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Embassy of the United States of America



RELEASED IN PART
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MEMORANDUM OF CONVERSATION

DATE: August 24, 1990

EXTEND CLASSIFICATION

PARTICIPANTS: [Redacted]

Mark Dion, DCM

SUBJECT: First Weeks of the Fujimori Experiment

DISTRIBUTION: AMB, DCM, POL I, POL II, ECON, NAU, RSO, DEA,
USIS, USAID, COMM, DAO, INR/B, INR/IAA,
INR/T, ARA/AND/P, ARA/PPC, DIA/JSI-4

Before leaving Washington, [Redacted] invited me to lunch with a [Redacted] who has a wide range of contacts in Lima and travels here regularly [Redacted]

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He thinks the Hurtado Miller team has taken a tough courageous approach to breaking the back of inflation and turning the economy around. At the outset, he gave them about a 50/50 chance of success; now he would say 65/35. Getting through the first 15 days without a social explosion was an achievement; now prices are falling and inflation is declining. Much will depend on the support of foreign governments, chiefly the U.S., for social programs to protect the poor from malnutrition if not starvation. I recounted our efforts to date and how much more we hoped to do if the FY-91 AID program can be implemented.

On the basis of conversations over the last ten days with a broad range of politicians [Redacted]

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[Redacted] he had interesting views on what is going on here. He said the economic side of the house, or the formal government, seems to be running fairly well under the direction of Hurtado Miller, who is intelligent and decisive. Fujimori knows little about economics and has stayed out of his

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: JOHN L. MILLS
DATE/CASE ID: 6 MAY 2002 199700716
CLASSIFICATION: SECRET REASON: 25X1

"reality shock" for political reasons as well. The worrisome part is the manipulation of the "informal" government by some fairly shady characters in the SIN, including Vladimiro Montesinos. People are saying that some of the "good cops" were thrown out because they were getting too close to a narcotics racket that went high up in the Garcia regime. No one seems to think Fujimori is really in charge of this "informal" side of the regime either. He seems to be something of a prisoner of the military, not just of the SIN but of the regular army generals as well. But he is the key person in convincing the poorest Peruvians that the "ajuston" is required and that strikes or rioting will only make things worse.

There is also talk of a "condominium" with the military, with civilians running the formal government directing economic recovery while the army gets a free hand in fighting drugs and subversion. Many are concerned that human rights will suffer and in fact drug production might grow with military corruption, especially in the UHV. Everyone looks to the U.S. to "intervene" on the side of democracy, human rights, drug control and economic recovery. This is a tough agenda for the U.S. and the critics, here and in Washington, will be ready to pounce. It is well known that Alec Watson intervened strongly in January 1989 to forestall a threatened coup, one Alan Garcia himself was seeking to provoke, to let the military take on the burden of the economy he had wrecked. It is generally recognized that the support of the U.S. will be critical in keeping at least a formal democratic system in place in Peru and helping reintegrate the country into the world economy. Reinstatement in the IBRD and IMF can only come with the USG seal of approval.

At about this point in the lunch, four bombs went off in series, not too far away, and our conversation turned to the Sendero Luminoso. He believes that the gap between rich and poor, always a gulf here, has widened much further in recent weeks with the leap in prices and modest increase in salaries. The wealthy people have absolutely no social conscience, they never did, but it is more egregious than ever to hear them boasting about how little they now have to pay their yacht crew. He recounted the story of two wealthy women he has known since grade school topping each other with stories of their imported Italian lamps and French perfume. Their lack of feeling for the tough times that ordinary people face is appalling. He spoke about a new book out here on the background of SL militants. It is not the poorest rural and urban masses who drift into the SL but the angry young people from the working and lower middle classes who resent how the wealthy flaunt their privileges. He

talked about his daughter and her husband, both young MDs working in a hospital, who live rent free in his house, which he maintains at no cost to them; their combined salaries a month ago amounted to a little more than \$100; now they make less than \$40 and can barely afford to buy food; if they had to pay rent they would wind up in a pueblo joven, and they are medical doctors! Unless economic growth resumes within the next year and taxes are increased, and collected, to assure better sharing of the proceeds, SL will continue to grow.

Drafted:DCM:MDion *MD*