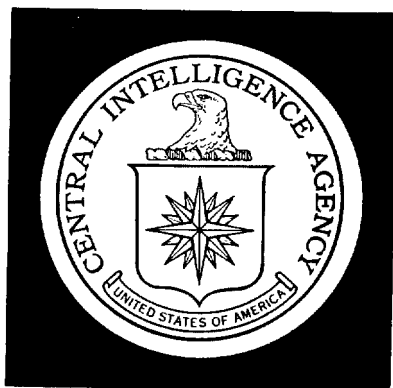


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Peru: Goals and Achievements of the Military Government

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PERU: GOALS AND ACHIEVEMENTS OF THE MILITARY GOVERNMENT

The military government installed by General Juan Velasco after the overthrow of President Fernando Belaunde on 3 October 1968 came to power with a stated desire to "revolutionize" Peruvian society and a plan the armed forces believed would achieve that objective. There were several more immediate factors that precipitated the coup, however, including the military's well-founded belief that their hated civilian rivals, APRA, would win the up-coming presidential election. President Velasco made it clear soon after taking office that his regime would not be a mere caretaker government and that the military intended to stay in power as long as it took to effect a complete transformation of the country's political, economic, and social structure.

The plan devised by the armed forces called for overturning a society in which most of the wealth is controlled by a relatively few families. Asserting Peru's independence of US influence was also an integral part of the plan. In order to accomplish these objectives and to gain the support of the public, the Velasco government has relied heavily on anti-US nationalism. The major acts of the government during its first year—expropriating the International Petroleum Company (IPC) and instituting an agrarian reform program—were particularly designed to appeal to and encourage greater nationalism among the people.

Revolutionary rhetoric abounded in the new government's first months and the military seemed ready to carry out its "revolution" rapidly. The pace of the revolution slowed substantially, however, soon after the agrarian reform law was promulgated in June 1969. Since mid-summer, President Velasco seems to have been concentrating on quieting the fears of domestic and foreign businessmen. A more moderate approach to the revolution now seems to prevail among many of the cabinet members as the government focuses on getting the economy moving again. This it hopes to accomplish primarily through attracting large foreign investments and obtaining the refinancing of its foreign debt.

In the next year or so the Velasco government will concern itself mainly with strengthening the economy, and is expected to move slowly on further reforms. Although pressed by the leftist radical element in his government, Velasco will probably try to avoid offending the US during this period but will not give in on the issue of providing compensation for the expropriated IPC property. At the same time, the President will continue to seek some concrete concession from the Soviet Union and Eastern European countries to justify his rapid move to establish relations and to further assert Peru's independence of the US.



President Velasco

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BACKGROUND

The government installed after the military deposed President Fernando Belaunde on 3 October 1968 reflects changes in the armed forces that had been in process for some time. Several factors, some that developed over a long period and others of more recent origin, united in 1968 to produce the overthrow of Belaunde and the installation of a military government with a vastly different view of its role from that of its predecessors.

Since World War II, Peru's armed forces had twice before taken over the government. Each occasion had a traumatic effect on the military as an institution. The takeover in 1948, led by General Manuel Odria, resulted in a personal dictatorship that in effect lasted for eight years, although in 1950 Odria was elected to the presidency. The more institutionalized coup d'etat of 1962 demonstrated the military's inability to govern effectively, and was one of the factors that prompted a return to civilian government after only one year.

Following the "return to the barracks" in 1963, the military began to take a greater interest in the tools of government—politics, economics, and sociology. In addition, the influx of the middle and lower middle classes into the officer corps, which had been in process for decades, began to make itself felt in the upper echelons of the military, particularly in the army. As most of the new generation of officers reached command positions, they were required to study at least one year at the Center of Advanced Military Studies (CAEM) to achieve a broader understanding of the country's problems and how they might be solved. Classes in the problems of government were frequently taught by leftists. This instruction, combined with the background of many of the student officers, formed an officer cadre that

was acutely conscious of the political and economic injustices that characterize Peruvian society.

Thus emerged a new breed of military officer, no longer the representative of the oligarchy or Lima society, having a strong desire to change Peruvian society and confident that at last he had the knowledge and background to do so. On 3 October 1968, such a group of men used President Belaunde's unpopular settlement with the US-owned International Petroleum Company as a pretext for taking power. More traditional factors determined the timing of the coup. There was fear among the military that Haya de la Torre, the leader of the American Popular Revolutionary Alliance (APRA) and the army's traditional enemy, would win the elections scheduled for 1969. Moreover, General Velasco, who initiated the coup, was scheduled to retire from active duty in January 1969 and would lose his power base.

THE GOVERNMENT AND ITS OBJECTIVES

This time, the military took control of the government with a well-conceived plan of action that had been prepared at CAEM. The plan set forth the military's objectives and suggested a general strategy for achieving them. President Velasco made it clear from the beginning that this would not be a caretaker government that would return the reins of government to what he termed the old-style politicians and oligarchs after a brief cooling off period.

There seemed to be no disagreement among the top military officers that the "revolutionary government" would be, first and foremost, "nationalist." At the cabinet level, however, conflict did surface over the pace of the revolution and the timing of reforms. A moderate group stressed that economic realities called for caution, while a

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more radical leftist group pressed for rapid implementation of the planned reforms. In the months following the coup, some of the most cautious moderates were maneuvered out of the government by President Velasco, who appeared to be siding with the radicals.

Velasco brought with him to the presidential palace a group of "colonels" and some civilians who were former professors at CAEM to act as presidential advisers. The "colonels" were drawn from the group that had prepared CAEM's plan of action and were largely responsible for drafting the government's manifesto and the "Statutes of the Peruvian Revolution." Two of the original group—Minister of Mines and Energy Fernandez Maldonado and Minister of Transportation and Communications Meza Cuadra—were promoted to the rank of general and named to the cabinet. They are now among the most influential and radical members of the government. The others, now collectively referred to as the Advisory Committee to the President, have gained official status and considerable influence as the writers and coordinators of legislation that has been initiated in the various ministries.

The military's objectives, spelled out in the Statutes of the Peruvian Revolution and expanded in later pronouncements, briefly stated are as follows: a) to improve the living standards of the less favored sectors of the populace by transforming the political, economic, social, and cultural structures of the country; b) to reassert Peru's national sovereignty and dignity vis-a-vis the US; c) to restructure the governmental machinery; d) to break the oligarchy's hold on the country and integrate the Indians into the nation's economy and society; and e) to promote the rapid industrialization of Peru through governmental guidance of the private sector.

President Velasco has stated that the armed forces intend to remain in power until these

objectives have been met or at least until they are so firmly under way that the revolution cannot be turned back. A new constitution is planned that will incorporate the military's structural reforms and ensure a change in the political system by extending the vote to the illiterate peasants. The earliest time mentioned for a return to civilian government is the mid-1970s, but even this seems unlikely.

To achieve these objectives, a general strategy devised at CAEM is apparently followed by the Velasco government most of the time. Nationalism was seen as the most important tool available to achieve the political support the government would need to carry out its program. It was believed that pride in the "fatherland" would have to be instilled in the leaders of the economic and business community before they could be persuaded to make the sacrifices necessary to bring about the industrialization of Peru under a system of social justice. Furthermore, the peasant would have to be made more politically conscious in order to bring more pressure on the oligarchy to make the necessary changes.

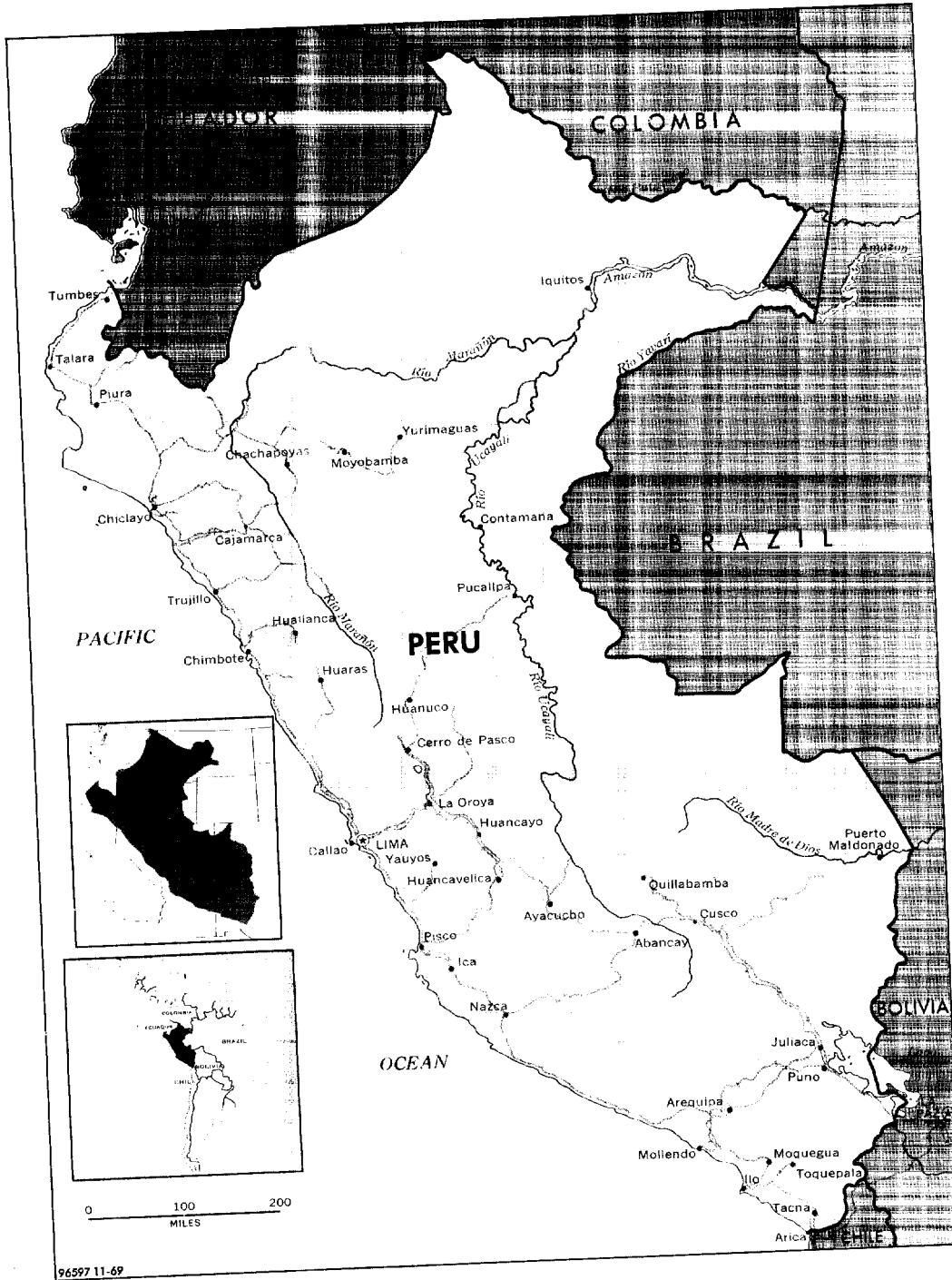
A change was also envisioned in Peru's international stance. It was determined that the government must exert its "independence" of US influence in the field of international relations and within the Peruvian economy. This, it was believed, would accomplish the military's primary objectives of reasserting Peru's national sovereignty and, at the same time, help stimulate nationalism in the Peruvian populace and gain popular support for the military government.

Several inconsistencies and contradictions were apparent in the government's objectives and strategy as they were originally drawn up at CAEM. President Velasco seems to have become aware of these contradictions and in the past few months has initiated steps to reconcile them. One of the basic contradictions was the military's

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belief that it could attack certain members of the oligarchy with impunity while others of the wealthy class would continue and even increase their investment in Peruvian industry. The government also seemed to believe that it could persuade Peruvian businessmen to invest simply by appealing to their patriotism and social consciences while promising business reforms that would give the government a greater voice in the enterprises and the workers a share of the profits. President Velasco now appears to have changed his tactics and is combining his appeals to Peruvian patriotism with assurances of support for those businessmen who are using their wealth for the good of the nation. With such assurances, businessmen appear increasingly willing to invest their money in Peruvian industry.

Another basic contradiction was present in the military's apparent belief that it could take hostile actions against the US and apply restrictions to foreign businessmen and yet continue to receive US financial assistance and foreign investment. Aware that outside financing is necessary if the government is to accomplish its goal of rapid industrialization, President Velasco has recently begun to exercise restraint in his statements and actions toward the US and US-owned companies.

THE MILITARY'S ACCOMPLISHMENTS

Most of Velasco's acts, both in the international and domestic spheres, have been designed to achieve maximum political impact as well as progress toward restructuring the society.

Velasco's first major act, and the one that has had the most far-reaching political impact, was the expropriation of the International Petroleum Company. IPC's presence in Peru had been an emotional issue for many years, and its expropriation only six days after the coup brought immediate support to the military government.

The depth of feeling on the IPC issue is demonstrated by the President's statement that the expropriation was Peru's second declaration of independence and that 9 October would henceforth be a national holiday known as the "Day of National Dignity."

President Velasco's intransigent stand on the IPC issue, even in the face of the possible invocation of the Hickenlooper Amendment, was seen by most Peruvians as a justified exercise of Peru's sovereignty. President Velasco may have overplayed his hand when he set IPC's alleged "debt" to the state so high that it is almost impossible to devise any scheme in government-to-government negotiations that would ultimately result in compensation to the company. So far, however, he appears to have the full support of the Peruvian people in the conflict that has arisen with the US over the compensation issue. Velasco believes—probably correctly—that any sign of retreat would create a serious political setback for himself and his government.

Seizures of US fishing boats within the 200-mile territorial waters limit claimed by Peru have also been portrayed as a defense of "sovereignty." The government, however, sought to play down the problems over the 200-mile limit to avoid exacerbating the ill feeling between itself and the US aroused by the IPC expropriation. Nevertheless, Velasco scored a minor propaganda victory last July when the US Government lifted its ban on military sales. The ban, imposed in February following the fishing boat seizures but not made public until May, was lifted when Peru consented to attend a fishing conference along with Chile and Ecuador, which also claim a 200-mile limit.

From October 1968 to June 1969 the Velasco government concentrated most of its efforts on staking out an independent

international position. Not only did it demonstrate its "independence" from US influence through the IPC and 200-mile-limit issues, but it lost little time in opening diplomatic and commercial relations with the Soviet Union and the countries of Eastern Europe. The government apparently is also eager to obtain some Soviet financial assistance, particularly for a large irrigation and hydroelectric project in the northern part of the country. The Soviet Union has sent well-qualified representatives to Peru but as yet has made no commitments. The Soviet Union appears nearly convinced, however, of the military's sincerity in carrying out its revolution, and may soon decide to go ahead with some form of assistance as a concrete demonstration of its support.

In June, Velasco turned his attention from international affairs to the problem of implementing his internal reforms. The first to be announced, and the one with the greatest political impact, was the Agrarian Reform Law. The major differences between Velasco's agrarian reform and those of his predecessors were the greater likelihood that it would be carried out and the inclusion of the coastal agro-industries, principally the large sugar plantations. There were at least three reasons for including and putting priority on the sugar plantations, which were probably the most efficient agricultural producers in the country. First, the move would have great political impact and help convince the peasant that this was not to be just a repetition of earlier performances in which agrarian reform was announced but never implemented. Secondly, it would be a potent blow at the landed oligarchy that Velasco was intent on destroying. Lastly, transforming the sugar plantations into worker cooperatives would serve to deprive APRA of a major source of political and labor support. The Aprista sugar unions were the only ones to declare a strike in reaction to the military's over-

throw of President Belaunde. Weakening APRA's influence is probably a very important step in the military's projected plan to transform the political structure.

Since the initial intervention of the sugar plantations, the government has moved slowly in implementing its agrarian reforms. The law itself, however, provides up to a year for private owners to divest themselves of excess property. Approximately \$125 million has been budgeted for agrarian reform purposes in 1970, indicating that the government intends to step up its implementation next year.

The government has also undertaken many less-publicized actions and reforms. To complement its agrarian reforms, a water law was promulgated putting all water rights under government control. A start has also been made at reorganizing the government. In a few cases, functions of separate ministries have been combined in order to make them more efficient, and several semiautonomous agencies have been brought under the direct control of the central government. There have also been some changes in banking, such as restrictions reducing the level of foreign participation, increased state control of the central bank, and greater emphasis on credit to small businesses and cooperatives.

The military has been quite adept at keeping its real and potential opposition off balance. The extreme leftist and the Aprista student groups, which could have caused trouble for the government, were defused with the promulgation of educational reforms that deprived the universities of their autonomy and proscribed student political activity. The oligarchy, which stands to be hurt most by the government's reforms, was effectively split by Velasco's strategy of attacking one group and helping another. Velasco has stated in several speeches that those members of the

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economic elite who are using their wealth for the benefit of Peru in business and industrial production will go unharmed. Indeed, some of the wealthiest families have been unaffected by reforms thus far and have even benefited by some of the government's restrictions on foreign businesses and imports.

APRA was in the best position to oppose the military government because of its dominant role in Peruvian labor. The leaders have been unable to agree on just how the party should react to the government, however, and consequently have done little. The military, on the other hand, has taken every opportunity to weaken APRA, most effectively in the labor field. A Communist labor confederation that had made very little headway before the military took over has now become an effective and dynamic rival of APRA and may even gain the leading role in Peruvian labor. Its increasing influence may be partially attributable to some Soviet financing, and it has also been aided from time to time by the Velasco government.

In September, two of 14 unions at a US mining company refused to accept a government decree on a wage increase and started to march on Lima in protest. The 12 unions that accepted the increase and returned to work were Aprista-led, and the two that rejected the increase were Communist-led. Apparently seeing an opportunity to undercut APRA, President Velasco granted the Communist demands, and an added wage hike was given to all the workers. The APRA union leadership lost considerable prestige as a result of this maneuver. The Communist labor confederation has also taken the lead in organizing cooperatives at the sugar plantations and is, thus, increasing its influence at the very heart of APRA's labor strength.

PROSPECTS

When the military took over, Peru was faced with severe internal economic problems, including inflation, large budget and balance-of-payments deficits, widespread capital flight, and growing unemployment. The rapid economic growth experienced in the early 1960s had slowed considerably, and Peru was forced to devalue the sol by 31 percent in September 1967. This, plus the stabilization program begun under Belaunde and continued by the Velasco government, and a continuing high price for Peru's principal exports have resulted in a favorable balance of trade. The stabilization program also contained provisions for strict control of credit and for holding down wage increases, which along with government steps to set prices on basic foodstuffs have enabled the military government during 1969 to achieve the lowest inflationary rate in years.

The Velasco government is now basing its hopes for getting the economy moving again on obtaining large-scale foreign investment. Until recently, the big US mining companies had held off on planned investments because of uncertainty over Velasco's intentions and contract controversy over amortization rates and control of exchange earnings. In an effort to get these companies to take action on their planned investments, the government modified its mining regulations to require concession holders to sign investment contracts before 1 January 1970 or lose their concessions. According to the new regulations, actual investment must begin by May 1970 and mineral production must start within five years.

President Velasco now has announced that an agreement has been reached with the Southern Peru Copper Company (SPCC) for an investment of \$350 to \$500 million. Disagreements that have arisen between the leftist radicals and the

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moderates in the cabinet have delayed the actual signing of the contract. If the contract is consummated in essentially the form in which it was announced, many of the other copper companies operating in Peru are likely to agree to similar terms. If all the companies agree to invest, the total could run as high as \$1.3 billion over the next five years. Financing may cause some of the companies some difficulty, but they are likely to sign investment contracts anyway in an effort to protect their holdings. The Peruvian Government expects that agreements with the mining companies will improve business confidence in the country and strengthen its position in the current debt refinancing negotiations with its European, Japanese, and US creditors.

The military will now begin to feel greater pressure to make some concrete progress in rejuvenating the economy and in implementing promised reforms. Revolutionary zeal and exaggerated nationalism are not likely to continue to satisfy most Peruvians unless they begin to see some actual improvements. The Velasco government is currently concentrating most of its effort on strengthening the economy.

Since the promulgation of the agrarian reform decree, the pace of the revolution has slowed considerably. In his Independence Day speech on 28 July, President Velasco talked of further reforms, but little has been heard since.

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Plans for reforms of the fishing industry have been delayed, and representatives of the

industry have been allowed to define what they believe are needed and desirable changes. Business enterprise reforms apparently were pushed even further into the future following the immediate and strongly negative reaction to Velasco's mention of the reforms in his speech on 28 July. Additional changes in the nation's banking laws may be promulgated in the near future, but probably not until the foreign debt refinancing negotiations are concluded. The banking reforms will probably increase state control over banks and might further limit foreign involvement in the banking system.

Except for the unlikely possibility of a complete breakdown in the economy or mass dissatisfaction with the government's program, there is little probability that Velasco will be removed from office or that the armed forces will decide to return to the barracks and leave the government to civilians. The government has pre-empted most of the reforms that leftists might use to promote opposition to it, and the right has missed every opportunity to unite and take effective action. Thus, there seems to be little chance that there will be a major change in the Peruvian Government for at least the next year or two, or that serious opposition will arise.

APRA too can find few substantive issues on which to attack the Velasco government, inasmuch as the military is making into law most of the changes advocated by the party for the last three decades. APRA has been reduced to challenging the government for its unconstitutional origins and failure to call elections. This tactic finds few backers among the general public, most of whom have never considered that democracy offered them any real voice in the government. At least one faction of APRA has been seeking some accommodation with the military government, which may eventually accept it in the hope of eliminating or reducing the influence of APRA's

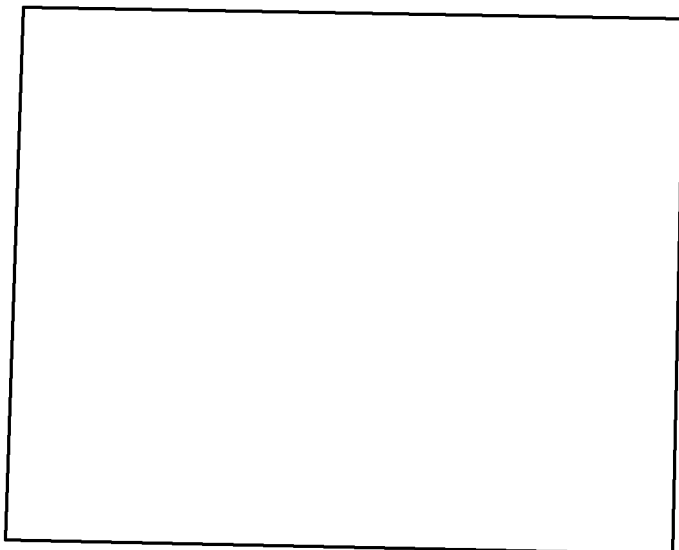
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top leadership. In the meantime, APRA will probably continue to decline from its position as the strongest single political force in the country.

APRA's political decline in all probability will be accompanied by a similar decline in its influence in Peruvian labor. The Communist labor confederation (CGTP) is continuing to make rapid gains and may eventually rival APRA in numbers and perhaps surpass it in influence. At the same time, it seems less likely that Communist gains in labor will be matched by gains in the political field. Many military leaders are sensitive to the "Communist threat" and are likely to react quickly if they believe the Communists are becoming too strong or too well entrenched. There is a possibility, however, that the military will overestimate the strength of APRA and in trying to weaken it will destroy it, leaving only the Communists to fill the vacuum.

will be resolved in the near future. President Velasco is maintaining his intransigent attitude toward compensation for the IPC and the matter of the company's alleged debts to the state. The Peruvians have said almost every time the subject has been mentioned that the problem can be solved only by the Peruvian courts. Once in the judicial system, of course, the whole question could be left to languish, perhaps for years, and Velasco probably hopes that this would enable his government to normalize its relations with the US and begin to attract the foreign finances needed to implement his ambitious plans. At the same time, if the courts were to allow part of IPC's claim and grant the company some payment for its expropriated property—which on the surface seems highly unlikely—Velasco would be less susceptible to the charge of selling out than if he made the settlement himself.

The military government has given some indication in recent months that it is trying to avoid antagonizing the US further. President Velasco's speech on 9 October, the anniversary of the IPC takeover, was not vitriolic. Most of his remarks were aimed at the politicians and oligarchs who had aided IPC in achieving its formidable position in Peru and at lauding those who had led the fight to regain Peruvian "sovereignty." Peru's cautious attitude toward General Alfredo Ovando's coup in Bolivia and his subsequent expropriation of a US oil company are further demonstrations of Velasco's desire to ease the strain between his government and the US. The events in Bolivia are probably also seen as damaging to Peru's efforts to regain investor confidence and attract foreign money into the country.



INTERNATIONAL OUTLOOK

The strains that developed over the IPC issue appear to have eased somewhat in the last few months, but there is little hope that the problems

The Peruvian military government has no desire to pull completely away from the US, but it will undoubtedly continue to flaunt its "independence." Its courtship of the Soviet Union and the East European countries has provided an

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opportunity to express this independence, but thus far there have been no significant gains for Peru. The Velasco government has been seeking some Soviet financial assistance for months but so far has achieved only the signing of a trade agreement. Soviet technicians are currently in Peru to make a feasibility study of a large irrigation and hydroelectric project in northern Peru. The Peruvians are eager to receive Soviet aid on this project and have agreed to pay the team's expenses while it remains in Peru. The Soviets, however, have not yet committed themselves to anything, although some financial support may eventually be offered as a means of influencing a country that is moving out from under the US shadow. On the other hand, the Soviets probably do not care to become too deeply involved in Peru, and the Peruvian military has a strong interest in limiting the USSR's influence in its country.

Peru is also enjoying its new-found prestige in Latin America. For a long time it was content to be a follower, but the reforms being introduced by the Velasco government have made Peruvians the object of envy by many people in

Latin America. This caused Peru some embarrassment when General Ovando in Bolivia tried to mimic the Peruvian experience by overthrowing President Siles and calling for a union of sorts with Peru. Consequently Peru hesitated on recognition of Bolivia's new government and, contrary to some expectations, has had very few favorable words for the Ovando government. The Peruvians believe that their nationalism is an example for all of Latin America, but they go to great lengths to explain that each country's circumstances are different and that Peru is not "exporting" its revolution. A renewal of economic, and possibly diplomatic, relations with Cuba is one way in which Peru may try to exert its hemispheric leadership role. It is likely to move slowly in this regard, however, so as not to offend the investors and foreign creditors whose help it needs right now. If, on the other hand, some other country such as Chile were to agree to go along with Peru or took the step first, President Velasco probably would jump on the "bandwagon." Fidel Castro has announced that if the Peruvians come to desire relations with Cuba, they need only ask, but, he added, they also must condemn the OAS resolutions that have isolated Cuba within the hemisphere. [REDACTED]

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