



Directorate of  
Intelligence

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# Peru: Prospects for Civilian Rule

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An Intelligence Assessment

DIA review  
completed.

State Dept. review  
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ALA 82-10146  
November 1982

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# Peru: Prospects for Civilian Rule

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**An Intelligence Assessment**

This assessment was prepared by [redacted]  
the Office of African and Latin American Analysis.  
Comments and queries are welcome and may be  
directed to the Chief, South America Division, ALA,  
[redacted]

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This assessment was coordinated with the  
Directorate of Operations. [redacted]

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**Peru: Prospects for  
Civilian Rule**

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**Key Judgments***Information available  
as of 15 October 1982  
was used in this report.*

We believe that the armed forces, which ruled Peru for a dozen years before consenting to elections in 1980, remain the most significant potential threat to democratic civilian government. President Belaunde has assuaged most of the military's concerns through personal cultivation, adept leadership, and fairly effective policies. He has thus given himself a better-than-even chance, in our judgment, of remaining in office over the next 12 to 18 months. The armed forces are closely monitoring his performance, however, and their willingness to allow him to finish his term and transfer power to another civilian successor in 1985 will depend on his record in all major policy areas: internal security, the economy, domestic politics, and foreign affairs.

Terrorism—and the reaction to it—is Belaunde's most pressing concern. The Maoist Sendero Luminoso (SL), a group of about 1,000 concentrated primarily in southeastern Peru, lacks any realistic potential to overthrow the government, in our view, but its capabilities are growing. In addition to typical terrorist actions, it probably could capture and hold for several days a small town, kidnap a prominent official, or hold its own against small military patrols. The spreading violence, moreover, has impelled the armed forces to seek a direct role in the struggle. The President, we believe, wants to rely on the civilian police as long as possible, in part because he hopes to avoid a situation similar to that which contributed to his ouster by the military in 1968. We judge, however, that direct armed forces participation in counterterrorism poses less risk for Belaunde than he fears, and would dramatically reduce the terrorist threat within a year or so.

Peru's economy is suffering from many of the same ills afflicting most less developed countries, but we and the US Embassy believe that Belaunde's economic team has made significant progress in dismantling the initiative-stifling structures installed by statist military rule and in laying the groundwork for reasonable economic recovery. Peru will, we believe, achieve real growth this year of 2.5 to 3.0 percent and the current account deficit will rise as austerity mandated by the International Monetary Fund begins to pinch. In the long run, however, recovery is more difficult to forecast, because it is heavily dependent on an international economic upswing, as well as on the correction of certain structural weaknesses in the economy. We judge that meanwhile Belaunde will be able to continue dealing successfully with labor and the military on economic issues, although some concessions to these key groups will probably be made.

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November 1982*

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The President's success to date in managing Peru's political system is in our view the result of the acquiescence of the military, the growing institutional strength of his party and the ruling coalition, the disarray of opposition forces, and Belaunde's impressive personal talents. We do not foresee a change for the worse in these circumstances.

Belaunde's judicious handling of two potentially serious foreign policy questions—a border conflict with Ecuador in 1981 and the Falklands war this year—enhanced his domestic standing and had a favorable impact on his relations with the armed forces, [redacted]

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[redacted]

The odds that civilian rule will survive after Belaunde's term are less sure. The military has grown more apolitical in recent years, but also more conservative. Its historical tendency to intervene probably would be encouraged by a strong showing by leftist political forces during and after the campaign and election in 1985, although we do not anticipate this occurring.

Such intervention would have implications for US interests in several regards:

- The democratic process, supported by the United States, would be set back in Peru.
- Military intervention would intensify political polarization and strengthen the radical leftists.
- A military government would be more likely than a civilian administration to undertake adventures over longstanding border disputes with Chile and Ecuador.
- Even a politically conservative military government would be highly nationalistic and less receptive to US investment than a moderate civilian regime.
- A military government would probably be less amenable to reducing Peru's dependence on the Soviet Union as an arms supplier than any foreseeable popularly elected civilian administration.

[redacted]

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**Contents**

	<i>Page</i>
Key Judgments	iii
Background: Belaunde and the Military	1
The Key Issues	3
Internal Security	3
The Terrorist Danger	3
The Government's Response	4
Contingencies	5
The Economy	6
Stimulating Performance	6
Retrenchment	6
Risks for Belaunde	7
Civilian Politics	7
Skillful Politician	7
The Opposition	8
Foreign Relations	9
Prospects	9
Implications for the United States	10
<b>Appendix</b>	
Sendero Luminoso—The Terrorist Threat	13

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**Peru: Prospects for  
Civilian Rule**

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**Background: Belaunde and the Military**

Civilian President Fernando Belaunde governs in the shadow of his first administration, the coup of 1968 that ousted him, and the military regime that followed. Thus, public doubts persist that, despite his landslide electoral victory in 1980, he will not be able to avoid the mistakes, bickering, and political stagnation that doomed him in 1968. For the time being, however, Peruvians' relief over the end of military rule, coupled with the armed forces' disillusionment with governing, have given Belaunde a comfortable grace period. To date he has adeptly avoided or played down his previous mistakes and weaknesses while capitalizing on public distaste for the military regime.

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When Belaunde became President in 1963, he articulated a vision of Peru's future that was based on the full incorporation of the Indian into national life, agrarian reform, and the development of the hinterland. He set out to draft and implement massive programs, but these stalled in the face of inadequate resources, the political opposition's obstructionism, and foreign-supported insurgency. By 1968 his administration had become mired down in partisan politics, indecisive economic policies, and a series of scandals and disputes that undermined public confidence and greatly diminished the President's personal popularity. The military was finally impelled to move against Belaunde when a serious dispute involving negotiations with US companies over oil leases set off charges that he had sold out the national patrimony. Convinced that the President was truckling to foreign investors, disgusted with his inability to deal with Congress, and dissatisfied with his slow reaction to an insurgent threat in 1965, the armed forces took over all power.

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The military regime that followed changed the traditional pattern of short-term and parochially motivated military intervention in Peruvian public life. The

President Fernando Belaunde  Caretas ©

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officers who overthrew Belaunde had not only immediate but long-term objectives:

- To end debilitating bickering among civilian politicians and to terminate the government's contract with the US petroleum companies.
- To effect basic socioeconomic changes.

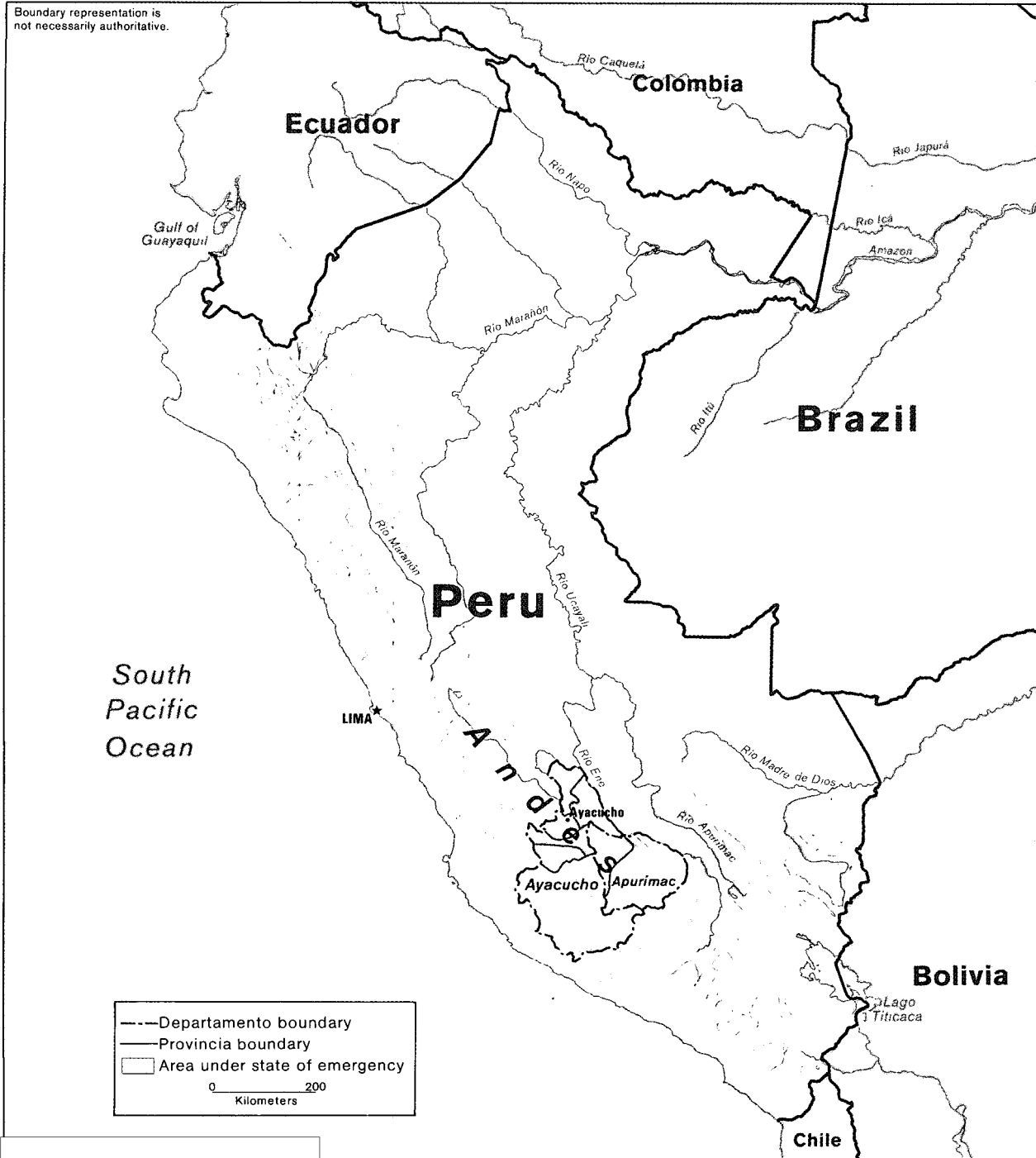
Led by the leftist, nationalistic General Velasco, the armed forces quickly banned civilian participation in government and expropriated the petroleum companies. Long-term social reform programs and development projects were launched, but these eventually overtaxed Peru's limited resources. In 1975 more moderate elements in the military replaced Velasco with Gen. Morales Bermudez.

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During the following years, the military gradually retreated from its commitment to create a "new Peru," and this retreat in turn began to undercut the rationale for indefinite military rule. Increasingly frustrated by the intractability of Peru's ills, the

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armed forces decided by the late 1970s to draft a new constitution, hold elections, and turn the government back to civilians. Despite some reservations, military officers swallowed their pride after the July 1980 elections and allowed Belaunde to take office. [redacted]

**Internal Security**

Belaunde's most pressing domestic problem is terrorism. Despite the gradual upswing in violence, however, and the prospect of worse to come, we and the US Embassy believe that the subversives—the Maoist group Sendero Luminoso (SL)—by themselves lack the potential to overthrow the government. The SL has little support outside of a few highland provinces and has no known foreign support. Nevertheless, escalating terrorism and the so far ineffective police response have awakened memories of similar circumstances during the previous Belaunde administration among, especially, the armed forces. [redacted]

This has once again raised the specter of military intervention. [redacted]

Recent US Embassy reports, [redacted] indicate that the terrorist group is developing into a significant guerrilla organization and is likely to undertake more sophisticated operations. If the SI does expand its operations we foresee three possibilities:

**The Key Issues**

In view of these antecedents, Peru's armed forces remain the most significant potential threat to democratic civilian government. This paper examines the factors that will determine the nature and extent of that threat over the next few years, and it assesses the prospects for military intervention and its implications for the United States. [redacted]

We believe the armed services are closely monitoring Belaunde's performance, and their willingness to allow him to finish his term and transfer power to a civilian successor will depend on his record in internal security, the economy, domestic politics, and foreign relations. To satisfy them, Belaunde will have to:

- Reconcile tough measures to combat terrorism, presently his most serious problem, with his commitment to democracy. His biggest challenge will be to marshal an effective counterterrorist campaign without surrendering significant authority to the military.
- Cope with economically induced political pressures from labor, the military, and the opposition parties. Successful management of economic problems will require skill and creativity on the part of the administration, and an upturn in international economic conditions.
- Advance the process of rebuilding the civilian political system after 12 years of military rule while avoiding the political paralysis that afflicted his first term.
- Manage a number of contentious foreign policy questions while avoiding blunders that might catalyze political or military opposition to his administration. [redacted]

- Belaunde could boost further civilian police capabilities while simultaneously working to convince the military to lend greater support to the civilian effort to control the terrorists. This is a difficult but feasible task, and one toward which the President has already taken some steps.

- Belaunde, facing an expanding insurgency, might yield to military pressure and direct the Army to take over the counterterrorist effort. Despite what we believe are the President's fears, we are not convinced that such a move would necessarily repoliticize the military and open the door to a gradual assumption of power by the armed forces.

- Finally, and least likely, if Belaunde fails to stem terrorist growth, he could be ousted by a military coup. [redacted]

**The Terrorist Danger.** The Sendero Luminoso has approximately 1,000 committed members and several times that number of supporters, according to US

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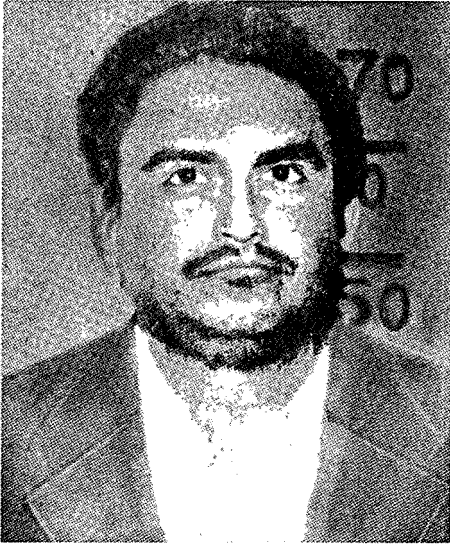
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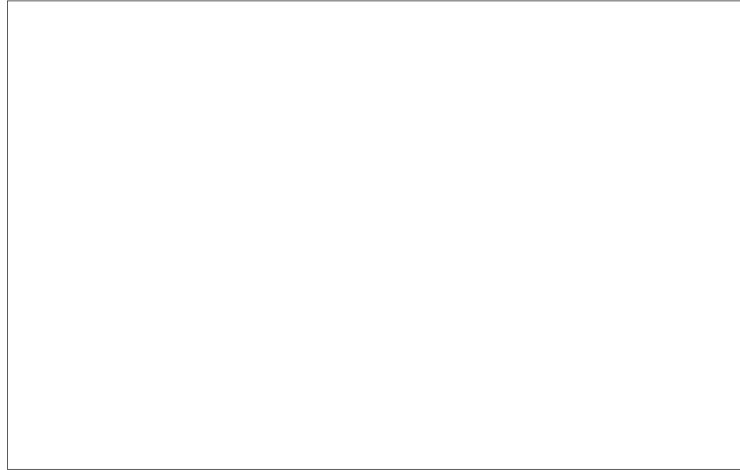
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SL guerrilla leader *Equis X* ©  
Abimael Guzman [redacted] 25X1



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**The Government's Response.** Even though the terrorists pose no immediate threat to political stability, they have caused considerable apprehension in civilian and, more important, in military, circles, [redacted]

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[redacted] Belaunde has attempted to assuage these fears through a measured response to the problem. He has declared periodic states of emergency in the affected zones, ordered the military to provide logistic support for the beleaguered rural police detachments, and improved the inefficient and corrupt civilian security services and the cumbersome judicial system. [redacted]

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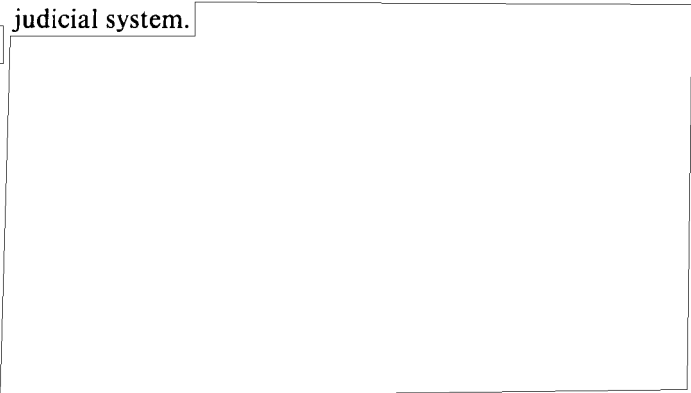
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Embassy [redacted] In the past two years the SL has advanced from bombings directed primarily at property to attacks on police stations and jails and assassinations of provincial officials. The SL probably believes that its tactics will provoke violent repression by the Army, which in turn would lead to a rise in popular sympathy for the SL. [redacted]

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In its operations to date, the SL has not posed a significant threat to military forces. Destruction of electrical powerlines and assaults on isolated police posts are typical operations, which would be difficult to prevent even if Peru's civilian security forces were effective in counterterrorism. Most of the SL's recent urban operations could have been planned and carried out by small, well-trained units. [redacted]

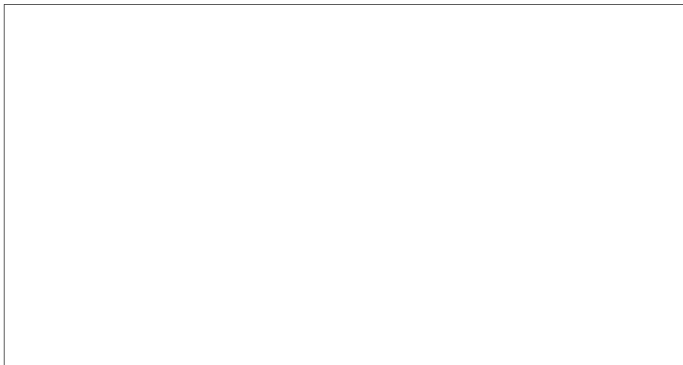
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We agree with the US Embassy assessment that Belaunde will delay involving the military as long as possible. [redacted] The President is not only concerned that this would unduly enhance the military's influence over government, but as the Embassy reports, he is also worried that a

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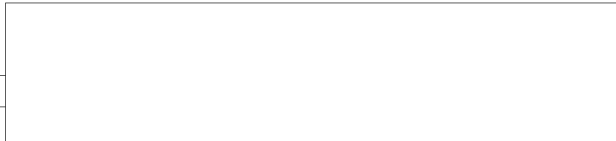


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tough antiterrorist campaign might endanger Peru's favorable human rights image and perhaps help fulfill the SL's hopes of increasing its public support.



Plans to upgrade the police forces' training and equipment are under way. The administration has provided more funds and has received some assistance from other countries.

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Army Gen. Oscar Brush, the President's former military aide, is to become Minister of War in January 1983. The President may hope that Brush, who is a longtime friend and the commander of the military region containing Ayacucho, will be more amenable than his predecessor to increasing military logistic backing and intelligence sharing with the police. If the police can improve their capabilities at a pace equal with the SL's growth, they probably can contain the terrorists.

We believe that the Army probably could shatter the SL if it were given the unfettered authority it wants. We believe, and US Embassy reporting confirms, that the high command is aware that a poor performance against the SL would demoralize the troops and discredit the Army in the public eye. For this reason, it probably would commit its best personnel and give careful preparation to any counterinsurgency campaign. Army generals have selected and begun to train and equip the crack Airborne Division for use against the terrorists.



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If Belaunde decides to authorize the Army to take over the antiterrorist fight, we believe that armed forces involvement would not necessarily undermine his authority or inevitably lead to a military coup. Belaunde probably could allow the Army to operate in the isolated Ayacucho region.

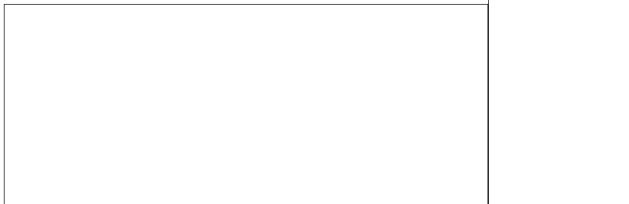
**Contingencies.** We believe that a direct military role would become almost inevitable in the event of one or more of the following potential developments:

- Widespread popular support for the SL.
- Evidence of substantial foreign assistance to the SL.
- The spread of terrorist activity to the northern and eastern jungle regions.
- Larger, more sophisticated SL operations against important government targets, especially military units.

and still retain full authority in the capital and other major cities, where large-scale military activity against the terrorists would be under closer national and international scrutiny. Although the armed forces have asserted that they must be given complete political-military control in the affected areas to combat the terrorists, we believe, based on US Embassy reporting, that the service chiefs would agree to some restrictions because they probably wish to avoid a break with the President. In addition, if General Brush becomes Minister of Defense, Belaunde may be able to use him to convince the high command to accept closer civilian oversight.

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Recent reports indicate that two of these conditions—popular support and more sophisticated operations—may be developing. US Embassy reports cite comments by high-ranking police officials that the SL has either intimidated or earned the support of much of the population of Ayacucho Department.



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Finally, a controlled Army intervention might not pose as great a threat to Belaunde as a continuing inability to control terrorism. The US Embassy reports that most Peruvians outside of Ayacucho and,

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more important, numerous members of Belaunde's party, favor a direct role for the military. An ineffective administration response in the face of an expanding subversive movement could seriously undermine public faith in the President, heretofore one of his greatest assets. While we do not see it as likely in the near term, the possibility remains that the military—watching a terrorist group grow into a guerrilla movement and seeing public confidence in the administration steadily erode—would consider coming out of the barracks. [redacted]

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### The Economy

Respectable economic performance is another key to the administration's survival. Peru's economic problems are serious, but we and the US Embassy believe that Belaunde will be able to cope with them over the next 12 to 18 months, in part because the administration's talented economic team already has made significant progress in rebuilding a market economy in the face of a worldwide recession. Moreover, Belaunde so far has been able to contain the political and labor opposition to his economic reform and austerity measures, and we believe he can continue to do so in the short term. In the long run, however, recovery is more difficult to forecast, because it is heavily dependent on an international economic upswing, as well as correcting certain structural weaknesses in the economy. [redacted]

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**Stimulating Performance.** Upon taking office, Belaunde's economic advisers moved to dismantle the initiative-stifling structures created during 12 years of statist military rule. Since then, the government has:

- Cut inflationary food, fuel, and export subsidies.
- Reduced the tariffs that had long protected inefficient and monopolistic local industries.
- Signed important contracts with foreign corporations to expand oil and mineral exploration and production. [redacted]

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The US Embassy reports that Belaunde's administration is registering a creditable economic performance. We project the GDP growth rate for 1982 at between 2.5 and 3.0 percent. Agriculture in 1981 attained the highest increase in 12 years, primarily because of more favorable government pricing policies, and the end of a long period of drought. Certain traditionally

productive sectors—especially minerals—have suffered from the dip in world demand. Manufacturing, however, registered real growth in 1981—although only a third of the rate of a year before. The world recession has decreased export receipts, portending a second consecutive large current account deficit this year and an expected decrease in foreign reserves. The government budget will register a large deficit, and inflation—although decreasing—will exceed 60 percent for the fourth straight year. [redacted]

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**Retrenchment.** Faced with the prospect of a major balance-of-payments problem reminiscent of the mid-1970s, the government asked for and received almost \$1 billion in financial support from the International Monetary Fund (IMF)—\$740 million under the Extended Fund Facility and \$225 million in compensatory financing—in an agreement signed in June. The major immediate problem the administration faces is meeting the IMF's stringent guidelines for this support. Under the loan conditions, the government must impose a reform program of strict fiscal austerity—with limits on government deficit and borrowing—and a speedup in Peru's devaluation schedule to help reduce the trade deficit. The program set the following targets:

- The public deficit is to be brought down to 4.2 percent of GDP in 1982 and 2 percent in 1984.
- Public-sector borrowing from the central bank is to be limited to no more than 100 billion soles (\$140 million, at current exchange rates).
- Foreign borrowing is to be limited to no more than \$1.1 billion in credits of between one and 10 years' maturity.
- The decline in foreign exchange reserves is limited to no more than \$100 million. [redacted]

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As the US Embassy reports, the administration appears committed to reducing the public-sector deficit as the IMF requires. Recently, the government made last minute cuts of development projects from the budget and has reiterated its commitment to eliminate wheat, rice, and gasoline subsidies, also called for by the IMF program. Even with these moves, however, we believe the government will not meet the IMF guidelines this year. Nevertheless, in our view,

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25X1 Belaunde's economic team can probably prevent a withdrawal of Fund support by demonstrating that it is making an effort in good faith to comply and that its inability to meet the targets is due to international circumstances beyond its control. [ ]

25X1 **Risks for Belaunde.** The imposition of the austerity measures entails increased political risk for Belaunde. In particular, the removal of subsidies on two national staples—wheat and rice—and on gasoline is politically very sensitive. At a time of rising unemployment—officially, and we believe accurately, estimated at about 7 percent with underemployment as high as 48 percent—and continued inflation, these measures could spark serious protests and crippling strikes. [ ]

25X1 We and the US Embassy believe, however, that Belaunde has a good chance of minimizing the political fallout of his economic policies. The US Embassy reports that the administration already has proved surprisingly adept at implementing and gaining grudging popular acceptance of its reforms, even under the adverse economic circumstances of the past two years. As the US Embassy reports, the administration's practice of accompanying its reforms—particularly the easing of price controls on basics—with deftly handled wage increases which still lag inflation has kept opposition politicians off balance and has helped Belaunde contain labor and other public unrest. Although strikes have been frequent and have included two general work stoppages, they have been brief and have had only minimal impact. [ ]

25X1 The administration's skillful Labor Minister deserves much of the credit for the government's success in this regard. We believe that, with some concessions, he probably can continue to manipulate the fragmented labor confederations and may also be successful in developing the new National Labor Council, an umbrella organization, into a permanent structure for collective bargaining. Despite its earlier refusal to participate, the major labor confederation (General Confederation of Peruvian Workers) may join the others in the Labor Council, according to the US Embassy. At any rate, the unions' inability to mount extended strikes, as they did even under the military

regime, indicates the effectiveness of Belaunde's labor policies and suggests that he can ride out any labor unrest. [ ] 25X1

While we cannot discount the possibility, we and the US Embassy do not envision that the economic difficulties confronting Belaunde in the near term will set the stage for a military takeover. The armed forces' own unenviable record in the economic sphere has made the generals reluctant to undertake the formulation and implementation of economic policy. Lacking an alternative program or the desire to formulate one, the military has been content to accede to Belaunde's free market approach. We believe that the services by and large have returned to looking at the economy in a more traditional light: they are concerned primarily with the impact of economic policy and problems on internal order and the military budget. The President, at the same time, is reluctant to tamper with military procurement which, while undoubtedly causing the administration difficulties in achieving fiscal targets, is politically expedient. [ ]

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#### Civilian Politics

We believe that Belaunde will continue his successful record of avoiding the political paralysis that contributed to his ouster in 1968. Most top officials in the governing Popular Action Party (AP) realize that their future is contingent on Belaunde finishing his term, and therefore we believe they are committed to maintaining unity. The recent recommitment of the AP's partner in the governing coalition—the Popular Christian Party (PPC)—to the AP-PPC alliance reinforces Belaunde's chances and will contribute to political stability. Moreover, the opposition political parties show few signs of achieving the unity necessary to challenge seriously Belaunde's policies. [ ]

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**Skillful Politician.** Belaunde's sound performance as a president and a politician during the past two years is the main reason for the favorable outlook. He has improved his ability to direct the course of government without becoming bogged down in detail. According to the US Embassy, he is a visible, popular

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executive who rules while his Cabinet administers. With only a few exceptions, Belaunde's Cabinet is highly capable at formulating and implementing policy [redacted]

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Belaunde's performance in intraparty and interparty politics also stands in notable contrast to that of his first administration. Mindful of the bitter dissension that plagued his government in 1967-68, Belaunde has worked to build a durable party structure, although factionalism still tests his political acumen. He is the preeminent figure in his Popular Action party, but he has not used his power to impose specific personalities or structure on the party. According to the US Embassy, he has adopted the role of mediator, interjecting his views only when necessary to minimize damage to his programs [redacted]

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We believe that Belaunde is attempting to instill into the AP sufficient institutional durability for it to function effectively after he leaves the scene. Progress in this direction, however, has been halting. The US Embassy notes that despite Belaunde's capable direction, the AP continues to show public evidence of internal strife, which could erode Peruvians' confidence in the administration and in the democratic system. Nonetheless, in allowing such public debates by competing factions, Belaunde may be contributing to the evolution of a truly democratic, nonpersonalistic party, accustomed to the give-and-take inherent in such organizations. [redacted]

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The President's effective control of the AP to date has made possible the alliance with the second-largest opposition party—the PPC—which in turn has benefited both groups. In exchange for a few minor Cabinet posts, Belaunde has gained a coalition that allows him to dominate the Congress. The US Embassy reports that the PPC leaders recognize that the agreement presently affords the best opportunity for their well-organized but small party to exert influence, albeit limited, on the national level. [redacted]

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**The Opposition.** The AP's relative strength also has allowed Belaunde to take advantage of the disunity that has plagued the other opposition parties, in particular the American Popular Revolutionary Alliance (APRA), the principal opposition force. The

unity that characterized APRA prior to the death in 1979 of its founder, Raul Haya de la Torre, has given way to bitter conflict between leftist and centrist factions. The US Embassy reports that this schism has contributed substantially to Belaunde's initial success in interparty politics. The split has already curtailed APRA's ability to oppose the AP in Congress. In fact, the centrist faction has occasionally indicated a willingness to cooperate with the AP, contrasting sharply with the situation during Belaunde's previous administration, when APRA obstructed the government's legislation and forced Belaunde to reshuffle his cabinet four times in one nine-month period. [redacted]

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In our view, it probably will be beneficial for Belaunde—and the multiparty system will not suffer—if doctrinal and personality disputes continue to impair APRA's ability to oppose him in the short term. The recent party congress, however, may have succeeded in reducing the intense factionalism that has afflicted APRA since 1979. As the US Embassy has noted, Belaunde does not relish the prospect of competing with a unified APRA, but he and other AP officials recognize that competition from a healthy opposition could strengthen the multiparty democracy in the long run. [redacted]

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We and the US Embassy do not envision the United Left—a loose association of some 40 parties—causing unmanageable political problems for Belaunde in the near term. The size and diversity of the IU—it includes orthodox pro-Moscow Communists, moderate socialists, Maoists, Trotskyists, and even Albanian-line Communists—has prevented it from gaining the ground ceded by APRA and achieving the unity to function effectively. [redacted]

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[redacted] The leftist coalition is likely to persist in doctrinal hairsplitting and personalistic infighting. [redacted]

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We believe that the military will continue to monitor the politicians. The services will view the municipal elections in November 1983—the only significant

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political contest before the 1985 presidential contest—as a barometer of political trends. Although a leftist victory—which seems unlikely—or even a strong showing by the left probably would not provoke a coup, it would arouse apprehension in military circles, particularly if it coincided with an economic downturn or an increase in terrorism. We believe that the armed forces probably were satisfied at the results of the 1981 municipal elections, in which Belaunde's party performed well and the IU fared poorly. The military probably will expect the AP at least to maintain its base in the provinces in the November 1983 balloting. The services also hope, we assume, that APRA will continue its relatively moderate performance and that its leftist elements will remain reluctant to seek an alliance with the United Left. [ ]

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#### Foreign Relations

We believe Belaunde recognizes that his judicious, low-key management of foreign affairs to date has enhanced his domestic standing in general and, more important, has had a favorable impact on his relations with the armed forces. We expect that he will, therefore, continue in the same vein. Interested chiefly in Peru's pressing socioeconomic problems, Belaunde has maneuvered deftly through two potentially serious international incidents—a border conflict with Ecuador in 1981 and the Falklands war this year—to maintain a noncontroversial foreign policy. Indeed, Belaunde's performance in the international arena has served to dispel somewhat the military's doubts about his decisiveness. We judge that Belaunde is unlikely to undertake any controversial foreign policy initiatives—such as abruptly eliminating the Soviet arms relationship or surrendering disputed border territory—that could provoke the military. [ ]

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According to the US Embassy, Belaunde gained stature by his behavior during the border clash with Ecuador. Faced with the belated discovery of Ecuadorean outposts on territory long claimed by Peru, the President ordered swift action. Overall, Belaunde emerged looking better than did the armed forces in the incident. The military was embarrassed not only by the fact that they had allowed the Ecuadoreans to go undetected for months but by their subsequent inability to drive out the Ecuadorean troops rapidly. [ ]

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Belaunde's management of the Falklands crisis prevented Peru from becoming dangerously enmeshed in that debacle. The US Embassy reports that the administration catered to the public's pro-Argentine sentiments with massive rhetorical support for Buenos Aires, while simultaneously providing only modest, unpublicized military assistance. At the same time, the President tempered the rhetoric with a widely publicized personal peacemaking role. By attempting to avert bloodshed and arrange an agreement more favorable to Buenos Aires, Belaunde remained in the limelight, forcing the domestic opposition to operate in his shadow. More important, however, Belaunde's role in the Falklands affair satisfied the military's pro-Argentine leanings and probably saved the armed forces from getting directly embroiled. According to the US Embassy, senior Peruvian officers were dismayed at the unprofessional and unsavory behavior of their Argentine colleagues, and now realize that without Belaunde's restraining influence, the Peruvian military would have aided Argentina more openly and then shared in Buenos Aires's humiliation. [ ]

In our judgment, Belaunde will continue to steer a<sup>a</sup> noncontroversial course in foreign affairs. He will be careful to defend Peru's territorial integrity in border questions—especially with Ecuador—but without setting the stage for conflict. Although pro-Western, Belaunde realizes that he must maintain his nationalistic and Latin American credentials. For that reason, we believe he will keep Peru in the regional consensus in the UN. He also will support mechanisms for consultation among the Latin nations in the Organization of American States, but he is not likely to push for a restructuring of that organization. At the same time, we believe he will seek to use his ties with Western nations to obtain increased military assistance, which would accelerate the process of diversifying sources of arms, reduce the dependence on the Soviet Union in that regard, and strengthen his position with the military. [ ]

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#### Prospects

We and the US Embassy believe that President Belaunde has a better-than-even chance of remaining in office in the near term (12 to 18 months). His

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skillful cultivation of the armed forces over the last two years and his prudence in dealing with military budget issues have laid the basis for continued cordial military-presidential relations. Based on this and his creditable record so far in the key policy areas, the President can probably continue to placate the military. [redacted]

25X1

Belaunde's personal popularity—though diminished according to a recent poll—remains an important additional positive factor. He has shown himself to be a skilled politician whose popular standing deflects much criticism; many opponents, civilian and military, prefer to cast their barbs at Belaunde's ministers rather than at the President. Finally, the administration's possibly greatest asset is the absence of any obvious alternative; the military is still discredited by its attempt at governing, and the principal opposition groups remain fragmented. [redacted]

25X1

A look at Peru's political history, however, suggests that in the long term the potential for military intervention will rise. In the 20th century alone, the armed forces have removed eight incumbent presidents. After Belaunde, the prospects for democracy in Peru will depend, in addition to the socioeconomic and political factors discussed, on the institutional evolution of the military and on the kinds of candidates and programs that gain currency as the presidential election of 1985 nears. [redacted]

25X1

We believe that while the armed forces have grown more conservative in the past decade they are also characterized by a more apolitical attitude than in 1968. The last years of the military's tenure in government clearly diminished its willingness to re-enter the political arena. Many officers believe that their 12-year rule harmed the armed forces' reputation domestically and abroad and created serious divisions within their ranks. According to US Embassy reporting, this attitude may be more marked among junior officers, who believe that the military's takeover led to politicization of the services, reduced professionalism, and increased corruption. At least for now, the officer corps appears primarily interested in devoting its energies to rebuilding the institutional integrity and professionalism of the services. [redacted]

25X1

This attitude makes a 1968-style military revolution unlikely. The turning away from political and social activism of the early 1970s indicates that the armed forces would probably not seize power in an attempt to reshape Peruvian society. Instead, in our view, the generals would be more likely to stage a coup for traditional reasons: to reestablish order, to exclude the radical left from office, or to head off a perceived threat to the military's institutional interests. [redacted]

25X1

We believe the likelihood of a future military intervention will depend more on the operation of the civilian political system during and after the 1985 elections than on other domestic or foreign affairs issues. Despite the military's prolonged attempt to reconstruct Peruvian politics, the system is still roughly divided into equal thirds—left, right, and center. The campaign and election could resuscitate the sharp tensions within the Congress, among the parties, and between the legislative and executive branches that crippled Belaunde's previous administration. The military will expect Belaunde to prevent partisan political activity from hindering his ability to deal with pressing national problems. But more important, we believe the armed forces will look to the electoral process to produce a moderate-to-conservative civilian government that has a political base broad enough to function effectively and that will not interfere with the military's corporate interests. [redacted]

25X1

**Implications for the United States**

We believe that the future of democracy in Peru has several important implications for the United States. The advent of a repressive military regime almost certainly would alienate many Peruvians, and the resulting polarization would increase the potential for internal conflict and present opportunities for the radical left. [redacted]

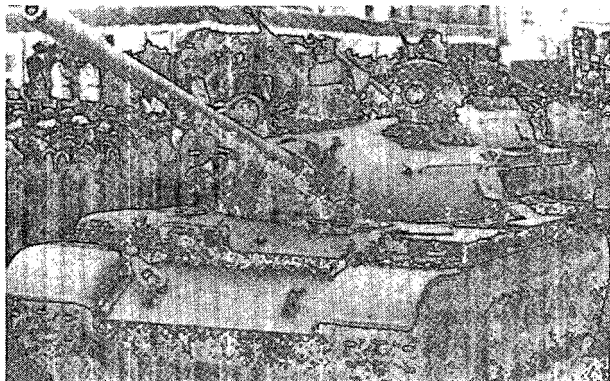
25X1

In addition, we believe that Belaunde and any likely civilian successor probably would follow policies generally more acceptable to the United States than would any military regime. For example, civilian politicians appear less likely to undertake adventurist actions that would endanger regional stability. As noted, Belaunde restrained the military, which was

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Soviet-built T-55 tanks on parade in Lima [redacted]

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pushing for a more direct involvement in the Falklands conflict. In addition, Belaunde has worked to play down border problems with Ecuador and Chile. We believe that future civilian presidents would probably continue to dampen revanchist tendencies in the armed forces. [redacted]

25X1

We believe that a civilian administration also would continue to provide a more stable atmosphere for foreign investment. In 1981 US investment in Peru amounted to about half a billion dollars. As noted above, the early military regime expropriated US oil companies and enacted other measures to restrict foreign investment. While the armed forces are now politically more conservative and have accepted Belaunde's reopening of extractive industries to foreign oil and mining companies, they remain highly nationalistic and have made clear their continuing belief that he should carefully supervise foreign capital. They will continue to monitor foreign investment policies and practices, especially in the sensitive area of hydrocarbons production. [redacted]

25X1

We also believe that civilian administrations are likely to be more amenable to reducing Peru's dependence on the Soviet Union for military hardware. Since 1973 Peru has purchased over \$1 billion in equipment and services from the USSR. Belaunde, on the other hand, has encouraged those in the military who want to diversify Peru's sources of supply to include Western nations, according to US Embassy [redacted] 25X1

[redacted] Even though a complete break with the Soviets is not politically or economically feasible, any likely successor civilian government probably would continue to seek diversification. The Soviets have had little success in attempting to use their close ties with the Peruvian military to affect the conduct of Lima's foreign policy. Nevertheless, we believe almost any civilian government would be even less subject to Soviet leverage than would be the case under military rule. [redacted] 25X1

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Sendero Luminoso—The Terrorist Threat

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Sendero Luminoso (Shining Path or SL) is a radical, leftist terrorist and insurgent group that follows the organizational and ideological model of Mao's peasant-based revolution. The SL's goals are to bring down the government and to remove foreign—particularly US—influence from Peru. [redacted]

25X1

Ayacucho, recent activities and reports indicate an increased presence in Lima and other metropolitan areas. [redacted] 25X1

The SL was formed in the rural southern department of Ayacucho in the late 1960s by Ruben Abimael Guzman Reynoso, then a philosophy teacher at the San Cristobal de Huamanga National University in Ayacucho. Guzman was also a member of the Bandera Roja, a pro-Chinese Communist party made up primarily of attorneys, professors, and merchants. Guzman and his followers—mostly craftsmen, peasants, and students—charged that the Bandera Roja was increasingly focusing on urban areas and neglecting the countryside and armed struggle. Since formally breaking with the group to pursue a more violent path, Guzman has maintained that the SL is the only legitimate Communist party in Peru. [redacted]

25X1

[redacted] Embassy reporting indicates that the SL has no foreign support. The Soviets, and by extension the Cubans, would probably be reluctant to support the SL in any event. Not only is the SL's Maoist ideology incompatible with Soviet philosophy, but, more important, Moscow values its arms-supplier relationship with Peru, its only client in South America. [redacted] 25X1

Following President Belaunde's inauguration in 1980, the SL embarked on a campaign of low-risk, high-profile terrorist attacks consisting primarily of dynamiting electrical towers, public buildings, and such symbols of authority as the Justice Ministry and police posts. Within the last year, however, the SL has extended its operations to include the assassination of local officials and suspected police informants. [redacted]

25X1

The US Embassy reports that SL members purchase small arms and machineguns in Peru or steal them from police and military posts. Explosives are stolen from mines and construction sites. Funds are obtained primarily from robberies [redacted] 25X1

Members of the SL are organized into cells that operate independently—terrorists arrested by Peruvian police apparently have little knowledge of members or operations outside their cell. Recent US Embassy and official Peruvian estimates place the SL's strength at about 1,000 committed activists, although it can probably call on three to four times that number for logistic support and occasional acts of violence. While the heaviest concentration remains in [redacted]

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Recent terrorist operations suggest that the SL's plan to increase its activity is being implemented. In March, the SL mounted a highly successful attack on the Ayacucho prison and freed 247 inmates, including accused and convicted terrorists. More recently, numerous civil guard posts and small municipalities have been attacked. In August, the SL dynamited electrical towers near Lima, blacking out the city for several hours. At present, states of emergency exist in five provinces of Ayacucho Department, and one in Apurimac Department.

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