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This publication is prepared by the USSR Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the Directorate of Intelligence. The views presented are the personal judgments of analysts on significant events or trends in Soviet foreign and domestic affairs. Although the analysis centers on political matters, it discusses politically relevant economic or strategic trends when appropriate. Differences of opinion are sometimes aired to present consumers with a range of analytical views. Comments and queries are welcome. They should be directed to the authors of the individual articles or to

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USSR-Peru: Some Second Thoughts

The USSR has growing doubts about the future of its relations with Peru, a target of Soviet strategy since 1973 and the largest recipient next to Cuba of Soviet arms in Latin America. At one time the Soviets were hopeful that the leftist military in Peru would be susceptible to Soviet proselytizing. But [redacted]

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[redacted] have concluded that the chances of Peru becoming a "socialist" state are declining due to apparent shifts in the course of the Peruvian revolution.

As part of its larger Latin American strategy, the Soviets have tried over the years to improve their economic relations with Peru. Although the prospect of economic benefits has motivated the Soviets they have also hoped that expanded economic relations with Peru would improve their political fortunes in the region, an American sphere of influence, and prove to all of Latin America that there is little to fear from the Soviet Union.

As in other third world countries, the main elements of the Soviet Union's policy toward Peru since 1968 have been arms deals and, to a lesser degree, economic assistance and trade. Since 1973, Lima and Moscow have signed a series of arms agreements which, if finally implemented, will amount to approximately \$500 million. To date at least \$175 million worth of Soviet arms have been delivered, including SA-3 and SA-7 surface-to-air missiles and more than 300 T-55 tanks. In the near future, Peru will take delivery of three dozen or more SU-22 fighter-bombers priced at \$250 million; twenty-four have already been delivered. The Soviets have trained several hundred Peruvians to work and maintain this equipment. In all of their dealings with Peru, the Soviets have offered low prices, generous terms, and long periods of repayment.

At the same time, the USSR has attempted to expand Peruvian-Soviet economic relations. The Soviets have provided a \$6-million feasibility study and technicians

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The Soviets appear ready to enter into more joint economic projects with the Peruvians, but Lima has attempted to keep them at arm's length. Peru has been slow to use Soviet credits and has kept its options open with regard to other foreign aid and trade, leading Soviet officials to express their frustration on several occasions and to reassess their position.

From 1968 to 1975, the USSR characterized the Velasco government as a "progressive, military regime" with whom it could do business and a model for future Latin American development. Since 1975, however, the Peruvian revolution has taken an increasingly moderate turn. Although pledging "revolutionary continuity," Velasco's successor, Morales Bermudez, has softened much of the rhetoric of the past. For instance, at independence day ceremonies last July 28, he promised that programs aimed at creating a "more just political, social, and economic order" would continue, but he dropped all reference to "socialism."

This shift reflects the fact that the domestic and international circumstances which originally led Peru to improve its relations with the USSR have changed. Economic problems have forced the Morales Bermudez government to adopt a less radical, more austere economic policy with greater emphasis on private investment and enterprise in order to keep peace at home and encourage much needed non-Soviet foreign investment. At the same time, leftist and pro-Soviet members of the government and military have been replaced by more moderate and pragmatic individuals.

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Relations between the US and Peru have improved. With Washington's acceptance of Peru's 200-mile offshore

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fishing boundary and Lima's settlement of claims lodged by US companies, many of the tensions that plagued US-Peruvian relations in the late 1960s and early 1970s have disappeared. In addition, the US did not criticize Peru as severely as it did Chile, Brazil, and Uruguay for human rights violations.

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[Redacted] On April 14, Jose de la Puente, Peru's foreign minister, praised the new administration's more positive approach to Latin American matters.

One reason Peru had turned to the USSR for arms was that the US refused to help it update and replace its weaponry at a time when Peru felt itself strategically weaker than its traditional antagonist, Chile. Recent purchases of Soviet arms plus the US embargo on arms sales to Chile have recast the military balance in the Andes and have removed both a point of friction in US-Peruvian relations and some of the reasons for Lima's interest in improving its relations with the USSR.

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[Redacted] The Soviets believed the downturn in relations was only temporary and the result of pressure on Morales Bermudez from more conservative elements in the military and in the government. These assessments changed after Morales Bermudez apparently engineered the removal of the leftist leaning prime minister, Fernandez Maldonado, whom the Soviets probably preferred to his replacement, Arbulu Galliani, a reported anti-communist.

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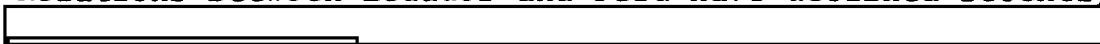
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USSR has attempted to improve its relations with Peru's neighbor to the north, Ecuador, by offering to sell it advanced fighter aircraft.



The Soviets' attempts to broaden their influence among Peru's neighbors is equally risky. Lima would not appreciate Moscow arming Ecuador, a potential enemy. Relations between Ecuador and Peru have declined recently,

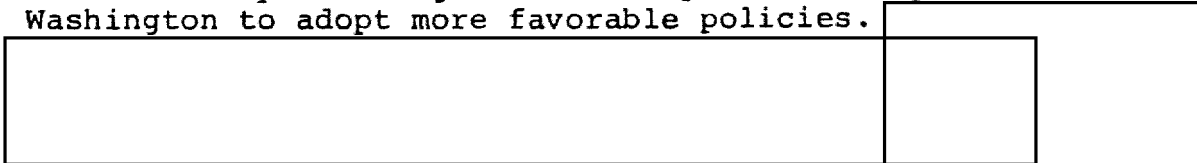
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This point of friction between the USSR and Peru, however, has at least temporarily disappeared because Ecuador has no intention of buying Soviet aircraft.

For the time being, Moscow will probably be patient and trust that its carefully nurtured relationship with Lima will survive. Peru is still willing to purchase Soviet arms, and Soviet war materiel figures large in Peruvian strategy. Still, the Soviets apparently realize that this does not assure future good relations, and that Lima may be using the Soviet presence to pressure Washington to adopt more favorable policies.

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Implications of Belorussia's New Fuel Ministry

Belorussian party chief Masherov has taken a small bureaucratic step that may be intended to encourage some reorganization of the national economic structure--in the direction of consolidating management among ministries that now have very narrowly defined responsibilities. On April 27, *Sovetskaya Belorussiya* published a decree transforming the Ministry of Peat Industry into the Ministry of Fuel Industry, the only such ministry at the national or republic level. The name change seems to imply that the ministry will extend its management responsibilities to all fuels and will not be concerned only with peat, the republic's principal indigenous fuel.

The fuel and power sector was one of the groups of industries that Brezhnev cited at the 25th Party Congress when he called for better coordination in the administration of "homogeneous branches." Masherov further developed the theme at the Congress by criticizing the efforts of USSR Gosplan and USSR Gosstroy to manage intersectoral relations and by calling for the creation of new subdivisions under the USSR Council of Ministers to take on this task. Kosygin and the ministerial bureaucracy have appeared unresponsive to such proposals. Masherov again demonstrated his hostility toward Gosplan, and perhaps ultimately Kosygin, when the Belorussian Central Committee met in August to criticize the performance of the republic's Gosplan.

Soviet journals have carried several articles since last fall discussing governmental reorganization in light of Brezhnev's statements at the Congress. The authors of these articles have floated a range of proposals, including the creation of supraministerial bodies, the merger of ministries, and the expansion of the role and powers of head ministries. The latter are assigned responsibility for meeting national requirements for a product which is produced by a number of ministries. It is conceivable that the Belorussian Ministry of Fuel Industry is intended to act somewhat like a head ministry at the republic level.

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Belorussia, the only republic which had a Ministry of Peat Industry, is poor in all other fuels. Outside of peat, its fuel industry is modest and depends on fuels imported from other parts of the country. A Belorussian ministry that tried to exercise responsibility for all fuel industries would still be largely concerned with peat and would, thus in bureaucratic terms not tread on as much turf belonging to union and union-republic ministries as such a ministry would in some other republics that have more varied fuel industries. This circumstance may make launching this bureaucratic initiative easier, although it also could limit its implications on the national level. At a minimum, it exemplifies the tendency of republic leaders to push for local deviations from Moscow's patterns.

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