longer term, perhaps even to the point of facilitating the election of an overtly pro-Soviet government in 1990.

### Garcia's Foreign Policy Objectives

2. Garcia's foreign policy approach will be motivated primarily by the traditional nationalism, Latin American integrationism, and "anti-imperialism" of the APRA party. He is also likely to support the principle of nonintervention as well as oppose US and other Western economic domination of Latin America. This, combined with Garcia's desire to be an important regional figure and to play a central role in Third World politics, will almost certainly result in a far more activist and nonaligned foreign policy than that of the previous government.

3. We have already seen a number of examples:

- Peru has sought, so far without much success, a leadership position in the Nonaligned Movement (NAM).
- Garcia has called for a summit meeting of Latin American heads of state, is seeking to revitalize the Andean Pact, and has proposed arms reduction for the region.

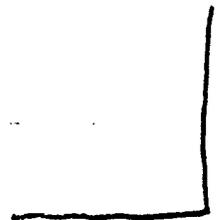
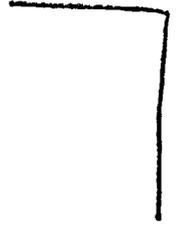
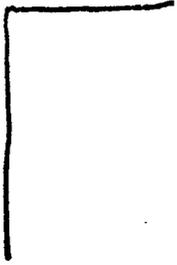
— Garcia has sought a more direct involvement in resolving Central American issues through the recent formation of the Contadora Support Group, which was initiated in Lima by Peru, Argentina, Uruguay, and Brazil.

4. Perhaps the most dramatic manifestation of Garcia's activist, Third World-oriented approach to foreign policy is his stance on the debt issue. By circumventing the International Monetary Fund (IMF) and sharply limiting Peru's repayment of debt through the coming year to 10 percent of projected exports, he is using the issue to attack the IMF and the private banks as agents of US economic domination of Peru, thereby reinforcing his Third World credentials. Further, by proposing his approach as a regional strategy and calling for a meeting of Latin American Presidents to discuss the debt problem, he is seeking to become the principal Latin American spokesman.

5. Garcia almost certainly judges that the implementation of a nonaligned foreign policy requires that he distance Peru from what he regards as the previous administration's pro-US stance. This has been most immediately reflected in his rhetoric. On a number of occasions he has, by implication, attacked the United States as an "imperialist" power. A movement away from US positions is also evident in policy issues. Thus, Foreign Minister Wagner delineated Peru's opposition to what he called the US "commercial blockade" of Nicaragua and its "so-called humanitarian assistance" to the Contras. We expect, further, that Peruvian support for the United States in the United Nations and the Organization of American States will decline from even the modest level of the previous government.

6. At the same time, Garcia is likely to seek closer ties to the Soviet Bloc as a means of achieving "balance" in Peru's foreign policy. Before taking office, Garcia reportedly met with Soviet Ambassador Filatov and expressed his desire for improved Soviet-Peruvian relations and increased Soviet assistance. Garcia apparently received a definitive answer in July, just after his inauguration. Bayken Ashimov, Deputy Chairman of the Supreme Soviet and head of the Soviet delegation to the inauguration, reportedly of-

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ferred Garcia a broad range of support, to include increased military aid and financial/technical assistance.

7. Nevertheless, we believe that Garcia is committed to a truly nonaligned policy, and there are limits to the degree he intends to shift Peruvian policy away from the United States and toward cooperation with the Soviet Bloc. He does not appear to be motivated by any particular sympathy for the Soviet Union or Soviet policy goals. He has in fact stated his desire—which we believe to be genuine—to keep Peru on a path “between the two imperialisms.” He has also taken pains to point out that he is not a Marxist and that APRA is a bulwark against Communism. We expect that Garcia’s tendency to define foreign policy issues in North-South rather than East-West terms will limit his inclinations to draw closer to the Soviets. He will occasionally take a pro-US position in order to prevent a sharp deterioration in his relations with Washington. However, to the extent that Peruvian-US relations worsen, there will be new opportunities for Moscow to expand its influence.

#### Relations With the Soviet Bloc

8. The most visible aspect of the Soviet-Peruvian relationship is the extensive Soviet military sales and technical assistance program (see table 1). The Soviets

have accounted for about half of all Peruvian military purchases since 1973, with agreements totaling more than \$1.5 billion. All of the weaponry has gone to the Army and Air Force (see figure 2). So far, the Navy has staunchly refused to accept Soviet hardware and advisers. The military has also made some attempts to reduce its dependence on the Soviets—the decision, for example, to buy Mirage 2000 fighter-bombers from France. Furthermore, Peruvian Air Force and Army officers have periodically voiced complaints about maintenance and performance problems associated with Soviet equipment. Nevertheless, severe budget restrictions, the relatively low cost of Soviet arms, the lack of alternative sources for spare parts, and highly favorable financing terms will continue to make Soviet weaponry attractive to the Peruvian military.

9. We estimate that the Soviet military advisory and training presence numbers about 115. There is some evidence that the Peruvians want to cut back the number of Soviet advisers for economic reasons, and some reduction may already have occurred. Nevertheless, we judge that any decrease will still leave the Soviet presence at relatively high levels. (See figure 3.) The Soviets have also provided extensive training to Peru’s armed forces. We estimate that about 2,000 Peruvian military and intelligence personnel have received training in the Soviet Union since the early 1970s. Moscow is reportedly considering a Peruvian request for increased training in the Soviet Union to make possible a reduction of Soviet advisers in Peru. Thus, any reduction in the Soviet training presence is likely to be offset by increased training of Peruvian military personnel in the USSR.

10. We judge that the Soviet assistance program so far has not provided Moscow with any demonstrable influence over decisionmaking in the Peruvian armed forces. The Soviets in Peru have taken a low profile and have been careful to avoid antagonizing the nationalistic sensitivities of the military. Fraternization with Peruvians is limited, and political discussions and propaganda are strictly prohibited. Although our evidence is scanty, we have noted no tendency for Soviet-trained personnel to espouse pro-Soviet ideas—some, indeed, have been soured on the Soviet Union by their experiences there.

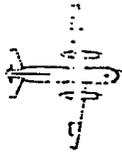
11. Despite this, there will be a continuing danger that, over the long term, exposure to Soviet hardware, training, and doctrine could undermine the anti-Communist orientation of the military. While reporting indicates the Peruvian military hierarchy remains relatively conservative and anti-Communist in out-

**Table 1**  
**Soviet Military Agreements With, Deliveries To, and Advisers/Technicians In Peru, 1973-30 June 1985**

| Year                 | Agreements<br>(million US \$)      | Deliveries<br>(million US \$)      | Advisers/<br>Technicians<br>in Peru (est.) |
|----------------------|------------------------------------|------------------------------------|--|
| Total                | 1,646                              | 1,377                              | Not applicable                             |
| 1973                 | [Large bracket spanning 1973-1984] | [Large bracket spanning 1973-1984] | 15   |
| 1974                 |                                    |                                    | 20   |
| 1975                 |                                    |                                    | 35   |
| 1976                 |                                    |                                    | 30   |
| 1977                 |                                    |                                    | 100  |
| 1978                 |                                    |                                    | 100  |
| 1979                 |                                    |                                    | 110  |
| 1980                 |                                    |                                    | 150  |
| 1981                 |                                    |                                    | 100  |
| 1982                 |                                    |                                    | 125  |
| 1983                 |                                    |                                    | 150  |
| 1984                 |                                    |                                    | 115  |
| 1985<br>(first half) |                                    |                                    | 115  |

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Figure 2  
Key Soviet Weapon Systems in the Peruvian Armed Forces

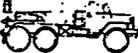
| System  | Description   | Year Acquired by Peru | Number Acquired | Number in Total Peruvian Inventory |
|---|---|-----------------------|-----------------|------------------------------------|
|  SU-22   | Swingwing ground attack fighter. Weapons include guns, bombs, and air-to-surface missiles (ASMs). Widely exported to Third World countries. Introduced into Soviet inventory in 1970. |                       |                 | 93                                 |
|  MI-8    | Transport helicopter. In addition to two-man crew, can carry either 28 troops or 4 tons of cargo. May be armed with up to six rocket pods and two antitank guided missiles (ATGMs).   |                       |                 | 105                                |
|  MI-6   | Transport helicopter. Can carry either 65-70 troops or 12 tons of cargo in addition to five-man crew.   |                       |                 | 105                                |
|  MI-25 | Export version of the Soviet MI-24 attack helicopter. Can carry up to 12 troops. Armament includes Gatling-type machinegun in chin turret, four rocket pods, and four ATGMs.          |                       |                 | 105                                |
|  AN-26 | Twin-engine medium transport. In addition to five-man crew, can carry 38 passengers or 5 tons of cargo.   |                       |                 | 50                                 |

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Figure 2 (continued)

| System  | Description  | Year Acquired by Peru | Number Acquired | Number in Total Peruvian Inventory |
|---|--|-----------------------|-----------------|------------------------------------|
|    | SA-3 Low- to medium-altitude surface-to-air missile (SAM). Normally used for point defense of installations such as airfields. SA-3 SAM sites in Peru usually consist of three four-rail launchers with associated radars. |                       |                 | 11 sites                           |
|    | SA-7 Man-portable, shoulder-launched SAM. This heat-seeking missile is effective against helicopters and slow-flying aircraft at low altitudes.  |                       |                 | 280 <sup>a</sup>                   |
|    | AS-7 The first Soviet fighter-launched ASM designed specifically for a ground attack role.   |                       |                 |                                    |
|    | AS-9 A short-range tactical antiradiation missile.   |                       |                 |                                    |
|  | T-55 Medium tank with 100-mm gun.  |                       |                 | 412                                |
|  | ZSU 23/4 Self-propelled automatic anti-aircraft gun. Tracked vehicle carries a quad 23-mm gun.   |                       |                 | 40 <sup>b</sup>                    |
|  | BM-21 Towed 122-mm multiple rocket launcher, each with 40 tubes.   |                       |                 | 12                                 |

2 meters

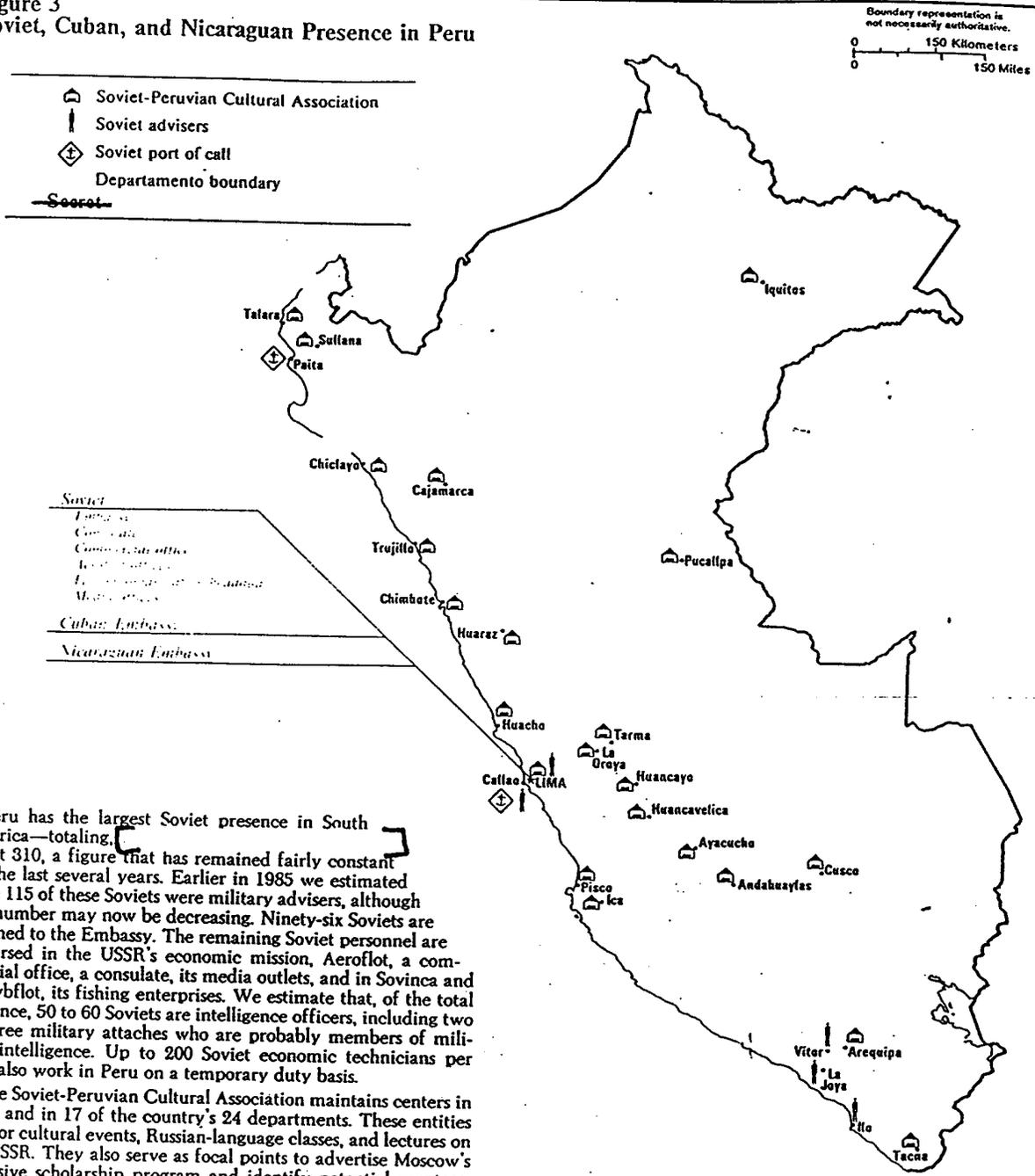
<sup>a</sup> Estimated.

<sup>b</sup> The 40 do not include other, smaller-caliber anti-aircraft guns.

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Figure 3  
Soviet, Cuban, and Nicaraguan Presence in Peru



Peru has the largest Soviet presence in South America—totaling about 310, a figure that has remained fairly constant for the last several years. Earlier in 1985 we estimated some 115 of these Soviets were military advisers, although this number may now be decreasing. Ninety-six Soviets are assigned to the Embassy. The remaining Soviet personnel are dispersed in the USSR's economic mission, Aeroflot, a commercial office, a consulate, its media outlets, and in Sovinca and Sovrybflot, its fishing enterprises. We estimate that, of the total presence, 50 to 60 Soviets are intelligence officers, including two or three military attaches who are probably members of military intelligence. Up to 200 Soviet economic technicians per year also work in Peru on a temporary duty basis.

The Soviet-Peruvian Cultural Association maintains centers in Lima and in 17 of the country's 24 departments. These entities sponsor cultural events, Russian-language classes, and lectures on the USSR. They also serve as focal points to advertise Moscow's extensive scholarship program and identify potential grantees. This year the Soviets have offered 180 scholarships. We estimate that some 750 Peruvian students are currently in the USSR and another 450 in Eastern Europe and Cuba.

All the East European Bloc countries and Cuba have embassies in Lima. However, relations with Havana have been restricted to the charge d'affaires level since 1980. Nevertheless, 63 Cubans are assigned to Havana's diplomatic mission in Lima. Garcia has expressed interest in upgrading relations with Cuba, and this move will offer the Cubans new opportunities to

expand their activities. In so doing they can build on extensive ties the Embassy reports they have to various leftist leaders. Peruvian exports to Cuba have fluctuated in the \$10-20 million range since the mid-1970s.

Nicaragua has a five-person Embassy in Lima headed by an Ambassador. While less prominent than the Cubans, Nicaraguan diplomats have contacts in Peruvian media circles and with key United Left leaders.

look, much less is known about the attitudes of younger officers who have been exposed to Soviet influence. Many junior and middle-grade officers come from modest backgrounds and have had considerably less exposure to the West than their superiors. It is also reasonable to assume that the Soviets have recruited some Peruvian military officers over the last 12 years—some of whom now may be at relatively senior levels—although we lack reliable evidence that this is the case.

12. A potential vehicle for increased Soviet influence is through greater intelligence cooperation. [

] Continuing contacts with either the civilian or military intelligence organizations would assist the Soviets' efforts to further their influence by neutralizing Lima's counterintelligence capabilities and making it easier for them to penetrate the Peruvian military and other organizations.

#### Economic Ties <sup>1</sup>

13. The level of Peruvian trade with the Soviet Union (see table 2) remains low relative to its trade relations with the United States, other Latin American countries, and Western Europe. In 1984, Peruvian exports to the Soviet Union amounted to \$39.3 million, those to the United States reached \$751 million, and those to Latin America totaled \$313 million. In all, trade with the Soviet Bloc in 1984 represented 2.3 percent of Peru's exports and 0.4 percent of imports. Although the absolute level is small, Peruvian-Soviet trade did increase sharply in relative terms in 1984. This was primarily the result of a trade agreement, formalized in 1983 under the Belaunde administration, which called for the repayment of \$125 million of Peru's debt to the Soviet Union in goods over a five-

<sup>1</sup> See also annex on "The Economic Scene."

Table 2  
Peru: Foreign Trade  
With the USSR, 1977-84

Million US \$

|      | Exports | Imports |
|------|---------|---------|
| 1977 | 19.8    | 2.1     |
| 1978 | 21.5    | 9.8     |
| 1979 | 26.7    | 0.3     |
| 1980 | 15.8    | 0.9     |
| 1981 | 11.9    | 2.5     |
| 1982 | 8.2     | 2.7     |
| 1983 | 17.1    | 0.4     |
| 1984 | 39.3    | 1.3     |

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year period. Garcia hopes to make similar arrangements with other Bloc creditors [

] Moscow is also trying to arrange multilateral trade agreements involving Peru, Cuba, Nicaragua, and Mexico. We anticipate further increases in Peruvian trade with the Soviet Bloc over the next few years, and Communist countries are likely to become some of Peru's major trading partners by 1990.

14. As a result of substantial Soviet military assistance to Peru over the last decade, Lima now owes Moscow some \$2 billion—largely for military hardware—in short- and long-term debt. The Soviets have made some tentative moves to respond to Garcia's request for further aid. They have renewed their offer to support the Olmos hydroelectric project, and Garcia expects they will provide additional economic aid. The Soviets might increase assistance tied to specific development projects, perhaps by an additional \$200 million or so.

15. Fishing will remain an important area of Soviet-Peruvian economic cooperation. The Soviets maintain a fishing fleet of approximately 250 boats off the Peruvian coast, and it is extensively serviced from the ports of Callao and Paita. In keeping with normal Soviet practices, some of these fishing boats may also collect intelligence. A 1971 protocol and several related contracts govern their activities. Some Peruvians have questioned the equity of the arrangements, and the previous government temporarily impounded 10 Soviet fishing boats for failing to pay required fees. Several officials in the Garcia government, notably the Minister of the Navy, oppose the fishing accords, and the potential for friction remains. But, for the short-to-middle term, Lima's need for revenue, the lack of its own deep sea fishing fleet, and a desire not to sour

relations with the Soviets will probably dictate that Peru continue to support the arrangement.

#### Relations With Other Countries

16. Before Garcia became President, we had anticipated he would move toward improved relations with Cuba. Since then, however, the debt issue has surfaced as a sharp point of friction between Fidel Castro and Garcia. Castro's attempt to exploit the debt problem by calling for a repudiation of the debt by Latin American nations has run counter to Garcia's desire to play an important leadership role on the issue through his advocacy of a strategy limiting debt repayment to a fixed percentage of exports. Castro and Garcia have traded harsh words on the issue, and competition between Cuba and Peru for influence on Third World matters will almost certainly continue. This may cause a delay in Garcia's plans to upgrade relations with Cuba to the ambassadorial level. Nevertheless, we believe that full relations will eventually be restored, as both countries apparently believe it is in their best interests to do so.

17. Given Garcia's "anti-imperialist" attitudes and his intent to have Peru take a more active part in Central American affairs, he may provide active political support to Nicaragua, particularly through the Contadora Support Group. Garcia will probably continue to oppose what he regards as infringements on Nicaraguan sovereignty by the United States—he probably believes that the Sandinista regime would become more moderate were it not for external threats. Peru may also serve as a funnel for Soviet economic assistance to Managua. [

18. We have had numerous reports that Garcia intends to establish diplomatic relations with North Korea. This appears to be a quid pro quo for North Korean financial support to Garcia before his presidential campaign. We do not expect a substantial growth in contacts between the two countries. Trade, which is minuscule, may increase somewhat, but Peru's commercial ties to South Korea are likely to remain much more important. There are no indications of any impending military cooperation between Peru and North Korea. Nor do we anticipate substantially increased ties to East European Bloc members,

although Moscow may promote some increase in Bloc economic and political relations to bolster its own position in Lima.

#### The Soviet and Cuban Perspectives

##### The Significance of Peru to Soviet Policy

19. We believe Moscow values Peru as its best bet for near-term and long-term political payoff in South America. The Soviets probably perceive the current political and economic environment in Peru as increasingly positive for extending their influence. They are likely to consider that, through the careful conduct of state-to-state relations—and appropriate active measures—during the Garcia administration, they will strengthen their ties to Lima and better position themselves and their allies in Peru to realize the ultimate goal of a pro-Soviet Communist government in Lima. The Soviets are playing a waiting game in Peru, calculating that its economic problems are insoluble in the short run, and that this will ultimately reflect badly on Garcia and discredit APRA with the Peruvian electorate. Moscow reportedly is optimistic that the electoral prospects for a radical leftist coalition will be considerably enhanced by 1990.

##### Soviet Views of Garcia

20. From the early days of the recent presidential campaign, the Soviets reportedly decided that the Soviet-line Peruvian Communist Party (PCP) and the other leftist parties of the United Left (IU) coalition had no chance for victory. The Soviets identified Garcia as the optimum candidate to succeed President Belaunde. We believe that the Soviet Foreign Ministry currently favors working with the Garcia government because of its orientation to nonaligned Third World causes and anti-imperialism. One example of this—Garcia's call for Latin American bloc unity—Moscow has read as an anti-US position and something the Soviets can exploit. Other features of the Garcia presidency have encouraged the Soviets. For example, Moscow believes Garcia's pro-Sandinista sentiments may help to integrate its allies in Managua into the Latin American political and economic mainstream.

21. Moscow perceives that Garcia's ties to the Peruvian military are still tentative and that he may feel forced to accede to their demands for additional equipment. Moscow has reacted positively to Garcia's recent requests in the name of the Peruvian armed forces for military assistance and military intelligence

liaison. But Moscow is playing its hand with some subtlety. [

] We believe that the Soviets reason there is more to be gained—in both the Peruvian and regional contexts—by acting the responsive, businesslike partner.

#### Ties to the Left

22. We believe that the underside of Moscow's formal government liaison with Garcia will be continued, carefully calculated support for rival political groups, such as the PCP, the other leftist members of the IU, and the more leftist elements of APRA. (See table 3.) [

] The Soviets will undoubtedly continue to fund the PCP and to exercise significant authority over its policy decisions. Party membership is only 1,500, and Moscow believes that its near-term political prospects are poor. Because Soviet influence with the IU as a whole is limited, Moscow will attempt to augment its leverage over the other IU member parties.

23. Moscow probably hopes to influence Garcia through pressure from within his own party. It has maintained close contacts with the far left wing of APRA and its leader, Armando Villanueva. [

] Villanueva became an alternating general secretary in the summer of 1985. Although Garcia does not trust Villanueva, he does have some advisers from the left wing of APRA. [

24. We have no indications that Moscow has any ties to Peru's two radical insurgent groups, the Sendero Luminoso (SL) or the Tupac Amaru Revolutionary Movement (MRTA). Nor do we have reliable evidence that Cuba or the Sandinistas have ties to the SL. (See inset.) Lima has charged that some MRTA leaders were trained in Cuba in the 1960s, and we suspect that Havana or Managua may currently have some contact with them.

#### Influence on Labor and the Media

25. The Soviets have close ties to key labor and media groups in Peru. Moscow has promoted the use of TASS and Novosti wire services by Peruvian newspapers, and through middlemen has purchased shares in some of them. [

#### Status of the Insurgency

With regard to prospects for the insurgency, we believe Sendero Luminoso will pose a continuing, if limited, threat because of its deep roots in isolated rural areas where the government has long been neglectful. The spread of the insurgency to new areas and Sendero Luminoso's resilience against counterinsurgency operations have been causing increased public anxiety and military frustration. Moreover, although the guerrillas have alienated highland peasants through persistent brutality, abuses against peasants by security forces have prevented the government from gaining much support in these rural areas. Garcia's recent efforts to curb abuses and implement new economic and social programs in rural areas are likely to strengthen the government's support eventually, but the process will take considerable time.

Sendero Luminoso is unlikely to evolve into a national organization. Its rigid adherence to Maoist ideology severely limits its appeal even to the left in Peru and creates a major barrier to receiving support from Cuba or other potential foreign backers of a radical leftist insurgent movement. It is doubtful that it will come to terms with Garcia's government, even if offered a full amnesty.

With regard to the MRTA, we believe it does not present a serious insurgency threat at this stage. It has implemented a unilateral truce with the government and adopted a wait-and-see attitude. However, it has not ruled out operations against foreign targets in Peru, and in the past has particularly targeted US interests.

] Only one-third of Peru's workers are unionized, but Moscow has access to some key labor groups, such as the Marxist-dominated teachers union, SUTEP, and the largest trade confederation, the General Confederation of Peruvian Workers (CGTP), through the PCP. The CGTP receives financial support from Moscow, and in turn is expected to be responsive to many Soviet policies. We believe Moscow may now be curbing activities that might compromise its image as a responsible bilateral partner with Garcia. For example, the CGTP may postpone its annual congress until 1986 because Moscow has renege on its promise to fund the event.

#### Broader Regional Goals

26. Available evidence indicates that Moscow wants to establish an image of responsible state-to-state relations with Peru that will influence other South Ameri-

**Table 3**  
**Peruvian Political Environment**

|   | Size   | Philosophy  | Leaders and Factions  | Foreign Ties  |
|---|--|---|---|---|
| <b>Political Parties</b>                                  |  |   |   |   |
| American Popular Revolutionary Alliance (APRA)            | Largest party, with 46 percent of vote in 1985; holds majority in both houses of the legislature | Center-left, social democratic, highly nationalistic  | Alan Garcia, President of Peru and party head; Armando Villanueva, left wing; Luis Alberto Sanchez, conservative wing   | Nonaligned, member of Socialist International   |
| United Left coalition (IU) (includes Communist Party—PCP) | Strongest opposition party, with 21 percent of vote in 1985                                      | Primarily Marxist-Leninist  | Alfonso Barrantes, presidential candidate; Javier Diez Canseco, radical militant; Enrique Bernales, moderate socialist  | Some member parties Soviet dominated  |
| Popular Christian Party (PPC)                             | Won 10 percent of vote in 1985   | Center-right, Christian Democratic  | Luis Bedoya, presidential candidate   | Connections with Latin American and European Christian Democratic groups, pro-US  |
| Popular Action (AP)                                       | Won 6 percent of vote in 1985  | Center-right  | Fernando Belaunde, former President of Peru   | Strong ties to United States  |
| <b>Labor Organizations</b>                                |  |   |   |   |
| General Confederation of Peruvian Workers (CGTP)          | 40 percent of organized labor or 350,000 workers   | Controlled by pro-Soviet Peruvian Communist Party   | Valentin Pachó  | Ties to USSR; affiliated with World Federation of Trade Unions (WFTU)   |
| Confederation of Peruvian Workers (CTP)                   | 15 percent of organized labor or 130,000 workers   | Democratic, affiliated with International Confederation of Free Trade Unions (ICFTU); APRA ties     | Julio Cruzado, president  | Supported by American Institute for Free Labor Development (AIFLD) and affiliated with ICFTU and Latin American Regional Organization of Labor (ORIT)   |
| <b>Insurgent Groups</b>                                   |  |   |   |   |
| Sendero Luminoso (SL)                                     | Some 1,000 to 1,500 armed militants  | Radical left, Maoist oriented   | Founded and controlled by Abimael Guzman, a former professor whose goal is to launch a rural-based revolution with Marxist activists leading peasant forces against the central government. | Shuns contact with foreigners and all domestic political organizations  |
| Revolutionary Movement Tupac Amaru (MRTA)                 | Possibly a few hundred members   | Radical left, primarily anti-US orientation   |   | Open to foreign and domestic support; possibly receiving some aid from Communist Party of Peru; no evidence of any direct support from Moscow, although several suspected leaders are former Peruvian guerrillas from the mid-1960s with extensive contacts in Havana and Managua |
| People's Revolutionary Command (CRP)                      |  | Unclear whether this is a new organization, a breakaway faction of MRTA, or a front group for MRTA. |   |   |

~~This table is Secret.~~

can states, notably Argentina, to consider increasing their ties to Moscow. At the same time, we believe the Soviets want to challenge US prerogatives in the area and keep other players, such as China, from making comparable inroads. Moscow reportedly intends to use its recent economic and military assistance offers to encourage Garcia's support of the Sandinistas and opposition to the US position in Central America. Eventually, the Soviets may hope to integrate its two major Latin American allies—Cuba and Nicaragua—more deeply into the political and economic fabric of the area.

#### Cuban Attitudes

27. We believe Havana will promote improved diplomatic relations with the Garcia regime while cultivating its contacts with Peruvian revolutionary movements for the future. Although relations between the two countries may eventually be upgraded, more tangible forms of cooperation will probably be obstructed by personal enmity and rivalry for regional leadership between Garcia and Castro. Havana may, however, hope to influence and move the Garcia administration toward more radical, anti-US positions through its links to the legitimate opposition and other interest groups. Among the parties of the IU, the Cubans probably will continue to maintain contact with the PCP, the Revolutionary Socialist Party, and the Mariateguist Unified Party. Castro has particularly courted IU President—and Mayor of Lima—Alfonso Barrantes, and the Cuban leader maintains a close personal friendship with the Revolutionary Socialist Party president, retired Gen. Leonidas Rodriguez. In addition to these links, reports indicate that Havana may seek to influence Peruvian politics through mass institutions, such as the Catholic Church, which includes some prominent advocates of liberation theology.

28. Castro probably has not abandoned his eventual goal of bringing a Marxist government to power in Peru, either through elections or by promoting armed revolution. [

cooperation with the MRTA attractive, as it is likely to be more inclined to accept Cuban support than will be the SL. However, we have no evidence to indicate that Cuba is pursuing this option, and Moscow probably would actively discourage it.

#### Nicaragua

29. We believe the Sandinistas probably share Cuba's approach to Peru to some extent. Thus, while they may provide some training to Peruvian leftists in Nicaragua, they are likely to be circumspect in their contacts with the far left within Peru. Managua regards Garcia as a potential ally, particularly in the diplomatic arena. The Sandinistas were anxious to involve Garcia in the Contadora process, and probably view Peru's participation in the Contadora Support Group as an important new source of diplomatic aid. We judge that Nicaragua will not want to jeopardize this, or possible economic assistance from Peru, by unnecessarily provoking Garcia. The Sandinistas are likely to continue to cultivate Garcia as a political ally by playing on both his fears of a US intervention in Nicaragua and his belief that he will be able to moderate the regime in Nicaragua. Nevertheless, Managua probably will keep an open line to the Peruvian left and encourage local radicals to lobby the government for pro-Sandinista policies.

#### General Outlook

##### Key Variables

30. We believe the development of Soviet influence in Peru will be shaped primarily by the course of the Peruvian economy and the debt problem, the Peruvian military's desire for new equipment, and the status of Peruvian-US relations. In particular:

- A sharp decline in the economy or a protracted impasse in negotiations with Western banks would increase the potential economic leverage that the Soviet Bloc could wield in Peru.
- The military equipment needs of the armed forces will be a key variable in the relationship. For example, should the insurgent situation not worsen significantly, and should Garcia conclude an arms limitation agreement with Peru's neighbors, the country's military equipment needs would probably be reduced, thus resulting in smaller purchases of Soviet military equipment.
- Setbacks in Peruvian-US relations will constitute opportunities for the Soviets to advance their standing in Lima.

]Havana may also find

An additional factor, crucial in significance, will be Moscow's responsiveness to Garcia's requests for aid and, in particular, its willingness to commit the requisite economic resources to exploit opportunities for increased influence.

#### Most Likely Case

31. We believe that Peru's ties to the Soviet Union will expand during Garcia's term, and Soviet interests in Peru, and in the hemisphere, are likely to be enhanced:

- Soviet military aid to Peru is likely to increase despite a possible regional arms limitation agreement. While the insurgency probably will not worsen significantly, a sustained military effort will be required to contain it. Thus Soviet arms sales probably will include counterinsurgency equipment for the Army and helicopters and transport aircraft for the Air Force (see inset).
- Soviet economic aid to Peru is also likely to increase. While we do not foresee a massive commitment of economic assistance to the Garcia regime, we anticipate new Soviet technical and project aid, along with related advisers particularly for energy and agricultural programs. This would result in an increase in Soviet civilians. Peru's already large debt to the Soviet Union will probably continue to increase despite soft loans and rescheduling agreements.
- The Soviets also are likely to retain considerable ties to the mass media and influence in the major labor confederation, CGTP. Nevertheless, the APRA party will probably challenge Communist control of the CGTP, and Moscow might be forced to curb some of its ties to organized labor or risk a confrontation with the Garcia government.
- A close and supportive Soviet relationship with Peru over the next five years may assist Soviet efforts to improve relations with other Latin American democracies. Political and economic relationships with Brazil and Argentina in particular may well expand, and the Soviets may even succeed in selling military equipment, such as transport aircraft, to some Latin countries.

32. Despite this intensification of Soviet-Peruvian ties, we expect only modest gains in direct Soviet influence. The Soviets will be well placed to augment their contacts with the military, and they may have some limited impact on Garcia's domestic economic and foreign policies. We believe, however, that Garcia's nationalism and commitment to nonalignment, as

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#### Prospects for Soviet Military Sales to the Peruvian Navy

Although the USSR continues to offer attractive arms and equipment packages, the Peruvian Navy remains the only service that does not purchase Soviet military equipment. Soviet offers since the 1970s have included missile patrol boats, amphibious support ships, an ice-breaker, and naval munitions, but the Navy hierarchy has turned them down for a variety of reasons. First among these is an unwillingness to become dependent on Soviet hardware and training, which stems from the Navy's traditional anti-Communist orientation. Navy planners reportedly also believe spare parts are more difficult to obtain for Soviet equipment, and that Western materiel is superior in quality and more compatible with items already in the Navy's inventory.

Nevertheless, several factors point to an increasing possibility that the Peruvian Navy may eventually acquire Soviet equipment on a gradual, piecemeal basis. Peru's desperate economic situation is having its effect on military acquisitions. The Navy is in arrears on interest payments to various European suppliers, and, given President Garcia's stance on the debt issue, these countries are not likely to provide favorable credit terms in the near future. If the USSR were to offer the Navy items it feels it needs to participate in counterinsurgency and narcotics interdiction, such as transport helicopters, river craft, and patrol boats, and the Navy could not afford to buy them from any Western source, its hierarchy would be increasingly tempted to buy Soviet equipment.

Soviet supply of small items such as patrol boats and helicopters would be unlikely to change the high command's basic anti-Communist ideology, or afford the Soviets much influence within the Navy over the near term. It would allow the USSR the opportunity to establish itself as a naval arms supplier, however, and might open the door to further purchases. Over time, this and other factors conceivably may strain US-Peruvian Navy-to-Navy relations and disrupt the yearly UNITAS bilateral naval exercises.

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well as the military's traditional anti-Communism, will be important limits on Soviet influence. We do not believe it likely that any developments in the economy or domestic security situation will be sufficiently adverse to push Garcia beyond these limits in seeking Soviet aid. There will, at the same time, be a number of potential points of friction between Peru and the Soviet Bloc. For example, the fishing question will retain some divisive potential, though we expect both sides to seek to contain any disputes.

### Alternative Scenarios

33. We believe that Moscow has decided to play a waiting game in Peru for the next few years. It will discourage local pro-Soviet factions from challenging the Garcia government. Nevertheless, the variables noted above may alter the Soviet game plan and encourage greater involvement in Peru's internal politics. This could result in significantly increased Soviet inroads in Lima, or it could backfire and lead to a reduction in Soviet influence. Economic variables, particularly the debt question, are most likely to produce a dramatic change in Soviet-Peruvian bilateral relations.

#### Increase in Soviet Involvement

34. A complete break between Peru and its Western creditors would probably cause Garcia to turn to Moscow for compensatory assistance. Certainly Moscow would be tempted to increase its support to Peru in such a situation, anticipating concessions from Garcia and growing influence in Lima, and we believe Moscow would commit greater resources to support Peru. But we do not believe that Garcia has sufficient collateral to induce the Soviets to provide the massive assistance necessary to subsidize the Peruvian economy. Peru would probably seek balance-of-payments support from the USSR.\*

35. Instead we would expect Moscow to increase development assistance to Lima, to increase its purchases of Peruvian commodities, and to encourage the rapid assimilation of Peru into Bloc economic relationships. Moscow would calculate that these measures would stand in sharp contrast to Western "abandonment" of Peru. At the same time, Moscow might deepen its relations with the armed forces by supplying new weapon systems and increasing its advisory presence, all at little or no cost to the Peruvians. Moreover, Moscow would probably reason that the resulting economic disintegration in Peru would hasten disenchantment with APRA and increase the popularity of its leftist allies in Peru.

#### Downturn in Soviet Involvement

36. Prospects for increased Soviet influence will very likely wane if Peru is able to make economic

\* Moscow has provided clients such as Cuba and Vietnam with substantial levels of support—\$4.6 billion and \$1 billion respectively—mainly in the forms of soft currency trade credits and subsidies which help to protect these countries from financial exposure in the West. Such assistance to Peru would require a major reorientation of trade by both countries that neither country probably would be willing to make. The alternative, a direct transfer of the large amounts of hard currency that Peru will require, would be virtually unprecedented in Soviet aid relations with any country. (S)

progress without a sharp break with the West, thus allowing for satisfactory debt rescheduling and continued Western credits. In more prosperous circumstances, Lima might terminate its fishing agreement with the Soviets. Moreover, if the armed forces had more generous funding or reduced requirements for new arms they would probably seek to purchase Western military equipment to gain greater independence from Soviet supply lines and advisers. On the other hand:

— If Garcia were unable to turn the economy around and forge an acceptable debt agreement, Moscow's credibility would be seriously undermined were it to prove unresponsive to Lima's plight and provide only token support. In this case, Soviet influence and presence in Peru would probably decline significantly.

— If the economy drastically deteriorates, Garcia might be removed from the political scene—either through resignation or military coup—and be replaced by a government less sympathetic to the USSR.

37. Other events might force a complete break between Lima and Moscow. Onerous Soviet demands on Garcia in return for massive economic assistance could provoke a severe backlash, possibly leading Garcia to drastically scale back relations with the Soviet Union. Similarly, Moscow's position could be gravely threatened were it to risk increasing its covert support to legal leftist elements in Peru, or to extend such support to insurgent groups. Exposure of Soviet manipulations would severely strain Soviet-Peruvian relations and reinforce anti-Communist attitudes within Peru. Even in a situation where Peru was facing more serious economic difficulties, Soviet collusion with the SL or MRTA could cause Lima to sever its ties to Moscow.

#### Implications for the United States

38. We do not believe the Soviets will obtain sufficient leverage in Lima to push Garcia into taking a uniformly anti-US foreign policy. We expect him to reject such attempts. However, Peruvian disputes with the United States will have potentially more damaging consequences to US interests than they might have had under the previous government. These conflicts will threaten to constitute new opportunities, if not direct gains, for the Soviet position in Lima. Garcia's recent rescission of contracts with US petroleum companies in Peru is a case in point. He has given the companies until 28 November to renegotiate the contracts on terms more favorable to Peru. If negotiations fail, the Peruvian Government is likely to take over operation

of the oilfields and perhaps even nationalize some assets of the companies. This situation could give the Soviets the chance, at a relatively small cost, to provide critical technical assistance to Peru and reap substantial political goodwill. The debt issue and Peruvian-US trade disputes could provide the Soviets similar openings.

39. Even in the case where Soviet influence remains limited, US interests in the region may nevertheless be adversely affected. To the extent that the Soviets are able to maintain the image of a responsible and dependable ally of a non-Marxist civilian government, their chances for inroads into other Latin American countries will be enhanced. The demonstration effect of Moscow's assistance to Peru will stand some chance of enticing countries such as Argentina, Brazil, and perhaps even Venezuela into accepting offers of increased Soviet trade and assistance.

40. In no case do we believe that Moscow can accumulate sufficient leverage while Garcia is President to utilize Peru as a base for its own military purposes or for the active subversion, with the government's knowledge, of US security interests in the region. Thus, the scenario with perhaps the most ominous implications for US interests is one that lies beyond the term of the Garcia government. The most dangerous situation, which we believe to be unlikely, might be one where the Garcia administration is discredited through a failure to manage the economy

or contain the insurgency, while the Soviets retain considerable prestige through a popular perception of their having provided Peru increased aid during a time of great need. This could set the stage for an electoral victory in 1990 by a pro-Soviet leftist coalition. The principal obstacle to such government in the past has been the armed forces. But, if the military's anti-Communism were sufficiently undermined by the nearly 16-year exposure to Soviet influence and presence, it might acquiesce in the assumption of power by Peru's first Marxist government.

41. Thus, the United States is likely to be presented with a difficult foreign policy challenge in Peru over the next five years. Washington will have to seek to blunt or co-opt the nationalist aspirations of Garcia's regime that run counter to US interests without driving him into Soviet hands. At the same time, Garcia's confrontation with Cuba on the debt issue indicates his determination to gain regional leadership, his intention to follow a nonaligned foreign policy, and his willingness to play one side off against the other. This can provide the United States with opportunities to oppose the potential increase in Soviet influence in Peru. More important, the United States must seek leverage to ensure that the potential failure of the Garcia administration to solve Peru's economic problems does not leave the radical left as the only viable alternative to an APRA government in 1990.

## ANNEX

### Peru: The Economic Scene

President Garcia has moved swiftly to implement new economic policies to restore growth, improve social welfare, and reduce foreign dependence. Externally, he remains committed to bypassing the IMF and limiting debt servicing to 10 percent of export earnings over the next 16 months, promoting joint action among Latin debtors to secure easier repayment terms, criticizing "economic imperialism," strengthening controls

over foreign investment, and tightening exchange controls to reduce imports. Domestically, Garcia stresses agricultural development to eliminate food imports and import-substitution behind tariff barriers to reactivate industry. To stabilize the economy, the new President wants to tax heavily wealthy individuals and corporations and implement tighter planning to balance the budget. We judge [ ]

Table 4  
Peru: Balance of Payments, 1980-85

*Million US \$*

|  | 1980   | 1981   | 1982   | 1983   | 1984 <sup>a</sup> | 1985 <sup>b</sup>      |        |
|--|--------|--------|--------|--------|-------------------|------------------------|--------|
|  |        |        |        |        |                   | Peruvian<br>Government | CIA    |
| Current account balance                                | 62     | -1,723 | -1,613 | -875   | -253              | -552                   | -395   |
| Trade balance  | 837    | -553   | -428   | 293    | 1,007             | 864                    | 1,020  |
| Exports, f.o.b.  | 3,898  | 3,249  | 3,293  | 3,015  | 3,147             | 3,122                  | 3,120  |
| Of which:  |        |        |        |        |                   |                        |        |
| Copper   | 752    | 529    | 460    | 443    | 442               | 475                    | 450    |
| Oil  | 777    | 692    | 719    | 544    | 618               | 547                    | 545    |
| Nontraditional   | 845    | 701    | 762    | 555    | 726               | 840                    | 840    |
| Imports, f.o.b.  | 3,062  | 3,802  | 3,721  | 2,722  | 2,140             | 2,258                  | 2,100  |
| Net services and transfers                             | -775   | -1,170 | -1,185 | -1,168 | -1,260            | -1,416                 | -1,415 |
| Interest payments <sup>c</sup>                         | -667   | -721   | -713   | -828   | -632              | -605                   | -600   |
| Capital account balance                                | 785    | 1,117  | 1,744  | 1,384  | 1,232             | 675                    | 75     |
| Direct investment                                      | 27     | 125    | 48     | 38     | -89               | -68                    | -70    |
| Amortization   | -1,511 | -1,520 | -1,106 | -1,239 | -1,758            | -1,344                 | -1,345 |
| New borrowing  | 343    | 302    | 855    | 1,294  | 1,010             | 900                    | 300    |
| Short-term capital, errors and omissions               | 323    | 389    | 544    | -552   | -735              | -157                   | -200   |
| Arrearages   | 0      | 0      | 0      | 0      | 450               | 589                    | 590    |
| Foreign exchange reserves, at end of year <sup>d</sup> | 1,979  | 1,200  | 1,350  | 1,365  | 1,630             | 1,460 <sup>e</sup>     | 1,000  |
| Total debt   | 9,594  | 10,230 | 11,340 | 12,442 | 13,475            | 14,375                 | 13,775 |
| Debt service ratio (percent)                           | 56     | 68     | 55     | 69     | 76                | 95                     | 80     |
| Debt as a share of GDP (percent)                       | 44     | 51     | 56     | 77     | 80                | 84                     | 80     |

<sup>a</sup> Estimated.

<sup>b</sup> Projected.

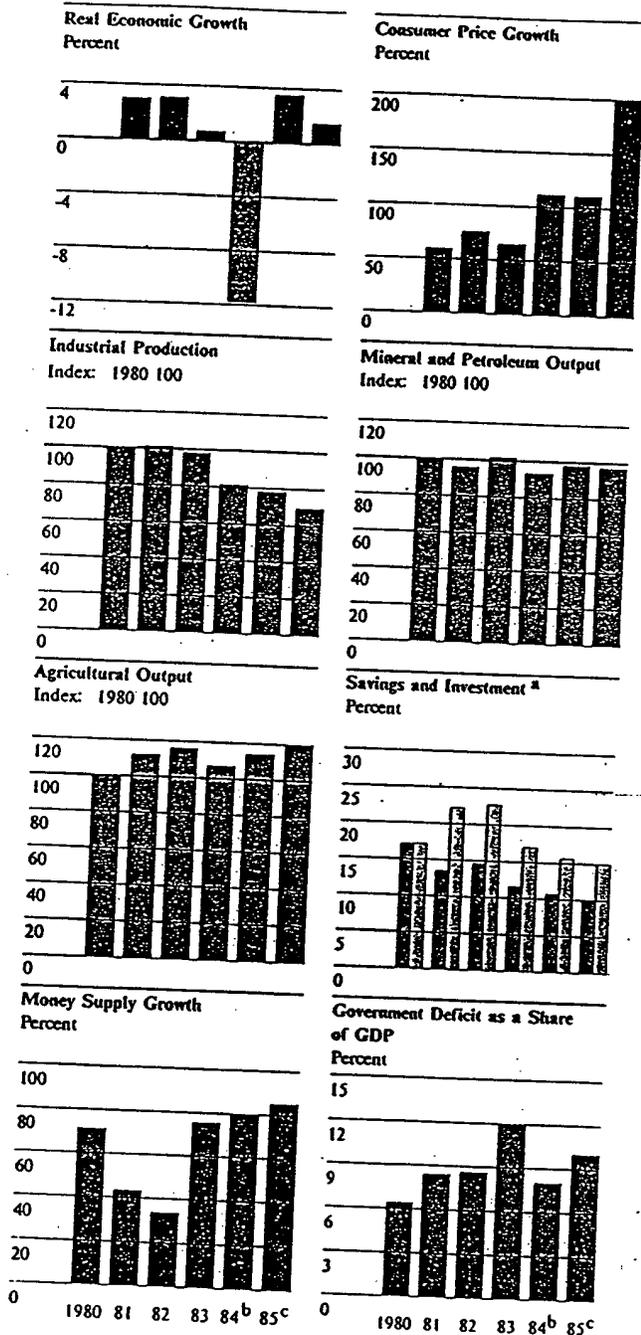
<sup>c</sup> Scheduled interest payments minus arrears.

<sup>d</sup> Excludes gold holdings, as reported in the IMF's *International Financial Statistics*.

<sup>e</sup> As of 12 July 1985.

~~This table is Confidential.~~

Figure 4  
Peru: Selected Economic Indicators



<sup>a</sup> Gross national savings and gross capital formation as a share of GDP.  
<sup>b</sup> Estimated.  
<sup>c</sup> Projected.

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that Garcia's intent in these policies is a self-imposed stabilization program, similar to those in Colombia and Venezuela, that would win support from foreign lenders without the need for a formal IMF adjustment program.

Following through on pledges given in his inaugural address, Garcia has launched a politically popular attack against inflation by lowering domestic interest rates, freezing rents, and putting price controls on basic consumer goods. He also has frozen dollar deposits for 90 days and devalued the currency 12 percent to reduce capital flight, and placed import controls on 500 items to protect industry and foreign exchange. Garcia, in addition, has reduced salaries of top officials, frozen government hiring, and begun restructuring the agricultural and oil bureaucracy to reduce the budget deficit. He has also granted wage hikes to quell worker restiveness and promised technical and financial assistance to farmers.

Garcia views debt as a key political issue, according to various sources, because it impedes his flexibility to initiate social welfare programs, which he regards as necessary to prevent political unrest. While the President has yet to formulate concrete debt repayment schedules, US Embassy reports suggest he may follow Bolivia's footsteps by dribbling out payments to multilateral institutions and then to government donors. A representative of Peru's foreign bank steering committee has visited Lima to discuss current debt policy on interest payments, but Garcia's public posture is impeding the resumption of negotiations. Meanwhile, he recently rescinded US oil companies' contracts, citing their failure to reinvest profits, but provided 90 days to renegotiate these contracts on more favorable terms, according to the US Embassy. Recent reports indicate that similar action may be taken against Southern Peru Copper Corporation, another US venture.

One of Garcia's major problems will be to obtain sufficient investment funds to revitalize agriculture and local industry. He hopes to shift government spending to cutting back state ownership of inefficient enterprises, reducing bloated bureaucracies and executive salaries, and holding down military weapons procurement. He also wants to attract new foreign investment and bank financing.

many Western bankers reportedly remain firm that no debt rescheduling can occur until Peru accepts an IMF-supported economic program. They view his unilateral cap on debt repayment as a dangerous precedent and so far appear unwilling to raise new loans.

Garcia's crusading style in launching his initial economic moves has contributed to his broad domestic popularity—an approval rating of 80 to 90 percent in the latest opinion polls. As he attempts to translate this support into policy, we believe that he will have difficulty holding to his current plan for a self-imposed austerity course, while at the same time stimulating agriculture and industry. We foresee a continuing impasse in debt negotiations, which will cut off the country from the resources needed to reactivate the economy and assure worsening economic conditions for some months. (See figure 4.)

Even in the best case, we believe economic growth will slow from last year's 3 percent because of shortages of industrial imports and foreign credit, and

uncertainty is likely to stifle domestic investment and construction. Moreover, Garcia will be hard put to keep inflation under control unless he can drastically reduce the government's fiscal deficit. Garcia will probably be aided by an anticipated trade surplus, but Peru's persistent debt service burden is likely to result in a continuing current account deficit. (See table 4.) Over the longer run, the success of Garcia's economic programs will depend to a large extent on his ability to attract funds from multilateral lenders, such as the World Bank and the Andean Fund, as well as international solutions to the entire Latin American debt problem.<sup>a</sup>



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