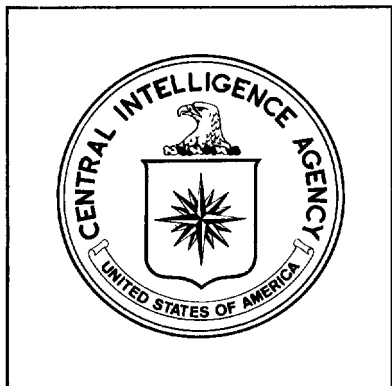
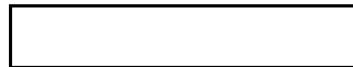


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Latin America

REGIONAL AND POLITICAL ANALYSIS

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This publication is prepared for regional specialists in the Washington community by the Latin America Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Peru: Return to Civilian Rule Discussed

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Peruvian President Morales Bermudez is holding talks with party leaders that could further his plan to return the country to civilian rule by 1980. Any transfer to power will be gradual, and Peru's uncertain economic situation could delay its implementation.

Last month military leaders expressed their confidence in Morales Bermudez by extending his presidential term beyond the date early next year, when he was to retire from the military. Since then the President reportedly has been discussing a return to representative government with a wide range of political parties.

Besides conferring with the Christian Democrats and the Socialist Popular Action, both of which support his government, Morales Bermudez also has met with Victor Haya de la Torre's American Popular Revolutionary Alliance--the Peruvian army's principal antagonist. Last Friday he was scheduled to meet with the Peruvian Communist Party and the Popular Action of former president Belaunde, who was overthrown by a military coup in 1968.

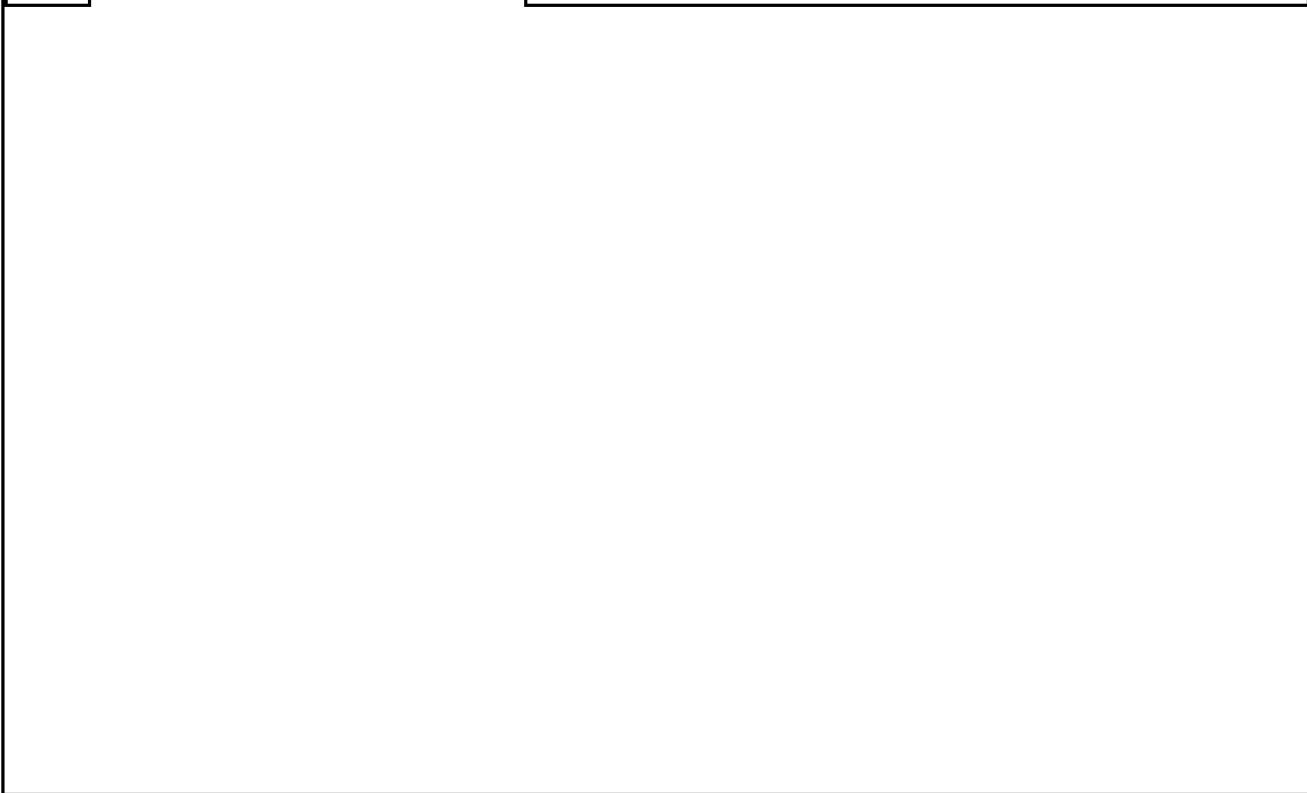
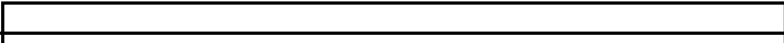
During these exploratory talks, the parties are setting forth their views on presidential, parliamentary, and municipal elections. A civilian advisory group reportedly also has been working with the government to formulate political strategy, draw up an agreement with the parties, and prepare a new constitution. It is not clear at present how far the ruling military is prepared to go in granting popular sovereignty.

In addition to mollifying the military government's domestic and foreign critics by demonstrating at least a semblance of movement toward civilian rule, these consultations also are likely to provide Morales Bermudez with additional civilian political support for the stiff austerity measures necessary to right the Peruvian economy.

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Such support could also help to keep the President's potential rivals in the military at bay.

Morales Bermudez' economic program is threatened by a disagreement between his key economic advisers and some military leaders over budget cuts demanded by the International Monetary Fund as a prerequisite for badly needed foreign loans.



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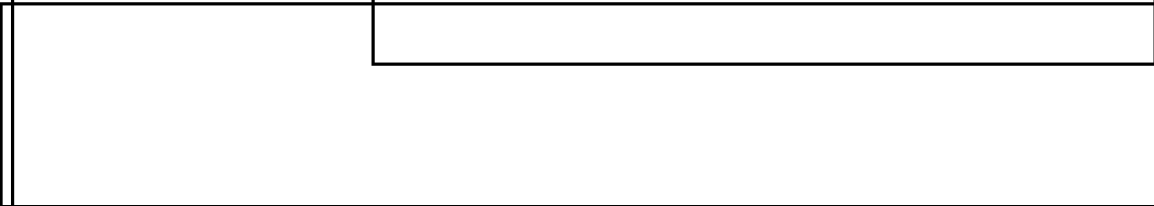
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USSR-Peru: Some Second Thoughts

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.



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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. Peru is now taking delivery of three dozen or more SU-22 fighter-bombers

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 and scientists for the \$450-million Olmos hydroelectric and irrigation project and have offered bids for part of

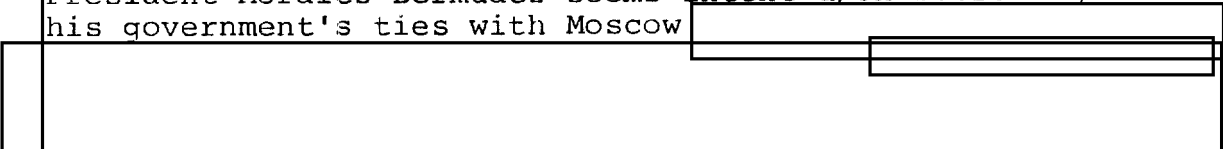
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the construction of the project's \$143-million pilot tunnel. The USSR has also offered bids on other projects such as the Andes pipeline and a machine-metal complex in southern Peru.

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. Leftist and pro-Soviet members of the government and military have been replaced by more moderate and pragmatic individuals. President Morales Bermudez seems intent upon loosening his government's ties with Moscow



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

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as severely as it did Chile, Brazil, and Uruguay for human rights violations. Washington's veto of the recent Israeli-Ecuadorean aircraft deal may have added further momentum to Lima's reassessment of its policy toward Washington. On April 14, Jose de la Puente, Peru's foreign minister, praised the new administration's more positive approach to Latin American matters.

25X1 [redacted] 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.

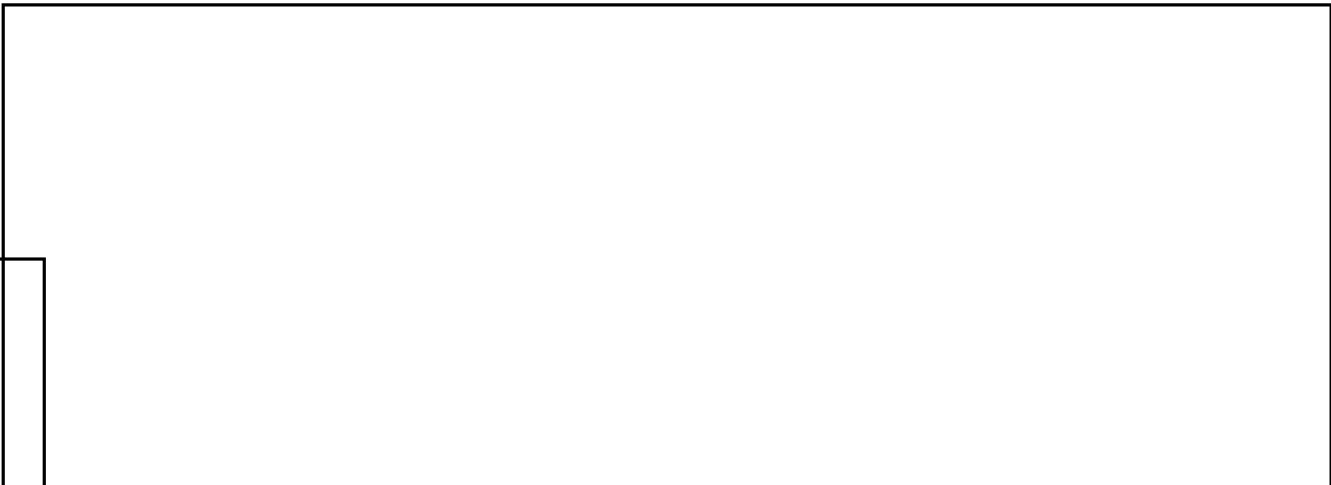
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25X1 [redacted] In response to the new situation in Lima, Moscow has increased its efforts to sell the Peruvians more arms. Recently, the Soviets offered to sell OSA-class missile attack boats to the Peruvian navy, an offer Peru rejected in 1975. [redacted]

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25X1 [redacted] At the same time, the USSR has attempted to improve its relations with Peru's neighbor to the north, Ecuador, by offering to sell it advanced fighter aircraft.

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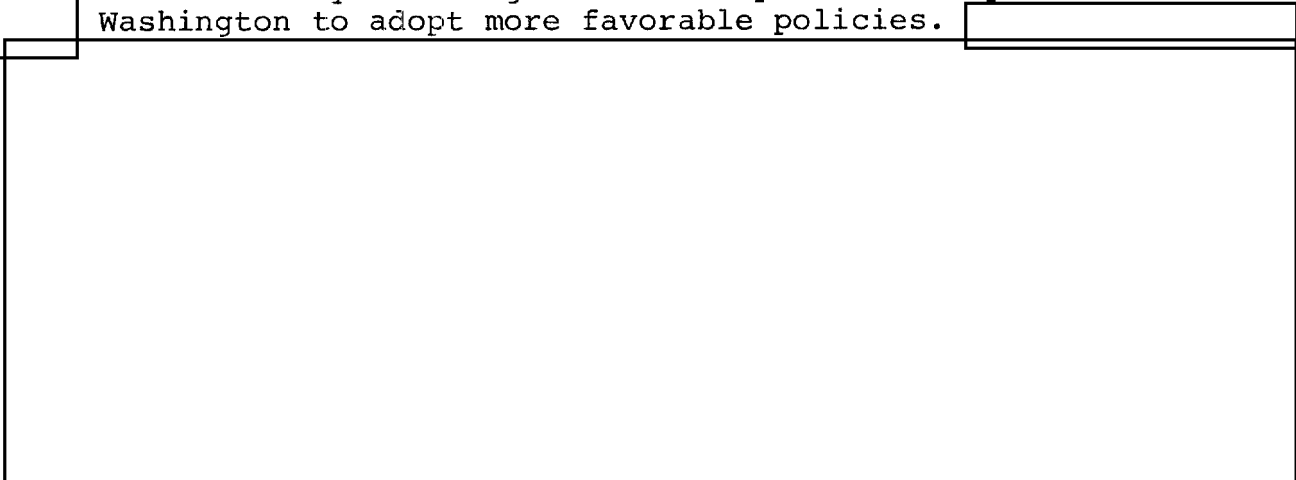


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The Soviets' attempts to broaden their influence among Peru's neighbors is equally risky. Lima would not appreciate Moscow arming Ecuador, a potential enemy. Relations between Ecuador and Peru have declined recently, and Quito has even discussed the merits of a military pact with Chile. 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 material 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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