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ACTION ARA-16

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P 022225Z SEP 83  
 FM AMEMBASSY LIMA  
 TO SECSTATE WASHDC PRIORITY 857  
 INFO AMEMBASSY LA PAZ  
 AMEMBASSY QUITO  
 AMEMBASSY SANTIAGO

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E.O. QWETYC DECL: OADR  
 TAGS: PGOV, PTER, ECON, MILI, PE  
 SUBJECT: PERU: ASSESSMENT OF SHORT TERM PROSPECTS

REFS: A) STATE 241033 (NOTAL);  
 B) LIMA 8980;  
 C) LIMA 8432;  
 D) LIMA 8707;

1. SECRET - ENTIRE TEXT

2. SUMMARY: PERU IS PASSING THROUGH WHAT IS CERTAINLY ITS MOST DIFFICULT PERIOD SINCE RETURN TO CONSTITUTIONAL GOVERNMENT IN 1980. POLICY MAKERS DID NOT ANTICIPATE DEPTH OF CURRENT ECONOMIC CRISIS OR RESISTANCE TO NEEDED AUSTERITY MEASURES; THEY COULD NOT HAVE PREDICTED RECENT DEVASTATING FLOODS IN NORTH AND DROUGHT IN SOUTH; AND FOR LONG TIME THEY UNDERESTIMATED THREAT POSED BY SENDERO LIMINOSO (SL). GOVERNMENT LEADERS HAVE NOT SUCCEEDED IN RECENT MONTHS IN PROJECTING IMAGE OF SECRET SECRET

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BEING FIRMLY IN CHARGE. POPULARITY OF PRESIDENT

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United States Department of State  
 Office of FOI, Privacy, & Classification Review  
 Review Authority: MOSKOWITZ, SAM  
 Date: 04/21/95  
 Case ID: 9300517

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BELAUNDE'S GOVERNMENT HAS FALLEN, ACCORDING TO LATEST POLLS, FROM SOLID MAJORITY TO ABOUT 20 PERCENT PERSONAL ALTHOUGH PRESIDENTS PERSONAL IMAGE REMAINS GOOD. PERU WILL CONTINUE TO FACE A VARIETY OF VERY DIFFICULT PROBLEMS OVER THE NEXT FEW MONTHS. WHILE DEPRESSED EXPORTS AND OUTPUT MAY SLOWLY IMPROVE WITH RECOVERY IN U.S. AND WESTERN EUROPE, THERE WILL BE TIME LAG BEFORE PROJECTED IMPROVEMENTS SHOW UP IN PERUVIANS' POCKET BOOKS. MEANWHILE, INFLATION IS MAJOR FOCUS OF ECONOMIC TEAM -- AND GOP IS STAKING ITS HOPES ON A RISKY REDUCTION OF THE DEVALUATION RATE, COMBINED WITH RELUCTANT CONTROLS ON SOME PUBLIC-SECTOR PRICES. SECURITY FORCES APPARENTLY SUCCEEDED RECENTLY IN DAMAGING SENDERO LUMINOSO (SL) STRUCTURE IN LIMA AND ELSEWHERE, BUT UNLESS TOP LEADER SHIP IS CAPTURED, CURRENT LULL IN TERRORIST ACTIVITY IN LIMA MAY PROVE NO MORE THAN RESPITE. TERRORISTS REMAIN ACTIVE IN SEVERAL IMPORTANT SOUTH-CENTRAL PROVINCES. DESPITE THESE FACTORS WE DO NOT BELIEVE BELAUNDE GOVERNMENT IS IN IMMEDIATE DANGER. DEMOCRATIC OPPOSITION HAS STAKE IN SYSTEM ALMOST AS LARGE AS THAT OF GOVERNING COALITION PARTIES AND IS UNLIKELY TO DO ANYTHING TO JEOPARDIZE PROSPECTS FOR HOLDING OF 1985 ELECTIONS. THE ARMED FORCES, FOR ITS PART, REMAIN VIGILANT IN WINGS, BUT ITS PRESENT LEADERSHIP GIVES ASSURANCES THAT IT DOES NOT INTEND TO ABORT PRESENT POLITICAL PROCESS AND REIMPOSE MILITARY RULE. ARMY LEADERS ARE AWARE THAT PROBLEMS PERU FACES ARE EXTRAORDINARILY COMPLEX AND THAT MILITARY DOES NOT HAVE ANSWERS. MUNICIPAL ELECTIONS SET FOR NOVEMBER 13 WILL SERVE AS HEALTHY FOCAL POINT FOR PUBLIC

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ATTENTION FOR NEXT FEW MONTHS AND WILL CONSTITUTE A SAFETY VALVE FOR SOCIAL AND POLITICAL TENSIONS. SENDERO LUMINOSO PRESENTS ONLY SIGNIFICANT RISK TO SURVIVAL OF SYSTEM AND PROBABLY WILL DO ITS BEST TO SABOTAGE FORTHCOMING ELECTORAL PROCESS. BY INFLECTING ESCALATION AMOUNT OF DAMAGE ON LIMA INSTALLATIONS AND PEOPLE, TERRORISTS COULD PROVOKE CLAMOR FOR MILITARY TO TAKE OVER TO ASSURE PUBLIC ORDER. IF THIS DEVELOPS, WE BELIEVE ARMED FORCES WILL DEMAND AND OBTAIN A FREER HAND TO DEAL WITH TERRORISTS RATHER THAN

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SEIZE POWER. END SUMMARY.

3. DESPITE RECENT MEASURES TO SLOW INFLATION AND REVERSE DECLINING OUTPUT, THE NEXT SEVERAL MONTHS WILL BE ECONOMICALLY VERY DIFFICULT -- AND PRESSURES FOR ABANDONMENT OF AUSTERITY WILL INCREASE. FINANCE MINISTER RODRIQUEZ PASTOR'S NOTABLE SUCCESS IN NEGOTIATING A FOREIGN-DEBT PACKAGE BOUGHT ONLY LIMITED BREATHING SPACE: LAST WEEK HE WAS FORCED TO ACCEPT LEGISLATED CONTROLS ON SOME PUBLIC-SECTOR PRICES, ONLY WORSENING THE FISCAL DEFICIT AND MAKING COMPLIANCE WITH IMF COMMITMENTS MORE UNLIKELY (REF.B). THE MINISTER'S MID-AUGUST EFFORT TO FORESTALL SUCH CONTROLS ANNOUNCEMENT OF PRE-FIXED DEVALUATION RATES (UNDER FOUR PERCENT MONTHLY). A SMALL INCREASE IN INTEREST CEILINGS, AND ONLY NOMINAL INCREASES IN INTERNAL CREDIT (REF C) VIRTUALLY REQUIRE GOP TO SHOW SOME SUCCESS IN REDUCING INFLATION IN REMAINDER OF 1983. WITH SUGUST EXCEEDING THE EIGHT PERCENT JUMP IN LIVING COSTS OF RECENT MONTHS, GOVERNMENT MUST CUT INFLATIONARY EXPECTATIONS QUICKLY OR ELSE PAST YEAR'S GAINS IN EXCHANGE-RATE PARITY (20 POINTS, ACCORDING TO CENTRAL RESERVE BANK (BCR) PRESIDENT RICHARD WE3B IN AN AUGUST 28 NEWSPAPER INTERVIEW) AND PUBLIC-SECTOR FINANCE WILL EVAPORATE. THE ADDITIONAL FISCAL RISK TO WHICH THE GOVERNMENT COMMITTED ITSELF IS HIGHTENED BY ANNOUNCED WAGE INCREASES  
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-- AN AVERAGE 15 PERCENT FOR SEPTEMBER 1, AND AN UNSPECIFIED NOVEMBER 1 ADJUSTMENT FOR PUBLIC EMPLOYEES AND OTHERS NOT INCLUDED IN COLLECTIVE-BARGAINING AGREEMENTS.

4. BEYOND TAKING GREATER RISK IN INFLATION FIGHT, THE GOP IS ALSO CAUTIOUSLY ATTEMPTING TO RESTIMULATE DEMAND ON A SELECTIVE BASIS IN ORDER TO COPE WITH THE 13-PERCENT DROP IN REAL OUTPUT IN 1983, FIRST HALF (VS A SCANT 1.7 PERCENT INCREASE IN 1982). FULLY HALF OF THE LOST OUTPUT IS ASCRIBED TO THE DIRECT EFFORT OF DISASTROUS NORTHER FOLDS AND SOUTHERN DROUGHT EARLIER THIS YEAR, THE FALL IN GNP IS ALSO A CONSEQUENCE OF THE GOP'S INABILITY TO CUT OR FINANCE EXTERNALLY ITS CONTINUING

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P R 022225Z SEP 83  
 FM AMEMBASSY LIMA  
 TO SECSTATE WASHDC PRIORITY 0858  
 INFO AMEMBASSY LA PAZ  
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LARGE DEFICIT, LEADING TO A SEVERE REDUCTION IN REAL PRIVATE CREDIT AND DRASTIC CUTS IN PUBLIC-SECTOR INFRASTRUCTURE PROJECTS. THE GOP IS UNWILLING TO FORCE CUTS IN STATE-OWNED COMPANIES -- HAVING IN EFFECT SHELVED EARLIER PLANS TO REPRIVATIZE MANY ENTERPRISES BUILT UP BY THE 1968-80 MILITARY REGIMES -- AND INSTEAD SHARPLY REDUCED SUPPORT FOR INVESTMENT PROJECTS, INCLUDING COUNTERPART WHICH WOULD HAVE PERMITTED GREATER DRAWDOWNS OF FOREIGN ASSISTANCE. RECENT CABINET CHANGES OFFER HOPE THAT KEY PROGRAMS TO STIMULATE RECOVERY -- BOTH FROM THE RECENT CLIMATOLOGICAL PROBLEMS AND THE VICISSITUDES OF THE MILITARY PERIOD -- WILL FINALLY RESPOND BETTER TO PERU'S PRIORITY DEVELOPMENT NEEDS.

5. THE JUST-RELEASED 1984 BUDGET CONTINUES TIGHT FUNDING LEVELS FOR INVESTMENT AND -- PERHAPS UNREALISTICALLY -- ASSUMES A BILLION DOLLARS IN NET NEW FOREIGN FINANCING FOR THEM. THE \$3.7 BILLION (USING A MID-1984 RATE OF 3,000 SOLES PER DOLLAR -- NOT UNREALISTIC GIVEN THE BUDGET'S ASSUMPTION OF 70-PERCENT 1984 INFLATION) BUDGET  
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WILL BE THE SUBJECT OF POLITICAL STRUGGLES IN THE NEXT FEW MONTHS (SEE SEPTTEL). DELAYED PAYMENT OF SUPPLIERS AND

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CONTRACTORS -- THE ACKNOWLEDGED "ULTIMATE BUDGET BALANCER," ACCORDING TO OUR BCR SOURCES -- WILL UNDOUBTEDLY ADD TO THIS BITTERNESS, ESPECIALLY SINCE THE GOP TACITLY ENCOURAGED THEM TO BELIEVE THE FOREIGN-DEBT NEGOTIATIONS WOULD PRODUCE ADEQUATE NEW RESOURCES.

6. IRONICALLY, THE BALANCE OF PAYMENTS IS NO LONGER AS PRESSING A CONCERN AS EARLIER. NOT ONLY DID THE JUNE 29 COMMERCIAL-BANK RESCHEDULING (ALMOST \$900 MILLION THROUGH MARCH 1984, PLUS \$450 MILLION IN NEW LENDING) AND THE JULY PARIS CLUB OFFICIAL-DEBT EXERCISE REDUCE THE CAPITAL-ACCOUNT PRESSURE, BUT ALSO HIGHER MINERALS PRICES AND RECESSION-REDUCED IMPORTS CONSIDERABLY IMPROVED THE TRADE ACCOUNT (SEE REF D). THE CURRENT ACCOUNT DEFICIT IS LIKELY TO BE REDUCED TO ONLY \$1.1 BILLION THIS YEAR (VS. \$1.6 BILLION IN 1982), WHICH WITH IMF AND WORLD BANK HELP (I.E., INCLUDING THE STRUCTURAL ADJUSTMENT LOAN OF \$200 MILLION, NOW EXPECTED TO BE SIGNED IN OCTOBER) SHOULD MEAN A LOSS OF RESERVES OF AROUND THE \$100 MILLION PROJECTED IN THE FUND AGREEMENT. NONETHELESS, THE IMF REVIEW IN EARLY SEPTEMBER "WILL NOT BE EASY", ACCORDING TO OUR BCR CONTACTS -- WHO NONETHELESS EXPECT PERU WILL CONTINUE TO QUALIFY FOR DRAWINGS. THE "PROGRAMMED DEVALUATION" COMMITMENT (3.9 PERCENT SEPTEMBER 3.8 PERCENT OCTOBER, AND 3.6 PERCENT NOVEMBER) HAD A POSITIVE IMPACT IN THE EXCHANGE MARKET: THE SPREAD BETWEEN THE OFFICIAL RATE AND THE DOLLAR-CD RATE (THE EFFECTIVE PARALLELED RATE) DECLINED FROM OVER SIX PERCENT TWO WEEKS AGO TO ONLY TWO PERCENT IN THE PAST WEEK. TRADERS TELL US THERE IS A REAL REDUCTION IN HEDGING COSTS AS A RESULT OF THE PRE-FIXED

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RATES -- ADDING TO THE POSSIBILITY THAT THE GOP'S REVISED APPROACH MAY WORK IN THE SHORT TERM. REDUCED MONETARY-POLICY FLEXIBILITY IS NOT A GOOD SIGN FOR THE LONGER TERM, HOWEVER.

7. IN SHORT, THEN, THE NEXT SEVERAL MONTHS WILL BE PAINFUL FROM ECONOMIC STANDPOINT. REAL OUTPUT WILL PROBABLY FALL BY UP TO 12-13 PERCENT FOR THE YEAR AS A WHOLE. UNEMPLOYMENT AND ESPECIALLY UNDEREMPLOYMENT WILL INCREASE, HUNGER WILL STALK THE DEVASTATED SOUTHERN HIGHLANDS, AND INFLATION FOR THE YEAR MAY SURPASS

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120 PERCENT -- EVEN ASSUMING THE RATE CAN BE BROUGHT INTO THE 5-6 PERCENT MONTHLY RANGE IN SEPTEMBER-DECEMBER. CURRENT GOP EFFORTS TO MITIGATE THE IMPACT AT LEAST FOR THE WORKING POOR INCLUDE SKEWING THE WAGE INCREASE IN FAVOR OF THE LOWER-PAID (CONTROLLED PRICES FOR BREAD, RICE, MILK, AND FUELS ARE ALSO AIMED AT REDUCING DISCONTENT, ALBEIT WITH ELECTORAL CONSIDERATIONS IN MIND.) WITH A LITTLE LUCK, THE GOP'S GAMBLE ON REDUCING INFLATION ENOUGH TO OFFSET THE INCREASED FISCAL PRESSURES (AND, IN THE LONGER TERM, THOSE STEMMING FROM REAL APPRECIATION OF THE SOL), WILL SEE POSITIVE RESULTS BY YEAREND.

8. NATURE OF SENDERO LUMINOSO'S JULY ATTACKS IN LIMA FUNDAMENTALLY ALTERED THE TERRORISM EQUATION. THEY SUCCEEDED FOR FIRST TIME IN SCARING PEOPLE BADLY IN CITY WITH BULK OF PERU'S WEALTH AND ALMOST ALL ITS POLITICAL POWER. MOST IMPORTANT RESULT THUS FAR HAS BEEN TO INCREASE SUBSTANTIALLY PRESSURES ON GOP TO BE MORE AGGRESSIVE IN COMBATING TERRORIST MENACE. PRESSURES EMANATE NOT ONLY FROM ELITE, BUT ALSO FROM AVERAGE CITIZENS WHOSE LIVES ARE DISCOMBOBULATED BY BLACKOUTS, ETC., AND WHO FEAR BECOMING INNOCENT VICTIMS OF A SENDERO CAPER. AT DARKEST MOMENTS IN JULY SENIOR POLITICAL FIGURES WERE SAYING IN PRIVATE THAT SURVIVAL  
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OF DEMOCRATIC SYSTEM IN PERU DEPENDED ON GOVERNMENT'S SUCCESS IN STOPPING SENDERO. THEIR CONCERN WAS THAT IF TERRORISTS WERE TO CONTINUE TO BE ABLE TO ATTACK WITH APPARENT IMPUNITY TARGETS OF THEIR OWN SELECTION IN LIMA, MILITARY MIGHT SEE ITSELF OBLIGED TO STEP IN TO PRESERVE PUBLIC ORDER.

9. POLICE INVESTIGATIVE EFFORTS IN LATE JULY AND EARLY AUGUST WERE APPARENTLY HIGHLY SUCCESSFUL AND RESULTED IN CAPTURE OF SIGNIFICANT NUMBER OF SL (11 OF 18 SPECIAL DETACHMENT) COMMANDOS AND IN DISRUPTING SL NETWORK IN LIMA. SINCE ATTACK ON MORAFLORES PIP STATION JULY 25, THERE HAVE BEEN NO FURTHER TERRORIST ATTACKS

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P R 022225Z SEP 83  
 FM AMEMBASSY LIMA  
 TO SECSTATE WASHDC PRIORITY 0859  
 INFO AMEMBASSY LA PAZ  
 AMEMBASSY QUITO  
 AMEMBASSY SANTIAGO

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IN LIMA. LULL HAS PERMITTED POLITICAL ATMOSPHERE TO DECOMPRESS SOMEWHAT. SECURITY FORCES, THOUGH, HAVE NOT YET SUCCEEDED IN KILLING OR CAPTURING MEMBERS OF SENDERO NATIONAL LEADERSHIP. ORGANIZATION SEEMINGLY RETAINS CAPABILITY TO REGENERATE WHERE IT HAS SUFFERED DEFEATS AND REMAINS ACTIVE IN SEVERAL IMPORTANT PROVINCES. SENDERO'S COMMAND STRUCTURE HAS RENDERED EFFORTS BY GOVERNMENT FORCES TO OBTAIN PRIOR INTELLIGENCE ON TERRORIST STRIKES UNAVAILING. UNTIL NOW, POLICE HAVE BEEN LIMITED, AT LEAST IN LIMA, TO REACTING EFFECTIVELY IN AFTERMATH OF TERRORIST ACTIONS. WE CANNOT BE SURE HOW LONG IT WILL TAKE FOR SENDERO TO RECONSTRUCT ITS CADRES AND REINITIATE OPERATIONS IN LIMA, ALTHOUGH BEST GUESS IS THAT IT MAY TAKE A FEW MONTHS. IF AND WHEN SL LAUNCHES ANOTHER SERIES OF CONCERTED ATTACKS IN CAPITAL THERE MAY WELL BE A REPEAT OR EVEN AN ESCALATION OF PRESSURES AND TENSIONS WHICH AROSE IN JULY.

10. GOVERNMENT'S PRIMARY TACTIC AT PRESENT TIME APPEARS  
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TO BE TO INTENSIFY WITHOUT GREAT PUBLIC FANFARE POLICE, ARMY,  
 AND MARINE ANTITERRORIST CAMPAIGNS, PRIMARILY IN MOUNTAIN

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DEPARTMENTS WHICH ARE SENDERO HEARTLAND. WE HAVE EVIDENCE OF SUBSTANTIAL INCREASES IN FORCE COMMITMENTS AND DEPLOYMENTS IN REGION, WHICH, ACCORDING TO REPORTS, HAVE YIELDED POSITIVE RESULTS IN A NUMBER OF LOCALITIES. BUT UNDERLYING PROBLEMS REMAIN. POLICE FORCES IN AYACUCHO ARE BASICALLY UNDERTRAINED AND INEPT. INTERNECINE RIVALRIES CONTINUE TO COMPLICATE OVERALL EFFORT. AND SENDERO REMAINS ELUSIVE, DRAWING ON COMBINATION OF ALMOST MYSTICAL APPEAL TO A FEW ANDEAN YOUTH AND BRUTE COERCION. OVER TIME GOVERNMENT MAY HAVE TO DO MORE THAN STEP UP REPRESSIVE EFFORT TO DEFEAT SENDERO, BUT WITHOUT SUCH AN EFFORT BY SECURITY FORCES NOW, THERE IS LITTLE DOUBT THAT SENDERO WILL SOON BECOME AN EVEN GRAVER THREAT TO PERUVIAN SOCIAL FABRIC AND DEMOCRACY.

11. INTERNATIONAL PRESSURES MOTIVATED BY HUMAN RIGHTS CONCERNS ARE A COMPLICATING FACTOR. IN COURSE OF CARRYING OUT ANTITERRORIST CAMPAIGN, IT IS ALMOST CERTAIN THAT SECURITY FORCES HAVE COMMITTED SOME HUMAN RIGHTS VIOLATIONS. THESE ARE NOT SANCTIONED OR CONDONED BY TOP POLITICAL LEADERSHIP BUT NEITHER ARE THEY PUBLICLY DENOUNCED. AS POINTED OUT ON SEVERAL OCCASIONS, BELAUNDE CONSIDERS HIMSELF FIRST AND FOREMOST A HUMANIST AND A CHAMPION OF HUMAN RIGHTS. RECENT ACCUSATIONS BY AMNESTY MAY BE SUBJECT TO DOUBT, BUT THEY WILL CERTAINLY LEAD TO CLOSER SCRUTINY OF GOP ANTITERRORIST CAMPAIGN BY INTERNATIONAL HUMAN RIGHTS COMMUNITY AND, PERHAPS, TO FURTHER ACCUSATIONS. IT WILL BE EXTREMELY DIFFICULT FOR BELAUNDE TO ACCOMMODATE THESE CONCERNS BY ISSUING ORDERS WHICH MIGHT APPEAR TO  
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WEAKEN SECURITY FORCES' HAND. AS NOTED ABOVE, HE IS UNDER PRESSURE DOMESTICALLY TO DO SOMETHING ASAP TO DEAL WITH TERRORIST THREAT. HE HAS TO BALANCE HIS OBVIOUS CONCERN WITH HUMAN RIGHTS WITH NEED NOT TO GIVE CAUSE TO HARDLINE CRITICS TO SUGGEST THAT HE AND DEMOCRATIC SYSTEM ARE TO BLAME FOR FAILURE TO DEAL EFFECTIVELY WITH SENDERO.

12. EVEN IN EVENT OF RENEWED SENDERO STRIKES IN LIMA, WE DO NOT BELIEVE MILITARY WILL SEIZE POWER UNLESS SENDERO ATTACKS ARE DEVASTATING IN NATURE AND PROLONGED

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OVER WEEKS OR MONTHS. ARMED FORCES RECOGNIZE THAT MILITARY TAKEOVER IS WHAT SENDERO WANTS. IT WOULD PLAY INTO SENDERO HANDS BY STRIPPING CENTRAL AUTHORITY OF LEGITIMACY, POLARIZING COUNTRY, AND EXPANDING SENDERO'S POTENTIAL SUPPORT BASE. FURTHERMORE, IN CRISIS SITUATION BROUGHT ABOUT BY TERRORIST ACTIONS, MILITARY COULD ALMOST CERTAINLY OBTAIN FROM BELAUNDE IMPOSITION OF A STATE OF SEIGE AND FREER HAND IN DEALING WITH PROBLEM PRESIDENT HAS THUS FAR REFUSED TO GRANT. A "GOLPE", IN THOSE CIRCUMSTANCES, WOULD ADD LITTLE TO MILITARY CAPABILITIES TO CONFRONT SENDERO MENACE. A FURTHER SIGNIFICANT FACTOR IS THAT TAKING POWER ENTAILS ACCEPTING RESPONSIBILITY FOR MOST OF NATIONAL PROBLEMS UNRELATED TO TERRORISM. BASED ON WHAT THEY HAVE TOLD AMBASSADOR AND MILITARY ATTACHES AND WHAT WE CAN DISCERN, ARMED FORCES LEADERS HAVE NO DESIRE TO ASSUME THESE BURDENS.

13. AT WHAT IS TIME OF PARTICULAR CHALLENGE, BELAUNDE ADMINISTRATION FAILS TO PROJECT PUBLIC IMAGE OF BEING SOLIDLY IN CHARGE. THERE WERE SOME NOTABLE EXAMPLES OF SEEMING CONFUSION AT TOP RANKS WITHIN PAST FEW WEEKS. --PRESIDENT INSISTED REPEATEDLY THAT THERE IS FOREIGN SUPPORT FOR SENDERO LUMINOSO (SL). ON SEPARATE OCCASIONS PRIME MINISTER SCHWALB AND INTERIOR MINISTER PERCOVICH TOLD PRESS DAY AFTER BELAUNDE'S COMMENTS TO THAT EFFECT  
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THAT GOP HAS NO EVIDENCE OF SUCH FOREIGN INVOLVEMENT.  
--DISPUTE BETWEEN ECONOMICS MINISTER RODRIGUEZ PASTOR AND (AP SEC GEN) SENATOR ALVA ORLANDINI ON PRICE FREEZE POLICY WAS AIRED IN PUBLIC AND IN CONGRESS. WHILE PROBLEM WAS FINALLY RESOLVED AFTER PRESIDENTIAL INTERVENTION, IT CREATED (NOT INACCURATE) PUBLIC IMPRESSION THAT GOVERNMENT PARTY DID NOT, IN FACT, AGREE UPON ECONOMIC POLICY.  
--DECISION TO MOVE LEGUIA TO LABOR MINISTRY ONLY 48 HOURS AFTER HE WAS APPOINTED EDUCATION MINISTER AGAIN SUGGESTED LACK OF ORGANIZATION AND PRIOR PLANNING.  
--ECONOMIC TEAM MINISTERS DISAGREED IN RECENT

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STATEMENTS REGARDING LIKELY 1983 INFLATION RATE.

14. PRIME MINISTER SCHWALB MUST BEAR PART OF RESPONSIBILITY FOR SEEMING DESARRAY. HE DOES NOT HAVE SAME TAKE CHARGE CAPABILITY HIS PREDECESSOR, MANUEL ULLOA, DISPLAYED. BUT BELAUNDE HIMSELF, IS ALSO RESPONSIBLE. HE HAS NOT SUCCEEDED IN CONVINCING PUBLIC THAT GOVERNMENT HAS A GRIP ON EITHER ECONOMIC OR TERRORIST PROBLEMS.

15. ALTHOUGH IT MAY BE SOME WHAT EXAGGERATED AND UNFAIR, PERCEPTION EXISTS FAIRLY COMMONLY THAT GOP DOES NOT HAVE A WORKABLE COUNTERINSURGENCY STRATEGY. GOVERNMENT FIGURES APPEAR INEPT OR UNDIRECTED WHEN WITHOUT SUPPORTING PROOF THEY LASH OUT AT CHURCH, FOREIGN FOUNDATIONS, PRESS, AND FORMER MEMBERS OF ARMED FORCES SUPPORTING TERRORISM.

KEYNOTE OF PRESIDENT'S JULY 28 (STATE OF UNION )ADDRESS TO NATION WAS PROPOSED CONSTITUTIONAL AMENDMENT TO EXPAND APPLICATION OF DEATH PENALTY TO CONVICTED

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TERRORISTS. A MONTH LATER, DEATH PENALTY AMENDMENT HAS STILL NOT BEEN FORMALLY INTRODUCED IN CONGRESS.

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CONCLUSION OBSERVERS DRAW IS THAT EITHER BELAUNDE DID NOT COUNT VOTES IN SENATE ADEQUATELY BEFORE MAKING PROPOSAL, OR THT HIS RHETORIC WAS MERELY INTENDED TO *TO GIVE FLEETING SENSE OF MOTION* IN AREA IN WHICH GOVERNMENT HAS FEW IMAGINATIVE IDEAS. NEITHER CONCLUSION STIMULATES CONFIDENCE.

16. PUBLIC APPROVAL RATINGS FOR GOVERNMENT PLUMRETED IN POLLS IN PART BECAUSE OF THIS PERCEIVED CONFUSION. IT IS ENTIRELY POSSIBLE THAT GOVERNMENT PARTY WILL TAKE A BEATING IN NOVEMBER COUNTRY-WIDE MUNICIPAL ELECTIONS. IF AP CANDIDATE WINS IN LIMA IT WILL BE BECAUSE OF HIS POSITIVE IMAGE AS AN INDEPENDENT AND ANOT RESULT OF HIS LINKS TO AP.

17. IN A SENSE, APPROACHING ELECTIONS ARE PLAYING A POSITIVE ROLE AT CURRENT TIME IN PRESERVING SOCIAL COHESIVENESS AND CHANNELING POLITICAL ENERGY IN DEMOCRATIC DIRECTION. WHILE ONLY LOCAL GOVERNMENT POSITIONS ARE AT STAKE, ELECTIONS THEMSELVES REMIND DEMOCRATIC POLITICAL PARTIES THAT NATIONAL ELECTIONS ARE COMING IN 1985. MAJOR PARTIES ALL BELIEVE THEY CAN WIN IN 1985.

18. APRA, WHICH HAS HISTORY OF BEING DENIED POWER AFTER WINNING ELECTIONS, IS PARTICULARLY SENSITIVE TO DANGER OF ROCKING BOAT. WHEN APRA SEC GEN RECENTLY CALLED FOR NATIONAL MOBILIZATION TO PROTEST ECONOMIC POLICY, BELAUNDE IMMEDIATELY RESPONDED THAT APRA NEEDED TO "PROTECT HIS BACK" TO PRESERVE DEMOCRATIC SYSTEM. ALTHOUGH GARCIA REBUTTED PRESIDENT  
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AND INDICATED MOBILIZATION WOULD PROCEED IN SEPTEMBER, POINT WAS MADE. APRA WILL CERTAINLY STEP UP EFFORT TO STAKE OUT ITS POSITION AS "THE OPPOSITION" PRIOR TO MUNICIPAL ELECTIONS BUT IT IS UNLIKELY TO ROIL WATERS IN SUCH A WAY AS TO INCREASE SIGNIFICANTLY RISK THAT POLITICAL PROCESS MIGHT BE ABORTED. UNLESS ECONOMIC SITUATION DETERIORATES STILL FURTHER SAME IS PROBABLY TRUE OF MARXIST PARTIES. MARXIST'S RHETORIC AND POLITICAL POSTURING, HEVER, IS CERTAIN TO BE PARTICULARLY SHARP IN PRE-ELECTON PERIOD.  
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