

García defends Peru's economic gains from bankers' panic

by Mark Sonnenblick

While Brazilian President José Sarney now recants the debt moratorium he declared last year, calling it "the biggest error my government has made," Peruvian President Alan García is sticking to his guns. García maintains that without limiting foreign debt payments, he would never have been able to increase Peru's production, consumption, and living standards. Peru achieved the highest growth rate in the hemisphere in 1986, at 8.5%, and again in 1987 at 7%, because García put the well-being of his people above usury. Agricultural growth quadrupled, rice production doubled, and 17 million poor are eating better.

Paul Adolph Volcker asserted at January's *International Herald Tribune* debt conference that Sarney's retreat makes the Brazilian economy "viable," while Peru is "not viable." Volcker was merely reiterating the orders he issued while at the Federal Reserve: no development credits to Peru.

Since his inauguration in July 1985, García has recognized that Peru could not sustain development without a new world economic order or, at least, Ibero-American integration. Every other Ibero-American leader has caved in to U.S.-backed International Monetary Fund austerity.

In such a hostile environment, aggravated by the continuing drop in the prices Peru is paid for the metal ores, fishmeal, and other raw materials it exports, García's economic growth has reached an end.

Caught between two Senderos

García is trapped in a pincer movement between the Soviet-sponsored Sendero Luminoso (Shining Path) terrorists and the U.S.-sponsored economic tract, *The Other Sendero*. Almost every night, Sendero Luminoso hits an economic target in an undisguised attempt to grind the economy to a halt. On Feb. 6, fifty *Senderistas* machine-gunned five telephone company workers when they went to repair a microwave transmitter station they had repeatedly blown up, cutting official communications links between Lima and the jungle cocaine-producing areas.

On Feb. 9, the narco-terrorists derailed 15 freight cars loaded with lead, zinc, and copper concentrates; they sent it plummeting down a precipice, causing \$4.3 million in losses.

The next day, they dynamited the water pipes leading to the nearby concentration plant and an electrical pylon, stopping production.

During the past six months, however, economic sabotage by *The Other Sendero* has taken an even greater toll. *The Other Sendero* is a book which President Ronald Reagan endorsed at the United Nations, saying that it proved that his "free enterprise" ideology was taking root in the Third World. Its author, Hernando de Soto, was financed by Washington's National Endowment for Democracy (a.k.a. Project Democracy).

The line of *The Other Sendero* is that the practitioners of "the informal economy" are heroic individualists fighting against the overbearing state. The "informal economy" is made up of people who, in informal English, are called "tax cheats." They operate "off the books." In Peru, as in the United States, the endemic and growing "underground" provides an ideal camouflage for laundering the proceeds of the biggest unregulated business enterprise of both countries, Dope, Inc.

The Other Sendero put García under siege last August, after he swore he would nationalize the oligarchy's banks to turn them from cocaine-dollar laundering machines into efficient sources of credit for private sector industrial entrepreneurs. In a Jan. 10 interview with the Lima daily *El Comercio*, García said, "The historic aspect of the nationalization is separating the banks from the financial oligarchies . . . and that credit be oriented toward agriculture and small industry." García may have misjudged what he was up against in attempting to destroy the financial power of the aristocratic families which had exploited Peru since the Conquistadores.

They abused the García regime's absolute freedom of the press to sow panic in the business class. Cooperation between government and business was poisoned, the will to produce destroyed, plans for new investments to meet heavy consumer demand shelved. Foreign banks suspended credit lines, causing shortages of vital imported goods during the final quarter of 1987. It is a wonder that Peru produced 0.5% more in the second half than the first half of the year. But, the year ended with an annualized 114.5% inflation, with a 200% rate

in January. The government is desperately grasping for dollars and facing a daily blitz of press exaggeration about its swapping a small part of its gold reserves.

The biggest damage effected by the unending psychological warfare barrage on television, radio, and in the press against García, however, was its breaking of his reform momentum and reversing the optimism he had, miraculously, generated after the fatalism of the preceding Fernando Belaunde regime. García noted the relationship between the several *Senderos* in a Jan. 10 interview: "There is an armed *Senderism*, a *Senderism* of contempt toward authority, shouting in the streets; there is a sexual *Senderism* which is sadistic use of the body. . . . Although it may seem heretical, democracy itself, with its advertising of terrorism and its teaching of contempt, feeds subversion."

García also fought rough in the bank nationalization war. At one point, he sent armored cars crashing through barricaded bank doors. In the end, the state will own 51% of the major banks and 30% of "regional" banks. García was deserted in battle by corrupted members of his APRA party, opposed by communists who had always demanded bank nationalization, and betrayed by a judiciary bought and paid for by the bank owners and drug traffickers.

García resumed the offensive in January, by nationalizing the Nestlé cartel's milk-canning monopoly, after he found millions of tins of milk hoarded in its warehouses after weeks of mothers' finding none in the stores. Yet, he seems painfully aware that he is fighting alone to save his country from being overwhelmed by cocaine traffickers and narco-terrorists. He lamented, "When you give an order, everyone transmits it and nobody carries it out; and what they give you later are explanations. If I could have a thousand bodies, I would be in a thousand places."

Reagan administration hypocrisy

Assistant Secretary of State Robert Gelbard visited Peru Feb. 13 to read García the riot act for permitting the Soviets to set up a beachhead on the South Pacific. Nobody can deny the dramatic expansion of Soviet influence in Peru; but neither can the Reagan administration disclaim its responsibility for it. Alan García is no friend of the Russians. As soon as he came to office, he abrogated the contract made by his predecessor, Fernando Belaunde, under which Peru imported corn from the big grain cartels, mixed it with Peruvian fishmeal, fed it to chickens, and sent boatloads of frozen chickens to Russia as payment for debts. Under García, Peru's chickens improved the diet of undernourished Peruvians. García also closed Belaunde's open door to Soviet trawlers' fishing in Peruvian waters.

Washington has handed Peru to the Soviets on a platter; the Russians have been clever enough to accept the gift. Thanks to the Reagan administration, which organized an embargo of Western development credits to Peru, and Peruvian businessmen's refusal to invest, the Soviets have made

almost the only offers for expanding Peru's productive capacity. Peru struck the best deals it could.

In January, Moscow agreed to reduce interest payments from 7.5% to 3% on the \$957 million Peru owes it. Peru will pay no cash. Instead, it will pay over the next 10 years in non-traditional exports which are hard to sell on the world market, such as clothing, copper wires, computers, and concentrated soup. The Soviets agreed to complete the Bayovar phosphate mining complex in the far north of Peru, after decades of stalling by prospective foreign partners. Its 1.5 million tons of annual output will be split between Russia and Peru.

The most politically interesting part of the deal entails a military shift toward the Soviets. In May, the Soviets will sign on to finance a \$65 million repair drydock in Peru's main port, Callao. It will supply other equipment for the Peruvian Navy's shipbuilding complex there and will pay about \$400 million cash for 80 fishing boats and tenders to be built there over the next five or six years. Peruvian and Soviet Navy ship repair services will thus be effectively integrated, giving the Soviets major strategic operating capacity in the Pacific.

A dozen years ago, the Peruvian Navy showed how it felt toward the Communist bloc by twice blowing up Cuban fishing boats in Callao harbor. In 1985, it bombed a special store for Russian seamen in Callao. Now, the once U.S.-influenced Navy has become the biggest apologist for restoring full fishing rights to the Soviets and Cubans.

Armando Villanueva, secretary general of the APRA party, is busy setting up "fraternal" links between his party and the totalitarian parties of Eastern Europe. He proclaims "perestroika in the U.S.S.R. is a step toward peace." García, on the other hand, fears that the Reagan-Gorbachov alliance "would be dangerous if those two nations began to carve the world up among themselves."

The Reagan administration's "Other Sendero" coalesced Feb. 12 in a "Democratic Front." The front's president, Project Democracy's novelist darling, Mario Vargas Llosa, says its objective is to make sure García is defeated in the 1990 presidential elections, but the intent is clearly to make Peru ungovernable as soon as possible. The front extends little beyond Vargas Llosa and the remnants of the oligarchic parties of Belaunde and Luis Bedoya, which ruled before García. They bankrupted the nation, threw it into a depression, subjected it to the IMF, and made it into a paradise for narcotics traffic.

The pro-García daily *Hoy's* editorial Feb. 5 challenged *The Other Sendero*. *Hoy* writes, "If the book truly had a patriotic purpose, it would have been better to convince the Reagan administration to encourage capital and technological investment so as to build Peru's heavy and electronic industry and to boost agrarian production for internal consumption. However, the book does the opposite . . . [and Washington believes] our people have no right to well-being and development."