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Weekly Review

Special Report

Peru: The Revolution Moves On

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PERU

The Revolution Moves On

"It is absolutely indispensable to re-orient and re-build all of the state apparatus. A new socio-economic order, a new system of ownership, in a word, a new society, calls for a new type of government structure. The revolution of the armed forces will carry out a process of change in the economic, social, political, and cultural structures in order to attain a new society in which the Peruvian man and woman can live in freedom and justice. The armed forces, as promoters and principal supporters of the Peruvian revolution, will conduct the process of change until it has become irreversible." (emphasis added).

President Juan Velasco Alvarado, July 28, 1974.

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Summary

When the Peruvian armed forces, led by army General Velasco, took power from the duly elected president, Fernando Belaunde Terry, on October 3, 1968, most observers branded it simply another "palace coup" by pro-Western reactionaries. Within days, however, it became apparent that what was happening was more than a traditional military *golpe* perpetrated by disgruntled, status quo - oriented generals. Starting with the take-over of the large, US-owned International Petroleum Company refineries on October 9, 1968, and continuing through a series of agrarian, labor, and peasant reforms, the Velasco government has engaged in a wide-ranging process designed to re-orient Peruvian society completely away from the oligarchs and "foreign influences." Now, six years later, this process continues at an even faster rate, despite the fact that the military is still viewed with suspicion—if not hostility—by most Peruvians.

President Velasco has consistently and proudly maintained that the Peruvian revolution is "neither capitalist nor communist." Clearly, however, the emphasis has been on expanding state control of the economy and denying virtually any popular participation in the decision-making process. The timetable for instituting reforms remains purposely vague, but government leaders mince no words in telling the country that the "participatory democracy" so loudly touted by Velasco is still far from fruition.

Velasco and His Successor

The military-led revolution that began in 1968 strongly reflects President Velasco's views. He has been the most dynamic force behind the extensive program of domestic reform and foreign policy independence. Even though Velasco may be nearing the end of his tenure as chief executive, the revolution has been sufficiently institutionalized that the process will continue to mirror his attitudes after he leaves office.

Velasco is fully aware of the key role he has played in shaping the military-led revolution, but he knows he must step down eventually. He survived a near-fatal ruptured abdominal aneurysm in 1973 that cost him one of his legs. Although Velasco is active and dynamic at present, continuing medical problems could lead to a worsening of his condition at any time.

It is a foregone conclusion that his successor will be another army general—either a "radical"

(i.e., one favoring a strongly nationalistic foreign policy and an accelerated program of domestic radicalization) or a "moderate" (i.e., one more amenable to compromising with the US in foreign policy and favoring a slower and more deliberate approach to domestic reforms). Whoever succeeds Velasco, however, is not likely to alter the basic thrust of Peru's nationalistic and socialistic revolutionary experiment.

Although it will be the revolutionary junta—consisting of the chiefs of the three services—and not Velasco who will choose a new president, Velasco's views will weigh heavily in any deliberations. His present inclination is to name General Jose Graham Hurtado, who heads the influential Presidential Advisory Committee. Graham shares the President's radical views, but Velasco may still harbor reservations about his ability to carry out further revolutionary reforms. This concern for deepening the revolution has in turn prompted Velasco to name the army chief of staff, Francisco Morales Bermudez Cerrutti, to

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Morales Bermudez

Graham

become prime minister and minister of war next January.

Morales Bermudez, who served as minister of economy and finance from 1969 to 1973, is a leading moderate and has received credit for keeping Peru's economy afloat during these years. By keeping Morales Bermudez in a high government post, Velasco apparently hopes to take advantage of his proven pragmatism and his ability to get the job done, despite basic ideological differences between the two men. Although the prime ministership would seem to be the stepping stone to the presidency, Velasco now appears less willing to allow a moderate to succeed him than previously.

The extent of General Graham's support among key military leaders is not clear, but he is a loyal *velasquista* and probably could count on the support of most, if not all, of the army troop commanders. Important troop commands are in the hands of officers personally loyal to Velasco.

More moderate military leaders, including Morales Bermudez and Interior Minister Pedro Richter Prada, are in a weaker position now than a year ago. Under present circumstances, the moderates probably would be neither able nor willing to risk a decisive confrontation with the radicals to dispute the accession of Graham to the presidency. The navy—traditionally the most conservative service—is inferior to the army in both military and political power, and its current

minister, Admiral Jose Arce Larco, has sold out to Velasco in spite of traditionally strong animosities between the two services. General Rolando Gilardi Rodriguez, chief of the air force, also is in general agreement with Velasco's policies; he would probably support the President's choice of a successor unless it appeared that this would severely damage armed forces unity and effectiveness. One objection that might be raised by Peruvian officers—who are great respecters of seniority when it comes to filling high government posts—is that Graham is junior to Morales Bermudez. At this point, however, Velasco appears intent on radicalizing the revolution and thus would rather support Graham than Morales Bermudez. In the unlikely event that Velasco were forced from office, the scenario would become more complicated, with additional generals probably contending for the presidency.

Domestic Issues

Lack of popular support, especially in the past year, seems to have prompted Velasco to become even more high-handed and to accelerate the revolutionary process. This in turn has brought increasingly authoritarian measures, such as the forced resignation of a group of high-level naval officers and the expropriation of the country's major daily newspaper in July. These recent authoritarian moves reflect the President's personal sensitivity to criticism from any quarter; there is also a sincere belief among top military leaders that they as a group know what is best for Peru and are uniquely qualified to carry out the essential changes.

Both of these events have brought major issues to the fore. The ousting of Vice Admiral Vargas as navy minister last May made public the most serious inter-service split since the military took power. The press take-over sparked three days of anti-government demonstrations, which for the first time were led by middle-class activists in Lima. As the middle class becomes more actively involved in opposition activities, possibly including terrorism, support for Velasco by moderate military leaders could begin to erode. By using such tactics, businessmen and civilian political groups may try to convince military

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leaders that a continuation of Velasco's radical policies would bring chaos to the country. If such demonstrations recur, and if the opposition becomes more violent, moderate military leaders may come to believe the pace of socialization must be slowed if any semblance of national unity is to be maintained.

Although President Velasco frequently asserts that his government is establishing a "participatory democracy," he apparently does not intend to allow the "people" to assist the armed forces in setting national policies for the foreseeable future. The government has made some effort, however, to allow the working class and peasantry to participate in implementing these reforms through organizations such as social property enterprises and the ubiquitous National System of Support for Social Mobilization (SINAMOS), an organization designed to create popular support for the revolution. In addition, the government maintains contact with the Peruvian Communist Party.

The dialog between the military and the Communist Party does not reflect any government affinity with the party or its ideology, although some government officials do sympathize with its goals. Velasco and most of his associates, however, view the party as a channel of communication with the lower class and as a consistent supporter of government programs. Also, the President has tried to use the party to help suppress anti-government demonstrations, with little success. The dialog is likely to continue.

Contacts between the military and the mass-based opposition American Popular Revolutionary Alliance (APRA) wax and wane, and are clouded by 40 years of animosity. Still, there are those within the government who see in APRA, with its tradition of advocating non-Marxist economic reforms, a means of gaining more permanent and widespread support for the government's programs. Others, including Velasco, remain deeply suspicious of any civilian political organization and may lean toward eventually forming a separate, government-controlled party.

There are a large number of civilian experts serving in the military government, but only a handful really participate in the high-level decision-making process. This reflects the military's disdain for civilians as well as the general lack of rapport between these two groups. If, as is likely, middle-class opposition to the government increases, this group's access to top military leaders will be even more restricted. Civilians of more radical persuasions, on the other hand, may gain entree to the government. Those few civilians who have access to Velasco's inner circle have a long association with the President personally, and appear to share his views on domestic and foreign policy. Personal ambition may play a more important role than ideology in determining what line these civilians are willing to support.

The military's low regard for civilian politicians has been repeatedly demonstrated. In May, the government outlawed the Popular Action Party of former president Belaunde, and early in August, following the anti-government disturbances, arrested several of its officials.

The one party that the regime has not moved against decisively, however, is APRA, led by its still-popular 79-year-old founder, Victor Raul Haya de la Torre. One explanation may be Haya's continuing ability to draw large crowds whenever he makes a public address. Also, APRA has been able to attract the support of large numbers of young people, a feat that has eluded the military government.

The government would like to counter APRA's still widespread popularity, but its efforts thus far have been less than successful. The regime has used its own labor organization and SINAMOS to try to dilute APRA support among the peasants and lower class city dwellers. At the same time, lack of expertise and inter-service rivalries have hampered any moves by the government to establish its own political party. The government has made repeated attempts to gain the support of organized labor by offering compromise wage settlements and by appealing to workers' "revolutionary instincts." Nevertheless, individual labor groups have often opposed the

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regime when it has failed to satisfy their bread-and-butter demands.

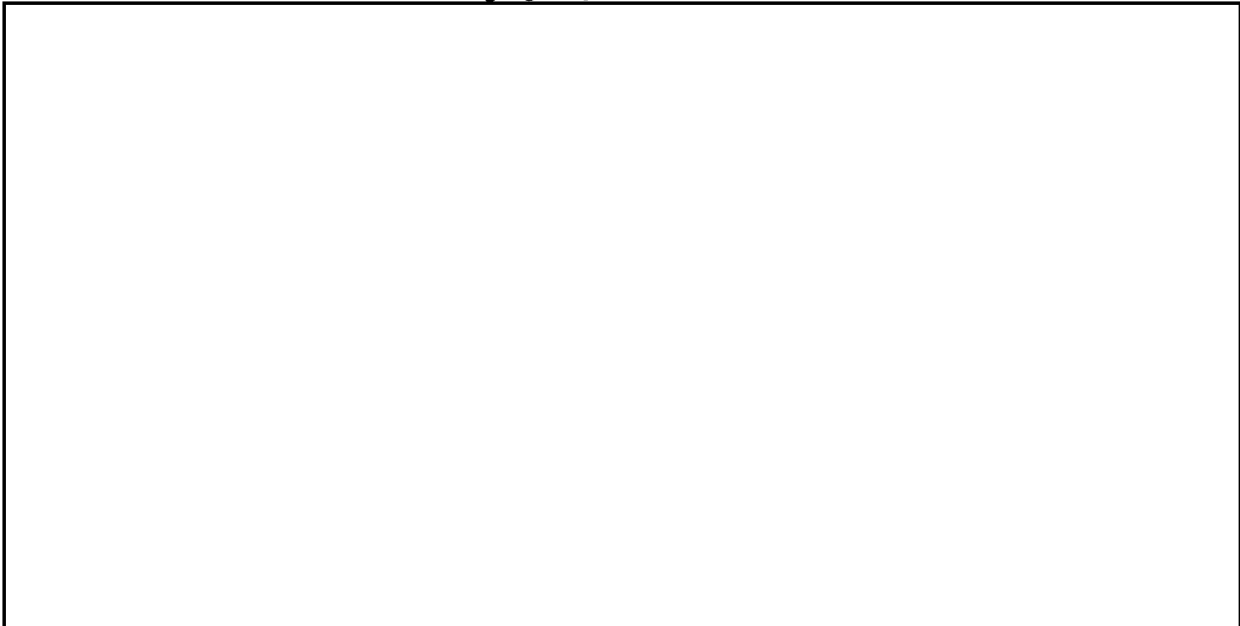
The Regime's Programs

Probably the most important and far-reaching plan of action yet instituted is the social property program, begun last May after a year of public scrutiny and criticism. Through a complicated bureaucratic mechanism, the government hopes eventually to transfer control of large numbers of businesses to worker-dominated groups. The "social property enterprises" thus formed, at least initially with government seed money, will in turn channel profits or "surpluses" into a fund for other enterprises. According to the decree law, every worker who participates in any social property enterprise will be a part owner of all others. At all times, however, it appears that the government will maintain a decisive—if camouflaged—voice in establishing, running, and, if necessary, terminating each enterprise. At least some of the theory behind this system derived from a study of the Yugoslav cooperatives.

The government has also developed two other mechanisms through which it intends to shift most economic power away from the oligarchs and private investors, and place it in the hands of the workers and the state. These are "industrial communities" and "basic industries." The government has allowed private individuals to maintain control of the smaller firms, at least for the time being. Notwithstanding these restrictive measures, some private businesses continue to make substantial profits.

As outlined in the so-called Inca Plan made public by President Velasco on July 28, the military envisages additional restructuring of virtually every phase of Peruvian life, including education, transportation, housing, and the judicial system. Although the plan—which Velasco claims was formulated prior to the 1968 take-over—is noticeably vague, the regime already has nationalized the important fishmeal and cement industries, begun a wide-ranging program of agrarian reform, and severely restricted or eradicated foreign investment in many areas heretofore heavily supported by outside capital. Indeed, the first major

Signing compensation agreement



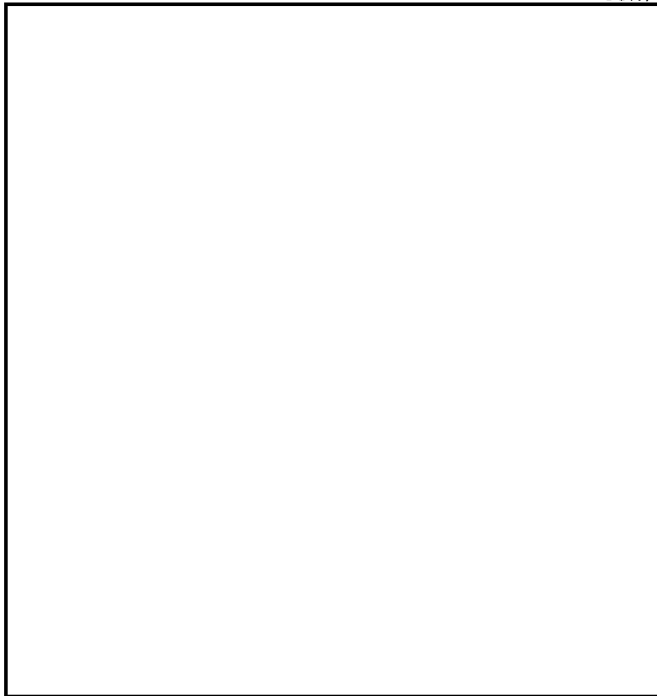
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step taken by the military government was the expropriation of the US-owned International Petroleum Company. And, on January 1, 1974, the government nationalized the huge, US-owned Cerro de Pasco mining complex.

This concern for "Peruvianizing" the nation's economy, however, has been tempered by the realization that Peru needs foreign loans and investment. This is particularly so in the exploitation of natural resources. Thus, foreign private investment is welcomed in certain instances, with restrictions that are somewhat more stringent than those adopted by the Andean Group. The government has just reached an agreement with a number of foreign investors to ensure the development of the large Cuajone copper reserves in the south, and it has obtained a substantial Japanese loan to construct an oil pipeline across the Andes.

It was this concern for continued investment that prompted Peru's leaders to reach a com-



Velasco and Castro

promise with US negotiators last spring, whereby Peru agreed to pay \$150 million in compensation for all US-owned businesses that had been nationalized since 1968. This removed the major irritant in US-Peruvian relations and has made subsequent talks on Eximbank loans and possible weapons purchases more cordial. The prospect of further nationalization of US-owned companies, such as Marcona Mining, is slight at present, but the possibility remains. Lima at any time may decide that the risks of another chill in relations with Washington are worthwhile if the political gains and the chances for other foreign investment outweigh any adverse economic effects.

Foreign Policy

The basic thrust of Peru's foreign policy since 1968 has been and is likely to remain strongly nationalistic and identified with the non-aligned movement. The tenor of US-Peruvian relations, however, would probably become more strained if a radical such as General Graham were to succeed Velasco. General Morales Bermudez, on the other hand, could be expected to follow a more friendly path in relations with Washington.

At the same time, if serious snags develop in particular bilateral negotiations, such as arms sales or restructuring the OAS, Lima would probably not hesitate to risk yet another round of strained relations to assert its independent foreign policy stance.

Although Allende's ouster in Chile has made the Peruvian government stand out as the most radical in South America—causing some concern in Lima—Peru's nonaligned rhetoric and espousal of Third World unity has not wavered. Lima has been in the forefront of those less-developed countries advocating economic unity against the super powers and has taken the lead in calling for changes in the inter-American system to lessen US influence and incorporate the concept of "economic aggression" into the OAS charter. These policies are sure to continue after Velasco's departure, although the tone will vary depending on who succeeds him.

Contacts with Cuba, which have developed rapidly since diplomatic and trade relations were

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re-established in July 1972, can be expected to become even more prominent if Graham becomes president, but will remain an important element of Lima's policies regardless of Velasco's successor. Several top military leaders maintain close ties with their Cuban counterparts and would like to see these contacts expanded.

Relations with the Soviet Union, China, and Eastern Europe have also moved forward under Velasco's leadership, primarily as a means of asserting Peru's independence. Along these same lines, in international forums Peru has supported representatives from "liberation" movements in the less-developed countries of Asia and Africa.

Aside from political considerations, Peru has derived some tangible economic benefits from its association with the Communist countries—credits, fisheries cooperation, and port construction. In the case of the Soviet Union, however, Peruvian leaders resent what they view as foot-dragging by Moscow in matters of economic assistance. The best example concerns Soviet assistance in developing the giant Olmos River hydro-electric project. Several feasibility studies have been completed in the last five years but credits for construction have not been advanced.

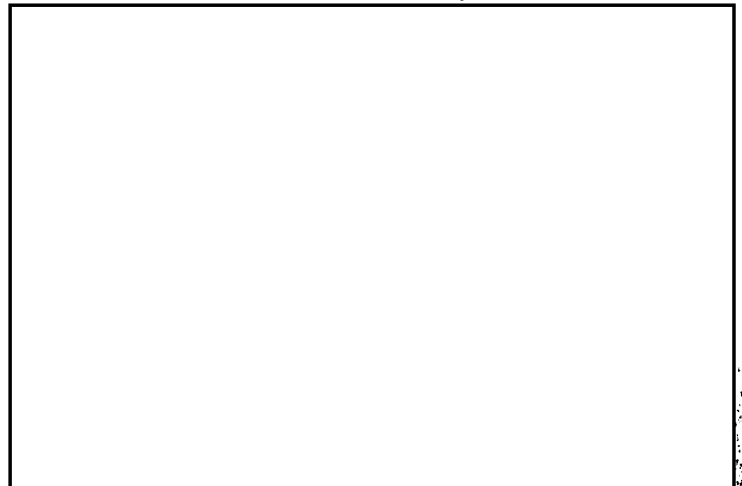
In fact, most Peruvian leaders remain suspicious of Soviet motives and are reluctant to allow more than a minimal number of advisers and technicians into the country. For instance, although Peru has accepted some 14 Soviet tank instructors, it reportedly has balked at allowing 250 Soviet technicians to enter the country to conduct yet another feasibility study of the Olmos project.

The Velasco government has been willing to accept Soviet offers whenever they appeared to be the most—or only—viable economic alternative, as when Lima purchased an estimated 150 or more T-55 medium tanks. The first tanks arrived late last year, and as many as 120 may now be in Peru. President Velasco decided to accept the long-standing Soviet offer after extensive study made it apparent that sufficient numbers of comparable US or European tanks were not available. While the Peruvians reportedly have

experienced some problems in learning to operate the tanks, they are considering other Soviet offers, including patrol boats and surface-to-air missiles.

Arms procurement has become an important facet of Peru's foreign policy and is likely to remain so. In addition to the Soviet tanks, Peru has accepted delivery of 65 105-mm. towed howitzers from Yugoslavia. Lima also is awaiting delivery of additional Mirage jets from France and assorted ground, air, and naval weapons from other Western suppliers. The country's military leaders feel a genuine need to modernize and expand their forces as well as a desire to maintain them as one of Latin America's best-equipped. Also of considerable importance to Peru is the possibility of a conflict with Chile.

Peruvian military doctrine traditionally has called for a war with Chile to regain territories lost in the War of the Pacific (1879-83). Revanchist sentiments have become more pronounced since the military took power in Chile last September. Some leaders in Lima apparently fear that Chile under military rule will be able to narrow the "arms gap," which now favors Peru, long before 1979—the centenary of the war and the date by which the Peruvian military believes the "disgrace" of the last century must be



Soviet-built T-55 tanks on parade

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corrected. Also, some top Peruvian officers reportedly fear that Chile may provoke a conflict with Peru in order to relieve domestic pressures being exerted on that regime.

Both Peru and Chile have noted publicly that bilateral relations are "normal" and that any talk of hostilities is unfounded. Despite such maneuvering, and despite the fact that chances of deliberate hostilities in the next year or two are not great, Peru will press ahead with its arms procurement program and plans to upgrade its military posture. Already, a large number of the

army's T-55 tanks have been stationed near the Chilean border.

Peru's sense of isolation as the area's most radical government is also linked to concern over alleged Brazilian plans to seek Pacific coast territory through Peru. These fears have prompted the army to implement a long-term military expansion program in the eastern jungle. The feeling of isolation has been and will continue to be an important factor affecting the domestic policies of the Velasco government. (SECRET NO FOREIGN DISSEM)

