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Meeting with Arq. Fernando Belaunde Terry,

President of Peru,

Buenos Aires, Argentina

December 10, 1983

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I. SETTING AND OBJECTIVES

President Belaunde is attending the Alfonsin inauguration as a gesture of Peruvian support for the process of democratization in the Hemisphere, and as a reaffirmation of the close historic ties that link the two nations. Peruvian solidarity with Buenos Aires led Belaunde to actively support the previous Argentine military regime in the Falklands' conflict, including offering to mediate the dispute and providing limited military assistance.

Despite his government's strong commitment to democracy, human rights and market-oriented economic policies, Peru is deeply troubled. This year will be one of the worst in Peru's modern economic history, with inflation now running at 130 percent, a projected 10-13 percent decline in Gross Domestic Product (GDP), a public sector deficit on the order of 12 percent of GDP and a heavy foreign debt burden. Its problems were compounded by \$1 billion in damages from the floods and a drought in 1983 brought on by the "El Nino" weather phenomenon. It is engaged in difficult negotiations with the

IMF which is urging the ~~the~~ IMF to take additional tough austerity

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measures to get its economic house in order. Harsh economic conditions will continue to provide fertile soil for the Sendero Luminoso (shining path) terrorists, a home-grown Maoist group which has plagued Belaunde since his inauguration in 1980.

The overwhelming economic problems and the government's apparent inability to curb the terrorism, despite an enhanced military commitment to the task, has eroded confidence in Belaunde's government. Popular dissatisfaction was reflected in last month's municipal elections when his Popular Action (AP) party ran a poor fourth. The mayoralty of Lima went to the Marxist candidate of a leftist coalition. The center-left APRA party swept most of the other municipal races and, at this stage, appears the likely winner in the ¹⁹⁸⁵ general elections. Belaunde reportedly is deeply troubled by the recent election results and by AP's poor prospects in the 1985 presidential race. Despite his multitude of problems, we believe that Belaunde will be able to remain in office to finish out his term.

Belaunde is one of the hemisphere's leading statesmen and democrats and is a friend of the US. (He spent most of the 1968-80 period of military rule in exile in the US). Belaunde was scheduled for a State Visit to the US in November 1982, but domestic political fallout from an unfortunate bilateral trade dispute over textiles forced him to cancel the trip. He is still very much interested in a visit and we will be looking

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HE REQUESTED A MEETING WITH YOU AT
BILWOS AINES.

into the possibility of an invitation during the latter half of 1984. ^{It} Your meeting offers an excellent opportunity to reiterate strong US support for the democratic process in Peru, sympathize with the country's current economic plight while urging agreement with the IMF and encourage continued cooperation in narcotics control.

II. ISSUES TO BE RAISED

1. Support for Democracy. We strongly supported the return to democratic rule in 1980 and endorse Belaunde's firm commitment to democracy throughout the hemisphere. We should congratulate Belaunde on the exemplary conduct of the November municipal elections which, if not to AP's liking in terms of the results, went off generally well despite the SL's efforts to disrupt them through intimidation and violence.

2. Dealing with the Economic Crisis. We recognize that many of Peru's economic problems are not of its making, including world recession, low prices for its primary exports and the damage wrought by "El Nino". We have tried to be helpful where we can and provided approximately \$90 million in emergency disaster relief and food aid. The IMF is urging additional politically unpopular austerity measures to get Peru back into compliance under its program; IMF, IBRD and other lenders are holding up additional loan disbursements until IMF agreement is reached. Belaunde would like us to intervene with

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the IMF to ease its conditions. While sympathetic to the GOP's problem, we agree with the IMF that the GOP can do more to get its own house in order. We should endorse the tough measures that Finance Minister Rodriguez Pastor is pushing to get Peru back into line with IMF targets for the benefit of the country's long-term recovery.

3. Support for Efforts to Curb Terrorism. Belaunde's two-pronged approach to this problem -- economic and infrastructure development to root out the causes of discontent in the depressed, largely Indian highlands, and an enhanced police/military presence in the affected zone -- is hampered by scarcity of resources, both economic and human. Its anti-terrorist efforts have led to periodic charges of ^{serious} human rights abuses, some of which have been substantiated. We should underscore ^{US} support for this dual approach, but at the same time indicate our hope that the government's counter-terrorist efforts do not blemish its ^{heretofore good} [excellent] human rights record.

4. Narcotics Control. Peru is a major supplier of coca, the raw materials for cocaine, and narcotics production has flourished in recent years. The GOP cooperates in interdicting narcotics trafficking and is committed to the principle of reducing coca leaf production to the level necessary for legitimate domestic consumption. We should encourage the GOP to pursue more vigorously its eradication/crop substitution

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