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E.O. 13356: DECL. DATE
TAGS: PCOV, PE
SUBJECT: GARCIA MOVES TO SHAKE OFF COP/APRA LETHARGY

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: THREE MONTHS AFTER IT WON 65 PERCENT OF LAST NOVEMBER'S NATIONWIDE MUNICIPAL ELECTIONS, THE GARCIA ADMINISTRATION HAS BEEN STRUGGLING TO ACHIEVE MOMENTUM AND A SENSE OF DIRECTION THAT THE ELECTIONS LOGICALLY SHOULD HAVE MADE POSSIBLE. A NUMBER OF POLITICAL AND ECONOMIC PROBLEMS HAVE PUT THE ADMINISTRATION OFF BALANCE: THE LONG WAIT FOR FINAL ELECTORAL RESULTS IN LIMA; THE DEBATE OVER GARCIA'S REELECTION; A RESURGENCE OF TERRORISM; NEW ECONOMIC CONCERNS; THE PRESIDENT'S ABSENCE ABROAD FOR TEN DAYS AND A WIDESPREAD FEELING HERE THAT NEITHER TRIP -- PARTICULARLY THE ONE TO MANAGUA -- WENT WELL; AND AN UNUSUAL DEGREE OF APRA BICKERING IN FULL VIEW OF THE PUBLIC. THE PRESIDENT'S ANGRY OUTBURST ON RETURNING FROM INDIA FOCUSED PUBLIC ATTENTION ON GOVERNMENT AND PARTY DIFFICULTIES. BUT NOW THE PRESIDENT -- BY MOVING AGAINST TERRORISTS IN THE UNIVERSITIES AND BY CALLING EXTRAORDINARY LEGISLATIVE SESSIONS IN FEBRUARY AND MARCH -- SEEMS TO HAVE SEIZED THE INITIATIVE. END SUMMARY

3. SOMBER MOOD.

A SENSE OF THINGS THREATENING TO COME UNSTUCK HAS BEEN IN THE AIR HERE FOR THE LAST TWO YEARS OR SO. OUR ATTENTION -- AND THAT OF ALMOST EVERYONE ELSE -- WAS SEIZED BY THE PRESIDENT'S OUTBURST ON RETURNING FROM INDIA TO FIND TERRORISM AND INFLATION UP AND A GOOD PORTION OF HIS CABINET OUT OF TOWN

... THAT THE GOVERNMENT SHOULD BE SUFFERING FROM LETHARGY. IN SOME RESPECTS SURPRISING. BY ALL RIGHTS, THE PRESIDENT AND APRA SHOULD HAVE RECEIVED A POWERFUL POLITICAL BOOST FROM LAST NOVEMBER'S NATIONWIDE MUNICIPAL ELECTIONS. APRA WON 65 PERCENT OF THE CONTESTS. BEYOND LIMA FROM THE MARXIST OPPOSITION, SHOWED STRENGTH IN AREAS OF STUDENT ACTIVITY AND, IN PARTICULAR, DEALT THE MORE RADICAL UNITED LEFT WITH CANDIDATES A DEFEAT THAT CAUGHT THEM BY SURPRISE. FOR ALL THE DISPUTED THAT THE ELECTIONS CHALLENGED, APRA AND OPPOSITION APPEARED TO AGREE THAT THE PRESIDENT'S INTERVENTION HAD MADE A DECISIVE DIFFERENCE IN APRA'S FAVOR. WITH CONTROL OF THE LEGISLATURE, A REINFORCED ELECTORAL MANDATE, AND NO MORE ELECTIONS FOR THREE YEARS, THE GARCIA ADMINISTRATION APPEARED POISED TO BEGIN THE NEW YEAR IN A POSITION OF AUTHORITY.

5. THE IMPACT OF VICTORY WAS DISSIPATED, HOWEVER. FOR ONE THING, OPPOSITION SUITS TO ANNUL THE ELECTIONS COMBINED WITH THE ELECTORAL BOARDS' INABILITY TO COUNT VOTES QUICKLY TO PUT APRA AND THE GOVERNMENT ON THE DEFENSIVE. BY THE TIME THE PROTESTS OVER THE LIMA MAYORALTY RACE WERE RESOLVED IN MID-JANUARY, ELATION OVER A SOMEWHAT UNSPECIFIED VICTORY HAD TURNED TO RELIEF THAT THE POST-ELECTORAL RISKY WAS FINALLY AT AN END. WHEN JORGE DEL CASTILLO FINALLY TOOK OFFICE JANUARY 21, IT WAS A LACHRYMOUS, FLAT OCCASION. THE REELECTION ISSUE WAS A SECOND MAJOR FACTOR. PRIME MINISTER ALVA CASTRO SURFACED THE ISSUE ONLY A WEEK AFTER THE ELECTIONS, AND IT THOROUGHLY ECLIPSED THEM AS A SUBJECT OF NEWS COVERAGE AND PUBLIC INTEREST. IN THE END, AND

6. BEFORE THE REELECTION ISSUE WAS DEFUSED, TERRORISM BEGAN TO PICK UP SLOWLY. IT GATHERED MOMENTUM THROUGH DECEMBER AND JANUARY, CULMINATING IN THE ATTACK ON THE INDIAN EMBASSY JANUARY 18 AND THE ASSASSINATION OF APRA LEADER CELSO LOPEZ SILEA JANUARY 30. IT REMAINS TO BE SEEN WHETHER DEL AND THE MIRA CAN SUSTAIN THE DECEMBER JANUARY PACE OF DEFEAT AND NOTHING MAJOR HAS OCCURRED IN TWO WEEKS. DESPITE DEL'S GRANDiose POSTERS WHICH ARE FLOODING THE SHOPS AND JARROUS AROUND LIMA PORTERS AND THE CURRENT DEFENSIVE AS A FINAL OME. THE TERRORISTS WILL BE HARD PRESSED TO KEEP UP THE LEVEL OF PRECIPITATION THEY ACHIEVED IN THE LAST TWO MONTHS

7. NEVERTHELESS, THE TERRORISTS HAVE ACHIEVED A CHANGE IN PUBLIC ATTENTION. WHEREAS ONLY 10 PERCENT OF PERUVIANS SURVEYED VIEWED TERRORISM AS A MAJOR PROBLEM IN NOVEMBER, 31 PERCENT DID SO FOLLOWING THE INDIAN EMBASSY AND DEL

... IN RECENT IMPROMPTU SPEECHES AND PUBLIC APPEARANCES, GARCIA HAS BEEN CRITICAL OF HIS OWN GOVERNMENT'S PERFORMANCE. IN PARTICULAR, HE HAS GIVEN VENT TO CONSIDERABLE DUBIETY THAT HE IS TAKING PERU IN THE DIRECTION HE WANTS. HE HAS BEEN DIFFICULT. PUBLIC INTEREST IN HIS MOOD AND UNDER HAS TENDED TO OBSCURE SOME OF THE MORE SUBSTANTIVE STATEMENTS HE HAS MADE LATELY, ON THE NEED FOR POPULATION PLANNING.

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THUS, IN THE LAST WEEK OR SO, GOVERNMENT OFFICIALS HAVE SPOKEN OPENLY ABOUT THE NEED TO IMPROVE, FOR EXAMPLE, THE GOVERNMENT'S INTELLIGENCE SERVICES AND TO ORGANIZE A NATIONAL ANTI-TERRORIST EFFORT MORE BROADLY.

8. MOUNTING PUBLIC CONCERN WITH TERRORISM HAS BEEN EXACERBATED BY RENewed INFLATIONARY PRESSURES. THE COST OF LIVING INDEX JUMPED 6.6 PERCENT IN JANUARY, THE BIGGEST MONTHLY INCREASE SINCE AUGUST 1985. AWARE THAT PUBLIC SUPPORT IS BASED IN NO SMALL MEASURE ON THE GOVERNMENT'S CONTINUED SUCCESS IN FIGHTING INFLATION, HIGH-LEVEL OFFICIALS WERE QUICK TO POINT OUT THAT PRICES HAVE ALWAYS RISEN MARKEDLY IN JANUARY. INFLATION IS REPORTEDLY CONTINUING AT HIGH LEVELS IN FEBRUARY AS WELL, HOWEVER. OF EQUAL CONCERN TO GARCIA AND HIS CLOSE ASSOCIATES IS THE RECENT SUBSTANTIAL DROP IN FOREIGN EXCHANGE RESERVES -- A DEVELOPMENT WHICH ALSO APPEARS TO BE CONTINUING. CENTRAL BANK, MINISTRY OF ECONOMY AND FINANCE, AND PLANNING INSTITUTE OFFICIALS HAVE BEEN CLOSED FOR MORE THAN A WEEK NOW IN AN EFFORT TO DEVELOP PROPOSALS WHICH WOULD STOP THE OUTFLOW WITHOUT CHOOSING DOMESTIC EXPANSION. IN AN EFFORT TO COUNTERACT GROWING ALARM, THE GOV HAS BEGUN TO TALK ABOUT GROSS RESERVES RATHER THAN NET RESERVES, STATING GRATEFULLY THAT PERU STILL HAS MORE THAN ENOUGH FOREIGN EXCHANGE TO GROW PROVIDED IT IS USED JUDICIOUSLY. THE GOVERNMENT IS CLEARLY CONCERNED, HOWEVER, AND OBVIOUSLY REALIZES THAT ANY MEASURES ADOPTED TO ADDRESS THE CURRENT INFLATION AND FOREIGN EXCHANGE PROBLEMS ARE ALSO LIKELY TO UNDERCUT GDP GOALS FOR CONTINUED ECONOMIC GROWTH.

9. OTHER FACTORS ARE PURELY POLITICAL. THERE HAS BEEN AN UNUSUAL DEGREE OF INTRA-APRA TENSION AND BICKERING REACHING THE PUBLIC DOMAIN. MUCH OF IT IS COMING FROM

THE GOVERNMENT HAS ALSO BEEN HIT HARD THIS WEEK FROM UNEXPECTED QUARTERS: CUBA AND AMNESTY INTERNATIONAL (AI). THE CUBAN GOVERNMENT PUBLICLY CHALLENGED THE GOV'S VERSION OF THE STATUS OF

THREE CUBANS WHO HAVE TAKEN REFUGE IN THE PERUVIAN EMBASSY IN HAVANA (CEPTEL), AND AI'S REPORT ON THE JUNE 1986 PRISON MASSACRE INJURED THE GOVERNMENT ON A POINT OF PARTICULAR SENSITIVITY: ITS HUMAN RIGHTS PERFORMANCE.

10. WE SUSPECT THAT A MORE IMPORTANT POLITICAL FACTOR AT WORK CURRENTLY IS PRESIDENTIAL POLITICS. WHEN PRESIDENT GARCIA PUT THE RE-ELECTION ISSUE TO REST IN DECEMBER, HE LOGICALLY OPENED THE QUESTION OF WHO IN APRA WILL TAKE HIS PLACE AS THE APRA CANDIDATE IN 1990. POLITICAL CUSTOM DISCOURAGES OPEN CAMPAIGNING FOR THE NOMINATION, BUT BEHIND-THE-SCENES JOCKEYING FOR POSITION APPEARS TO HAVE BEGUN, TAKING ITS TOLL IN INTRA-PARTY CONFLICT. FOR EXAMPLE, PERUVIAN AMBASSADOR AND FORMER JUSTICE MINISTER LUIS GARCIA PARRA, BACK IN TOWN, REPORTEDLY TO LOOK FOR HIS REGIONAL POLITICAL INTERESTS. GOSSIP HAS IT THAT HE WAS WIND-UP-THE-EAR THAT PROMPTED GARCIA'S OUTBURST AGAINST ALVA CASTRO ON THE PRESIDENT'S RETURN FROM INDIA. HE AND PRIME MINISTER ALVA CASTRO HAVE PARTED

11. GARCIA'S REACTION:

GARCIA NOW APPEARS TO BE MOVING AGGRESSIVELY TO REGAIN THE INITIATIVE AND SHOW THAT HE IS IN FULL CHARGE OF THE GOVERNMENT AND MILITARY, AND TAKE NEW ACTIONS TO BEGIN TO ADDRESS THE PROBLEMS HE FACES. ON FEBRUARY 11, HE TOLD AN UNSUSPECTING LATHERING OF APRA DEPUTIES THAT HE WOULD CONVENE TWO EXTRAORDINARY SESSIONS OF THE CONGRESS LATER THIS MONTH AND IN MARCH. A MAJOR PURPOSE IS TO PASS NEW, TIGHTER ANTI-TERRORISM LEGISLATION, INCLUDING THE CREATION OF SPECIAL TRIBUNALS TO TRY PERSONS CHARGED WITH TERRORIST ACTS. THE PRESIDENT ALSO CHOSE THIS MOMENT TO ANNOUNCE THAT HE WILL COMBINE THE THREE MILITARY SERVICE MINISTRIES INTO A SINGLE MINISTRY OF DEFENSE, POSSIBLY TO BE HEADED BY A CIVILIAN. THE TIMING MAY BE RELATED TO THE FACT THAT, EARLY FEBRUARY 11, THE PRESIDENT ORDERED POLICE INTO SAN MARCOS AND OTHER LIMA UNIVERSITY CAMPUSES (CEPTEL). THAT IS, AWARE THAT THE MOVE AGAINST THE UNIVERSITIES -- FOLLOWING CLOSELY ON THE HIGHLY CRITICAL AMNESTY INTERNATIONAL REPORT ON JUNE 1986 PRISON MASSACRE -- COULD RAISE CONCERN THAT THE GOV DOES NOT CONTROL ITS POLICE AND MILITARY, GARCIA HAS ACTED TO SHOW THAT HE IS IN CHARGE. HIS GOVERNMENT HAS ALSO TAKEN A FIRST STEP ON THE ECONOMIC FRONT, BY RAISING THE EFFECTIVE COST OF INTERNATIONAL TRAVEL TO PERUVIANS 10 PERCENT THROUGH AN [EXCHANGE RATE SHIFT]. WE ALSO UNDERSTAND THAT GOV MAY BEGIN TO RATION FOREIGN EXCHANGE EARLY NEXT WEEK

12. IN ANNOUNCING THE SPECIAL LEGISLATIVE SESSIONS FEBRUARY 11, THE PRESIDENT ACKNOWLEDGED THAT THE CURRENT POLITICAL SITUATION HAD BECOME "ANECDOTAL."