

**THE UNITED STATES AND PERU IN THE 1990s:
COOPERATION WITH A CRITICAL CAVEAT ON DEMOCRATIC
STANDARDS**

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I. Introduction

The early 1990s were a critical turning point in the relationship between the United States and Peru. Whereas during the 1970s and 1980s the relationship between the governments of the two countries was contentious, in the 1990s the relationship improved dramatically. Elected in 1990, President Alberto Fujimori sought to cooperate with the U.S. government on most components of the bilateral agenda. However, for various reasons cooperation did not evolve into friendship.

From the 1960s through the 1980s, leftist political currents flowed strongly in Peru—which was not surprising given the severe social and economic inequalities in the country. During these decades, socialist and nationalist attitudes were common not only among lower strata and the growing middle class but also—and unusually in Latin America—among military officers. Especially during the military government (1968-1980) and the elected government of Alan García (1985-1990), Peru rejected free-market principles: U.S. companies were nationalized, tariff barriers were raised, and international debt obligations were not serviced. At the same time, Peru purchased significant quantities of arms from the Soviet Union, and Peru's previous relationship with the U.S. military was disrupted. Peru was an active participant in the Movement of Non-Aligned Countries and other regional blocs that excluded the United States; Peru rarely voted with the U.S. in the United Nations.ⁱ

Although no Peruvian government pursuing these policies considered themselves Communist or even socialist, several were perceived as dangerously close to these rival ideologies by the United States—and the stage was set for a hostile bilateral relationship. Of course, during the Cold War, the U.S. priority for Latin America was to prohibit the expansion of Communism. The U.S. focus upon the possible emergence of Communism appeared an obsession to many Peruvians, further exacerbating U.S.-Peruvian tensions.

When the Cold War ended, leftist political currents ebbed in Peru. Of course, the end of the Cold War was interpreted as the victory of capitalism over socialism and of U.S.-style democracy over Communism. Peru would no longer enjoy moral or material support from the Soviet Union. Also, the leftist policies of the García government appeared to have led to disaster: Peruvians' living standards were plummeting and the Sendero Luminoso (Shining Path) insurgency was expanding relentlessly.

Peru's 1990 elections were held about six months after the fall of the Berlin Wall. Whereas in the mid-1980s it had appeared that the coalition of predominantly Marxist

parties might win the 1990 presidential election, the coalition ruptured and secured less than 10 percent of the first-round presidential tally. The presidency was won by Alberto Fujimori, whose non-ideological platform "Work, Honesty, Technology" was appropriate to the nascent post-Cold War era. Also, Fujimori's Japanese heritage was an asset for the candidate; in an era of globalization, Peruvians were aware of Japan's economic progress and respected it, and hoped for support from the country. A plurality of seats in the legislature was won by the coalition of parties called FREDEMO (Frente Democrático, Democratic Front), led by the staunchly pro-free-market and pro-U.S. novelist Mario Vargas Llosa.

At the time of Peru's 1990 elections, the bilateral U.S.-Peruvian agenda was full--fuller than what might have been expected for a medium-sized country on the West coast of South America. The García government had sought to lead a regional challenge against the debt-service and free-market policies of the international financial community; a shift in Peru's economic policies was an important U.S. priority. Security issues were also high on the bilateral agenda: in the late 1980s and early 1990s, the Shining Path posed a more serious threat than any other Latin American insurgency at the time and, in 1995, Peru and Ecuador went to war. Also, from the mid-1980s to the mid-1990s, Peru produced more coca for export to the United States than any other Latin American nation, and as a result was a priority theater in the U.S. war against drugs.

With such a full agenda, the U.S. government of course hoped that—despite Fujimori's center-left political platform during the 1990 campaign—his new government would shift towards cooperation, and it quickly did. Before his inauguration, Fujimori traveled to Washington, D.C. and to Tokyo and listened carefully to officials' advocacy of debt service and free-market reforms. Within its first year, the Fujimori government also increased collaboration with the United States on problems of internal security (i.e., the expanding Shining Path insurgency) and began to consider bilateral anti-narcotics cooperation (cooperation that did not actually occur for several years, however).

The shift towards cooperation is indicated by several sets of figures. First, United Nations voting patterns: whereas during 1986-89 only about 15 percent of Peru's votes in the United Nations coincided with U.S. votes, during 1995-1998 the figure was roughly 40 percent.ⁱⁱ Second, U.S. aid to Peru: whereas previously U.S. aid to Peru had been a small percentage of total U.S. aid to Latin America and the Caribbean, for the period 1993-98 Peru was the recipient of more U.S. aid than any other Latin American or Caribbean country.ⁱⁱⁱ

During the 1990s, the Fujimori and U.S. governments clashed only on issues of democracy and human rights—which, ironically perhaps, had not been antagonistic under

the García government. Conflict was especially tense twice: first in 1992, when President Fujimori executed the autogolpe (self-coup) and then in 2000, when the election that would provide him a third consecutive term was judged neither free nor fair by international observers. In both years, the U.S. government decided not to risk the demise of its new cooperation with Peru on free-market reform, security issues, and narcotics-control to maintain high democratic standards in the hemisphere. However, this decision was difficult, and was taken only after efforts for a better democratic outcome and considerable bureaucratic intrigue.

The conflict over democratic standards was a major factor limiting the relationship between the United States and Peru to cooperation on specific components of the bilateral agenda and impeding the development of friendship. There were other factors impeding friendship as well. For its part, the Fujimori government was considered both by Peruvians and international analysts to be pragmatic rather than principled. In other words, the government moved towards cooperation because it calculated the change to be in its immediate interest rather than because it was ideologically committed to the change. Also, by nature, President Fujimori was not sociable; during his government he parted ways with all his major advisers except his national security chief Vladimiro Montesinos, as well as from his wife.

For its part, the U.S. government was increasingly fragmented. President Clinton appeared to have no interest in Peru, and--especially after Thomas "Mack" McLarty left the position as personal adviser to the President for Latin America in 1998--there was no one U.S. leader with whom Fujimori could have formed a bond. The U.S. State Department was not taking the lead on bilateral issues, and the relationship between Fujimori and most of the U.S. Ambassadors to Peru during the decade was of limited importance. Rather, cooperation was achieved through the work of the officials responsible for the specific component of the agenda: the work of Fujimori's economics ministers with Lawrence Summers and other U.S. officials at the Treasury Department; of his foreign ministers with U.S. diplomat Luigi Einaudi on the resolution of the Peru-Ecuador border conflict; and of Vladimiro Montesinos with U.S. officials at the Pentagon and the Central Intelligence Agency on counterinsurgency and with U.S. drug czar Barry McCaffrey on anti-narcotics.

This Working Paper traces the improvement in U.S.-Peruvian relations in the 1990s, as well as the tensions over democratic standards. In each of the following four chapters on a specific component of the bilateral agenda, consideration is given to the nature of the relationship under the preceding García government as well as to the prospects for cooperation after 2000. In the conclusion, further attention is given to the

question of the sustainability of U.S.-Peruvian cooperation when that cooperation does not include the democracy component of the bilateral agenda.

II. The Bilateral Agenda from the 1980s to 2000: Economic Relations

The issue area that was most pivotal for the dramatic shift from conflict to collaboration between the United States and Peru was economic policy. The government of Alan García sought to lead a regional challenge to U.S. policies on the international debt and rejected the international financial community's key policy recommendations. By contrast, Fujimori serviced Peru's debt obligations and implemented the key policy recommendations almost immediately upon his inauguration. Through most of the 1990s, the Fujimori government's transformation of the Peruvian economy from statist to free-market principles was hailed by the international financial community as one of the most dramatic in Latin America. Only in the final years of the decade, after economic crises in Asia and Brazil and increasing criticism of the free-market model within Peru, did the relationship between the Fujimori government and the international financial community become lukewarm.

A. The Government of Alan García^{iv}

President García made his views on the international economic order clear in his inaugural address. He referred to the United States as "the richest and most imperialist country on earth."^v He announced what was arguably the most critical policy decision of his administration: that Peru would devote only 10 percent of the total value of its exports to the service of the foreign debt.

Although the preceding Belaúnde government (1980-85) had also been paying only a small fraction of its debt obligations, it was quiet about its minimal payments. By contrast, President García was clear both in this inaugural address and subsequently that his actions represented a policy challenging the international financial community. He said, for example, that his debt-service policy would be changed only "when the richest

countries respect a just level of exchange and the value of our work, when our silver, our copper, our fishmeal and non-traditional products recover their comparative value in relation to industrialized technological products, when the interest on capital doesn't increase just to solve the national deficit of the big creditors, when there are not attempts to limit the productive volume of our raw materials, when markets are not closed to our production...^{vi}

García sought to rally as many Latin American nations as he could around his proposal for unilateral limitations on debt service and subsequent relaxation of debt-service terms by the international financial community. Not only did García want to be a recognized international leader, but he also knew that Peru's position was likely to prosper only if Latin American nations joined together to support it.

The García government also challenged international corporations operating in Peru. In particular, the government cancelled 1982 oil exploration contracts with three U.S.-based firms, charging that tax rebates in the contracts were excessive. Two of the firms re-negotiated their contracts, but Belco Petroleum--the second largest international oil firm in Peru--refused to do so. The García government's response was to expropriate Belco's offshore oil fields and transfer them to a new state enterprise, called Petromar.

Leftist political tides were flowing strongly in Peru at this time, and García's "heterodox" policy (as it was dubbed) was popular. Not surprisingly, however, the policy infuriated the U.S. government and the international financial community. Said a U.S. official: "The Treasury Department hates Peru because of its position on the debt."^{vii} In October 1985, the U.S. government declared Peru's debt "value impaired," which required that private banks increase the capital behind their loans to Peru, drastically reducing the likelihood of new private loans to the country. As Peru's arrears mounted, in August 1986 the International Monetary Fund declared Peru "ineligible" for new loans. With this declaration, Peru--along with such countries as Vietnam, Zambia, Somalia, Guyana, Sudan, and Liberia--became a virtual international economic pariah. In early 1987 the World Bank suspended the disbursement of loans and in early 1989 the Inter-American Development Bank followed suit. Foreign investors shunned Peru.

The García government failed to achieve support for its debt-service proposals from other Latin American nations. In October 1985, the Reagan administration

launched the Baker Plan, which would increase international banks' loans to debtor nations and entice them to the debt-renegotiation table. Most Latin American nations were gradually beginning to shift towards free-market principles, and the García government was increasingly isolated in the hemisphere.

Although economic growth was strong during the first two years of García's administration, it was based on unsustainable increases in public spending and the depletion of international reserves. The government was hoping that its expansionary policies would stimulate investment by Peru's own biggest business interests, but this possibility—remote in any case--was ended in July 1987 when García made a surprise announcement of his intention to nationalize private banks; this plan provoked widespread protest and was ultimately abandoned. By the end of 1987, Peru's reserves ran out, and the government had no choice but to abandon its expansionary policies. The García government re-initiated contacts with international financial institutions and implemented successive austerity packages in the hope of new international loans, but ultimately García was unwilling to implement the rigorous, comprehensive free-market program that the international financial community required.

The upshot of the García government's policies was "one of the worst economic performances in modern history."^{viii} By the end of the García administration, real per capita GDP was estimated to be less than in 1960, and accumulated inflation over the five years was more than 2 million percent.^{ix} In 1989, the real minimum wage was a scant 23% of its 1980 figure, and its dollar value was a paltry \$35 per month.^x Hunger spread.

Despite the debacle, Peruvians were wary of the prospect of drastic free-market reform. In the 1990 elections, the frontrunner was the renowned novelist Mario Vargas Llosa, but his emphasis upon the need for an economic "shock" frightened Peruvians, and they began to look for an alternative candidate. This candidate appeared in the person of Fujimori, who clearly opposed Vargas Llosa's "shock" and promised that he would restore economic prosperity through "gradual" changes.

B. The Initiation of Peru's Free-Market Reforms, 1990-1992^{xi}

Despite Fujimori's campaign promise of "gradual" economic reform, he was not knowledgeable about economics and was not sure of his economic-policy course upon his election in June 1990. While his primary economic advisers at the time were center-leftists, he was also looking for advice to Hernando de Soto, the author of a best-selling book that criticized statist economic policies, an adviser to previous Peruvian governments, and a well-known figure in U.S. foreign-policy circles.

De Soto persuaded Fujimori to travel to the United States, where his brother Alvaro worked closely with Javier Pérez de Cuéllar, Secretary General of the United Nations at the time. The De Soto brothers and the Secretary General arranged meetings in Washington for Fujimori with IMF director-general Michel Camdessus, Inter-American Development Bank president Enrique Iglesias, and World Bank president Barber Conable at the World Bank. Next, Fujimori traveled to Tokyo. In both cities, the message to Fujimori was clear: implement an immediate, all-out liberalization program.

By the time of his inauguration on July 28, 1990, Fujimori had decided to heed the Washington-Tokyo message and pursue what Peruvians called the country's "reinsertion" into the international financial community. On August 8, economics minister Juan Carlos Hurtado Miller announced the measures that were to be dubbed the "Fujishock." Price controls and virtually all government subsidies were eliminated; the prices of gasoline, electricity, medicines, and basic foodstuffs skyrocketed overnight. Debt-service payments to multilateral creditors—about \$60 million a month—were resumed and Hurtado Miller traveled to Washington to begin negotiations.

Despite the heavy toll of these measures on Peruvians' living standards (inflation for August alone neared 400%), they did not represent a comprehensive reform package and the response both in Peru and abroad was tepid. In February 1991, Fujimori appointed a new economics minister with a much stronger commitment to free-market reform and much greater technical expertise, Carlos Boloña. Boloña, an economist from the University of Oxford, quickly decreed a comprehensive reform package: tariffs and tariff-like barriers were slashed; the exchange rate system was unified and liberalized; interest rates were allowed to float freely; labor-market provisions that enhanced job security

were ended; and public monopolies were eliminated. Boloña also announced that public enterprises would be privatized and that tax collection would be strengthened.

The strengthening of tax collection was the first economic reform that won widespread acclaim for the Fujimori government in international circles. In 1990, Peru's tax agency—whose poorly paid and poorly trained bureaucrats worked with outdated taxpayer lists in a context of hyperinflation—collected less than 5 percent of GDP in tax revenue (down from 15 percent a decade before). Within a year, the tax agency was transformed into a model of professionalism, and tax revenue doubled to over 8 percent of GDP (and was to increase to 12 percent in 1998).^{xii} The transformation was proclaimed “an example too many countries round the world” by IMF director general Michel Camdessus.^{xiii}

In September 1991, Boloña's efforts yielded international fruits.^{xiv} Peru's reinsertion was beginning: the International Monetary Fund approved Peru's economic stabilization program. Although arrears with the IMF and the World Bank were not cleared and Peru was not yet eligible for fresh loans from these institutions, Peru's smaller arrears with the Inter-American Development Bank were cleared (with the help of a “Support Group”) and the IDB announced a three-year \$1.7 billion loan package for Peru, including an immediate \$425 million for trade sector reform. Soon thereafter, Peru's entire \$6.6 billion external debt with the Paris Club of creditor nations was rescheduled, some of it over a six-year period and some of it over a twenty-year period. The Fujimori government was delighted.

Another major set of economic reforms was introduced in November 1991 and approved by the congress in the first four months of 1992. Among the most important were measures promoting foreign investment. Controls on foreign investment, including restrictions on profit remittances, were ended and equal treatment for foreign investors was guaranteed. Also, financial-sector reform was introduced. The operations of state-owned development banks were reduced or abolished, and the development of a commercial banking sector encouraged. A legal framework for Peru's stock exchange was promulgated.

Peru appeared well on its way to the achievement of its goal of reinsertion in the international financial community. The United States and Japan were negotiating a

bridge loan for Peru; in this set of transactions that would last only a few hours, the U.S. Treasury Department and Japan's Export-Import Bank would transfer funds to a Peruvian government account, which would use it to pay its arrears to the World Bank; the Bank would then disburse credits for virtually the same amount to Peru, which would in turn use them to repay the U.S. and Japan. The critical benefit for Peru was that it would clear its arrears with the Bank and be eligible for new loans and credits.

The negotiations were, however, delayed by Fujimori's April 1992 autogolpe, which appeared to portend dictatorial rule (see Chapter V). The U.S. government, the Inter-American Development Bank, and the World Bank suspended loans and other assistance. Only after elections were held for a constituent assembly in October 1992 did the reinsertion process begin again. Another event that facilitated negotiations was the September 1992 capture of Abimael Guzmán and other Shining Path leaders and the subsequent decline in political violence in the country (see Chapter III).

The key leaders of the negotiations were Boloña and the U.S. Treasury Department's Lawrence H. Summers, who at the time was the Treasury's undersecretary for international affairs. Said the Peruvian Ambassador to the United States: Larry Summers "worked hands and glove with Peru."^{xv} At the same time, Peruvian officials were working to settle a lingering conflict with the American International Group (AIG), which had made an insurance claim against the Peru for the 1985 expropriation of Belco's offshore oil fields.

Finally, in March 1993, the bridge loan was made.^{xvi} The U.S. Treasury transferred approximately \$500 million to Peru, and Japan's Export-Import bank approximately \$450 million, and Peru's arrears were cleared. Negotiations also continued with the Paris Club group of creditor nations, and further rescheduling for the years 1993-95 was achieved; whereas Peru had been to repay about \$1 billion a year, the sum was reduced by about 60 percent.^{xvii} The Fujimori government and the international financial community were pleased.

C. The Consolidation Of Peru's Free-Market Reforms, 1993-98

The free-market economic reforms initiated in 1990-92 were consolidated in subsequent years. Indeed, Peru was one of the two South American nations widely considered to have made the most dramatic shift towards the free market between 1990 and 1995.^{xviii} On an index of economic freedom elaborated by the Heritage Foundation, Peru ranked fifth among Latin American nations in 1999 (after Chile, El Salvador, Argentina, and Panama); Peru's economy was judged much freer than that of the other Andean nations and also than that of the two largest countries in the hemisphere, Brazil and Mexico.^{xix} As the Peruvian economy opened to foreign investment and trade, U.S. companies became much more active in Peru.

The consolidation of the economic reforms was led not by Boloña but by his successor, Jorge Camet. For reasons that included conflict between Fujimori and Boloña over Peru's continuing low economic growth and Boloña's star status, Fujimori fired Boloña in an end-of-1992 cabinet shuffle. Industry minister at the time of his appointment, Camet was a successful engineer and entrepreneur who had served twice as the president of Peru's primary business confederation, CONFIEP (Confederación de Instituciones Empresariales Privadas), and his appointment strengthened the Fujimori government's ties to Peru's business community. Camet was to become Fujimori's longest-serving minister, and the two enjoyed a friendly relationship. However, Camet was lackluster and unsophisticated about economics; in part as a result, Peru's economic policies during his more than five years as minister were in large part directed by the international financial institutions, which in turn were greatly influenced by the U.S. Treasury Department.^{xx}

Under Camet, Peru's reinsertion into the international financial community was completed: a Brady-Plan agreement was finalized with Peru's commercial bank creditors.^{xxi} Camet worked closely with Summers on the Brady-Plan deal.^{xxii} The negotiations—involving an estimated \$10.6 billion commercial bank and supplier debt—led to an agreement-in-principle in October 1995 and concluded in March 1997 with a deal that the Peruvian government touted as one of the most favorable in the region.

Creditors were provided several alternatives for the exchange of their debt for bonds; the overall discount that Peru would obtain on the debt was expected to be 40 to 45 percent. The Peruvian government repurchased \$2.6 billion of eligible debt under a buyback, officially by Swiss Bank Corporation. Although the agreement would increase Peru's interest payments on the debt by more than \$300 million annually, the government emphasized that it would enable cheaper international loans to Peru. Various key components of the deal were not revealed by Peruvian officials, however, provoking concerns among opposition leaders that officials had profited personally from it.

The Fujimori government's trade liberalization was dramatic: average tariffs were reduced from about 40 percent under the Belaúnde government and over 60 percent during the García government to under 20 percent in the mid-1990s.^{xxiii} For its part, in 1991 the U.S. passed the Andean Trade Preference Act (ATPA, an initiative to encourage alternative crops in drug-producing areas) that enables some goods from Andean nations to be exported to the U.S. tariff-free; in mid-1993 Peru became eligible for these benefits. (U.S. trade restrictions on many of the most important goods--textiles, apparel, footwear, canned tuna, petroleum, and watches--were maintained, however.)

Peru's trade expanded greatly. From 1970 to 1997, Peru's exports and imports increased seven to eight times in nominal dollars.^{xxiv} Trade increased from 1970 to 1982, but during the latter half of the Belaúnde government and the García administration exports stagnated and imports declined.^{xxv} In 1990, the value of Peru's exports was \$3.3 billion; by 1997 the value had doubled to \$6.8 billion.^{xxvi} Imports increased even more, from \$2.9 billion in 1990 to \$8.5 billion in 1997.^{xxvii} In accord with the overall trends, the value of Peru's exports to the U.S. and imports from the U.S. also doubled during this period.^{xxviii}

The composition of Peru's exports and imports did not change dramatically in the 1990s. Peru's principal exports remained raw materials, in particular minerals (most recently copper, gold, and zinc) as well as fishmeal. Peru's principal imports remained machinery parts, office equipment, as well as wheat and other foodstuffs.

The absolute amount of U.S. trade with Peru increased, but the relative U.S. share of Peru's exports and imports declined. In contrast to patterns of international investment, however, the U.S. remained Peru's most important trading partner—by far. The U.S.

share of Peru's exports and imports was over 40 percent until the 1960s but declined thereafter; during most of the 1990s the U.S. share was around 20 to 25.^{xxix} The U.S. share was increasing at the end of the decade, however; in 1998, the U.S. share was 32% of Peru's exports and 26% of its imports.^{xxx} Asian nations, in particular China and Japan, were increasing their share of Peru's exports while other Latin American nations, in particular Chile, Colombia, and Brazil, were increasing their share of Peru's imports; but none of these country's shares of exports or imports surpassed 10%.^{xxxi}

Although the expansion of trade was hailed in Peru, Peru was importing more than it was exporting. To avoid a deficit in the current account, the Peruvian government required foreign investment. Fortunately for Peru, its newly liberalized foreign investment code and its privatization initiatives met an enthusiastic response among foreign investors.

Peru's privatization commission, COPRI (Comisión de Privatización) prepared an initial for-sale list of some 70 state holdings, including most of the largest. In February 1994, a major boost for privatization was the spectacularly successful sale of the state telecommunications network; while the base price for the network at the auction had been set at \$525 million and government optimists had speculated on the possibility of \$800 million, Spain's Telefónica won with a bid that topped \$2 billion.

Ultimately, between 1990 and 1998, total registered direct foreign investment rose from \$1.3 billion to more than \$7 billion; more than 180 state holdings spanning the telecommunications, banking, tourism, mining, transport, cement, and other sectors were privatized.^{xxxii} The surge in investment (from about 16 percent of GDP in 1990 to 24 percent in 1995) was the most important factor in Peru's economic boom during this period.^{xxxiii} The performance of COPRI was praised by foreign investors as efficient and honest. Not only did the commission manage the sales, but it devised strategies for the purchase of small amounts of shares by Peruvians—strategies that helped to defuse nationalist resentment against privatization.

Between 1994 and 1997, total U.S. direct investment in Peru doubled—an increase greater than in any other South American nation over these four years.^{xxxiv} Mobil Oil, Occidental Petroleum, Southern Peru Copper Corporation, and Newmont Mining were among the U.S. companies making major investments; Coca-Cola,

McDonald's, Marriott, and other large U.S. companies were also interested in the Peruvian consumer market. Despite these investments, however, the relative U.S share of Peru's stock of FDI declined. Whereas in 1980 the U.S. was the source of 55 percent of Peru's stock of FDI, by 1994 it was the source of only 17 percent.^{xxxv} However, the percentages were skewed by Spain's Telefónica's huge investment; if one of the U.S.-led consortia that had bid on Peru's telecommunications network had won the auction, the U.S. would have continued to hold the largest share of Peru's stock of FDI. Following Spain and the U.S as sources of FDI in 1998 were the United Kingdom, the Netherlands, Chile, and China.^{xxxvi} Despite collaboration between Japan and Peru during this period, significant investments were not made by Japanese companies.

The increase in foreign investment in Peru was fundamental to the country's high growth rates during 1993-1997. (The decline in political violence was also important, enabling the resumption of normal economic activities that had been impossible for many years in much of the country.) Real GDP growth was estimated at 5.7% in 1993, 14.7% in 1994, 10.0% in 1995, 2.3% in 1996, and 7.4% in 1997—for an average annual growth rate of approximately 8% over the five year period.^{xxxvii} This 8% figure for 1993-97 was the highest in Latin America.^{xxxviii} At the same time, inflation was low: from the triple digit figures of the previous decade, inflation was only 15% in 1994 and continued to fall thereafter.^{xxxix}

However, the economic heyday was not to last.

D. Peru's Free-Market Reforms, 1998-00: Are They Sustainable?

In 1998, however, various events and trends conspired to cool the collaboration between the international financial community and Peru. It was not clear that the key principles of the mid-1990s partnership—Peru's staunch commitment to the service of its debt, liberal trade and investment codes, and progress on other free-market fronts—would be maintained after 2000.

For its part, by 1998 the international financial community was confronting numerous challenges. In late 1997 many Asian nations were in financial turmoil, and in 1998 Russia and Brazil were as well. The crises in these nations reduced investors' and

bankers' interest in exposure in poorer nations, including Peru. At the same time, world prices for many raw materials—including those that were important or potentially important Peruvian exports such as gold, copper, and gas--were declining.

For his part, President Fujimori was harboring doubts about free-market reform. Most newly privatized utility companies had raised the fees charged to consumers, and a late 1997 merger between a Spanish and a Chilean energy giant worried Fujimori about the potential for exorbitant fees.^{x1} Also, by this time Fujimori was contemplating the 2000 presidential election, and he was aware that, despite economic growth, Peruvians' overall living standards had not recovered to 1970s levels and that popular skepticism about the free-market model was mounting (see below). In June 1998, economics minister Camet was replaced by Jorge Baca, in part to signal the turn of official attention to the problems of poverty.

Privatization stalled. One reason was simply that most of Peru's attractive state companies had now already been sold. For its part, however, the government was also less enthusiastic. In early 1998, Fujimori announced that neither a major hydroelectric complex nor Lima's water and sewage agency would be privatized. The government delayed the sales of copper, phosphates, and other important concerns. The official emphasis was upon concessions for foreign operations of airports, roads, and other infrastructure rather than privatization.

The most important negotiation between international investors and the Peruvian government was over the development of the Camisea gas field in Peru's jungle east of the Andes. Shell Oil Company discovered the giant field in the early 1980s, but only in 1996 did Shell and its minority partner Mobil begin negotiations over its development. The plan was to construct a transAndean pipeline that would carry the gas to Peru's populous coast and perhaps a pipeline to Brazil as well. Dubbed "the contract of the century" by Fujimori, estimates of the foreign investment for Camisea were in the range of \$3 billion, with the potential for as much as \$8 billion in corollary energy businesses.

However, negotiations proved difficult.^{xli} Fujimori's stance was arrogant, and the official negotiators at the ministry of energy and mines were unwilling to assure Shell-Mobil a minimum price that the consortium could charge Peru's electricity

companies—a conventional provision in contracts of this kind. For its part, as Shell-Mobil’s technical team discovered new physical obstacles to the development of Camisea, the consortium was less enthusiastic about the deal, and pressed for rights to export gas to Brazil. In mid-1998, Shell-Mobil decided not to proceed. “The contract of the century is fast turning into the missed opportunity of the century,” commented a journalist.^{xliii}

In the wake of Shell-Mobil’s withdrawal, the government found that the attraction of other investors required concessions. The government assured companies that other new sources of energy would not be developed in Peru for five years. After several delays, in February 2000 a consortium of the Argentina-based Pluspetrol with 40%, the U.S.-based Hunt Oil with 40%, and the Korea-based SK Corporation with 20% won the first-phase exploration bid. However, this consortium was not as experienced or prestigious as Shell-Mobil and seemed unlikely to develop Camisea as successfully as Shell-Mobil might have.

There was also greater concern in the international financial community about the weakness of Peru’s democratic institutions.^{xliiii} International-business experts worried about unstable “rules of the game” that placed sudden, unexpected obstacles in companies’ paths. The quality of Peru’s civil service and judiciary was judged below Latin American averages in 1997, and the extent of corruption at about the Latin American average; after 1997, the widespread perception was that decision-making in these institutions was increasingly politicized.^{xliiv} This was the case even for the tax agency, SUNAT, which had been the primary example of institution-building by the Fujimori government.

To a degree, the Fujimori government’s new skepticism towards the international financial community was a reflection of rising concerns about the free-market model. In 1998 and 1999, the Peruvian economy contracted. The government claimed that real GDP grew by 0.3 percent in 1998 and 3 percent in 1999, but the 1999 figure was challenged by Peru’s most distinguished economists, who pointed out that the figure relied on a very old base year (1979) and charged that real GDP had in fact declined in 1999.^{xlv} In 1999, average real wages were below the levels of the first years of the decade and well below the levels of the 1970s.^{xlvi} The official unemployment rate in

Lima--9.2 percent in 1999--and official underemployment rate in Peru's cities--44 percent in 1998--were slightly higher than in earlier years of the decade; gradually the tens of thousands of professionals who lost their jobs in the early 1990s as a result of privatization or the bankruptcy of a private company suddenly exposed to foreign competition resigned themselves to driving taxis and similar jobs.^{xlvii} Peruvians overwhelmingly identified unemployment as the country's principal problem.^{xlviii}

The government's economic policy remained successful in various respects, however. Inflation was in the single digits. By some measures, extreme poverty declined, especially in remote highlands areas of the country that previous governments had not been able to help. In part, this improvement was a result of international assistance. The international development banks increasingly directed their support to anti-poverty efforts in rural areas, in particular roads and education.^{xlix} The United States provided about \$70 million in food aid to Peru annually during 1995-99—about double the sum that the U.S. provided Peru under the García government and more than double the sum it provided any other Latin American nation during this period.¹ U.S. food aid was reaching more than 10 percent of the Peruvian population.^{li}

D. Conclusion

For the U.S. government, Peru's shift from the attempt to lead a regional initiative against debt service and free-market policies under García to the debt negotiations and comprehensive free-market program under Fujimori was extremely welcome. A core perspective among many U.S. officials has long been that the free-market policies are essential to development and that development is essential to democracy. Accordingly, for many U.S. officials the Fujimori government was the first Peruvian government in decades to get the basics right. Many of these officials, familiar with the travails of free-market transitions, worried that Fujimori's successor would not maintain the free-market reforms.

There was reason for the U.S. concern. By the late 1990s, many Peruvians did believe that poverty was becoming more severe in Peru. They blamed worsening poverty in part on problems beyond the government's control: the Asian, Russian, and Brazilian

financial crises of 1997-98 and the devastating El Niño weather of the same period. However, they increasingly also blamed the stagnation upon the free-market model itself. In 1998, 58 percent of Peruvians said that free-market economics was appropriate for the country—a decline from 72 percent in 1991.^{lii} The number of Peruvians who approved privatization of state enterprises dropped to 32 percent in October 1998 from 59 percent in October 1992.^{liii} In 1999, only about 20 percent of Peruvians approved the government's overall economic policy.^{liv}

Given Peruvians' disappointment with their country's free-market performance, it seemed likely that the more skeptical stance adopted by the Fujimori government in 1988-1999 would continue after 2000. It also seemed likely that, given that major privatization opportunities were almost exhausted and that political risk would increase in the wake of the controversial 2000 elections, the international financial community's enthusiasm for Peru would erode further. Accordingly, the post-2000 prospect was that the collaboration between Peru and the international financial community on economic issues would continue to fray.

However, it seemed unlikely that the U.S. and Peru would revert to the confrontation on economic issues that had marked previous decades. In the 2000 presidential elections, all eight candidates endorsed free-market principles, and opposition leader Alejandro Toledo repeatedly promised not to dismantle Fujimori's economic policies but to build upon them. During the decade, large numbers of Peruvians had gained access to the advances of the late-twentieth century—telephones, cable television, the internet—and they did not want to risk the economic isolation that they had endured under García.

III. The Bilateral Agenda from the 1980s to 2000:

A. National Security

The term "national security" is commonly defined as the state's concern for its territorial integrity.¹ The sovereignty of the state may be threatened by both internal and external enemies. The U.S. government has long considered challenges to the physical integrity of a Latin American state as challenges to U.S. national security as well; the U.S. perception has been that internal or external wars in a Latin American country are destabilizing not only for the country in question but also for the hemisphere, including the United States. Accordingly, the U.S. government has usually sought to support Latin American governments threatened by internal enemies and to support negotiations among Latin American nations in conflict with each other.

Peru's security was intensely threatened by guerrilla movements during the 1980s and early 1990s. During this period, the only Latin American nation that was facing as significant a revolutionary challenge as Peru was El Salvador. (The challenges in Colombia intensified at the end of the 1990s.) The strongest challenge was mounted by the Sendero Luminoso (Shining Path) guerrillas, and a secondary challenge was posed by the Movimiento Revolucionario Túpac Amaru (Túpac Amaru Revolutionary Movement, MRTA). Peru was also seriously at odds with its neighbor Ecuador; by the 1990s the border dispute between these two countries was the longest-standing and most contentious in Latin America.

Atypically, for various reasons Peru's efforts to defeat its internal enemies found scant support from the U.S. government during the 1980s. By contrast, in the 1990s the Fujimori government worked closely with the U.S. government on national-security threats. Not only did the CIA provide financial and technical support for the Peruvian unit that captured Guzmán, but the U.S. government helped the Fujimori government prepare the April 1997 military raid on the Japanese Ambassador's residence that rescued the Peruvian and Japanese hostages taken by the MRTA months previously. Also, after war broke out between Peru and Ecuador in January 1995, U.S. government officials played an important role in re-establishing peace and advancing negotiations for a peace agreement, which was finally achieved in October 1998.

¹Among the numerous excellent discussions of the "national security" concept, see Margaret Daly Hayes, Latin America and the U.S. National Interest: A Basis for U.S. Foreign Policy (Boulder, CO: Westview, 1984), 7.

The development of this close U.S.-Peruvian partnership on security threats during the 1990s was a reflection of the global and domestic trends noted in the Introduction. Between the late 1960s and the late 1980s, Peru's security forces were not inclined towards collaboration with the United States; they established stronger ties to the Soviet Union than most Latin American security forces did. At the end of the Cold War this collaboration ended, and the opportunity for partnership with the U.S. security forces opened.

At just this time, President Fujimori was elected, and his top national-security adviser was Vladimiro Montesinos, who as it happened had been in contact with the Central Intelligence Agency (CIA) in the 1970s. The de facto head of the National Intelligence Service (SIN), Montesinos was widely considered the second most powerful person in Peru (after Fujimori himself), and during the 1990s his working relationship with the CIA was close.² The head of the armed forces during most of the 1990s was General Nicolás de Barí Hermoza, who for many years was content to follow Montesinos's lead.³

B. The Resolution of Internal Conflict

The primary internal threat to the Peruvian government between 1980 and 1992 was mounted by the Shining Path.⁴ The Shining Path was a savage, disciplined Maoist insurgency that was more akin to Cambodia's Khmer Rouge than to other Latin American revolutionary movements. Sendero Luminoso was created and led by one man: Abimael Guzmán, who was regarded like a deity by his followers, who themselves behaved like disciples. The movement started in Peru's remote southern highlands, advanced in the mid-1980s to the coca-producing areas and the central highlands, and finally expanded in the late 1980s to most of the country, including Lima. The Shining Path enjoyed ample financial resources, in the range of \$100 million per year, gained

²For rankings of Peru's most powerful persons, see the annual survey "El Poder en el Perú," a survey of informed Peruvians by the highly respected public-opinion agency Apoyo, published in the July-August issue of the journal *Debate*. On Montesinos's relationship with the CIA, see below.

³On Hermoza, see Sally Bowen, *The Fujimori File: Peru and its President 1990-2000* (Lima: Peru Monitor, 2000), 51, 62, 67; Philip Mauceri, "Military Perogatives with a Civil-Military Alliance: The Case of Peru," Paper presented at the Latin American Studies Association meeting, September 24-26, 1998; and Enrique Obando, "Cooptation as a Perverse Form of Civilian Control of the Military: Lessons from the Peruvian Experience," unpublished manuscript, 1999.

⁴For the sources for the following paragraphs about the Shining Path, see Cynthia McClintock, *Revolutionary Movements in Latin America* (Washington, D.C.: U.S. Institute of Peace Press, 1998), 63-90.

primarily by its activities in the drug-producing areas (charging Colombian drug traffickers for use of airstrips that Sendero controlled, for example). As of 1990, more than 25,000 Senderistas were prepared to undertake at least elementary military tasks. The Shining Path was supported by approximately 15 percent of Peruvian citizens and controlled about 25 percent of the country's municipalities.

The Túpac Amaru Revolutionary Movement was a secondary insurgency, never posing a threat to the survival of the Peruvian state.⁵ However, as the MRTA's dramatic seizure of the Japanese Ambassador's residence on 17 December 1996 showed, the movement did provoke significant challenges to Peruvian governments. The MRTA's ideology—just as that of numerous Latin American revolutionary movements--was influenced by the Cuban foquista model: its emphasis was on the popular attack that commands great publicity and, accordingly, without any need for a coherent revolutionary organization, gains popular support. In Peru during this period, when elected governments were not despotic but ineffectual and undisciplined, only relatively small numbers of Peruvians were attracted to a revolutionary opposition that also appeared undisciplined. Numbering approximately 1,000 militants at its apex and based primarily in Lima, Huancayo, and the coca-producing San Martín department, in the late 1980s the MRTA was responsible for about 10 percent of all political attacks and roughly 5 percent of all deaths from political violence (in comparison to Sendero's approximately 75 percent and 50 percent).

In the late 1980s and early 1990s, the Shining Path's expansion was provoking panic among large numbers of Peruvians.⁶ The number of deaths from political violence between 1989 and 1992 was about 3,000 per year.⁷ Although most analysts had doubted that an authoritarian, rigid movement like Sendero could penetrate Lima, a politically well-organized and culturally sophisticated capital, it did. Controlling many shantytowns on Lima's outskirts, Sendero detonated about eight car bombs a month; by mid-1992, the car bombs became truck bombs. In July 1992, in the worst terrorist incident of the war, a truck bomb killed 22 people and injured 250 on the small street of Tarata in Miraflores, a neighborhood that was the center of middle-class Lima life. The Tarata bomb was the start of weeklong wave of terror—daily attacks against police stations, factories, schools, and businesses—that culminated in a two-day armed strike paralyzing Lima and cutting the capital's road and rail links to the nation's interior. Among both soldiers and officers in the Peruvian military, rates of desertion were very

⁵McClintock, Revolutionary Movements, 47-48.

⁶McClintock, Revolutionary Movements, 86-89.

⁷McClintock, Revolutionary Movements, 117.

high. Businessmen, doctors, and many other members of Peru's middle class were trying to leave the country. Warned experts on the conflict: "...the state is on the verge of defeat. The armed forces could tumble down at any moment" and "If they [the Shining Path] continue this way, they will be able to beat the Peruvian state."⁸

Whereas previous Latin American governments with some claim to democratic legitimacy that confronted guerrilla movements received considerable economic and military support, prior to 1991 the Peruvian government did not. From 1985 through 1990 U.S. economic and military aid to Peru was about \$75 million annually, less than 5 percent of U.S. economic and military aid to the Latin American and Caribbean as a whole.⁹ U.S. aid to Peru was only 17 percent of the amount of U.S. aid to El Salvador during 1985-89—and, in per capita terms, only 4 percent.¹⁰ In real terms, U.S. aid to Peru between 1980 and 1990 was only slightly more than half the amount during its previous democratic interlude between 1962 and 1968.¹¹

Why, when the tendency of the United States government during the Cold War was to exaggerate leftist threats and overreact to them, was the U.S. relatively passive against the threats in Peru? There were numerous reasons.¹²

First, the overall relationship between the United States and the 1980-85 Belaúnde government was tense and the overall relationship between the United States and the García government tenser yet. The U.S. government considered the García government dangerously leftist, and was especially angry at García's socialist postures in general and his refusal to service Peru's international debts in particular. The U.S. government was also disturbed that the Peruvian military maintained a friendly relationship with the Soviet military and had begun to purchase weapons from the Soviet Union in the late 1960s.¹³ After General Velasco's 1968 coup, the Peruvian government moved to limit the

⁸Enrique Obando, quoted in Charles Lane et al., "Peru into the Cross Fire," *Newsweek* (August 19, 1991), 29, and Gustavo Gorriti, quoted in James Brooke, "Marxist Revolt Grows Strong in the Shantytowns of Peru," *The New York Times*, (November 11, 1991), A1.

⁹U.S. Agency for International Development, U.S. Overseas Loans and Grants and Assistance from International Organizations (Washington, D.C.), annual editions.

¹⁰McClintock, Revolutionary Movements, 203.

¹¹McClintock, Revolutionary Movements, 236.

¹²This section draws upon interviews between 1981 and 1991 with U.S. officials, including U.S. Deputy Chief of Mission John Youle, July 14, 1986; U.S. Ambassadors David Jordan, July 30, 1987 (in Washington D.C.) and Alexander Watson, December 6, 1987 and July 6, 1989; U.S. Embassy officials Dan Clare, July 11, 1983; Charles Loveridge, July 7, 1989 and April 7, 1990; Gene Bigler, August 17, 1991; Steve McFarland, August 20, 1993. See also Clayton, Peru and the United States, p. 272.

¹³At the conference "Soviet Activities in Latin America," U.S. Department of State, May 7, 1987, U.S. Ambassador David Jordan said that one of his instructions as Ambassador had been to break the tie between the Soviet and Peruvian militaries. See also "The U.S. Position on Peru," Inter-American Economic Affairs, 39, no. 2 (Autumn 1985): 86-88.

CIA's role in Peru, and there was no known effort by a Peruvian government to re-build a relationship with the Agency until the late 1980s at the earliest.¹⁴ The U.S. also sought greater cooperation in the "war against drugs" than Belaúnde or García provided; there was special concern about several Peruvian military attacks on U.S. aircraft that suggested possible complicity with drugtraffickers.¹⁵ In short, although the Belaúnde and García governments were freely elected, the U.S. did not feel inclined to help them out.

A second factor was the nature of the Sendero challenge. Although the Shining Path began during the Cold War, it was not a conventional Cold-War movement with the conventional Cold-War implications for the United States. Not only did Sendero receive no support from either the Soviet Union or China, but the Maoist insurgency condemned the political trajectory in both these nations. Accordingly, Sendero's advance had minimal global implications for the United States. Also, the Shining Path did not carry out large-scale military attacks--its "strength" was based more upon its capacity to sow terror—and as a result the intensity of its threat was consistently underestimated by the U.S. government.

A third factor was disagreement, both within the United States and between the United States and Peru, on the kind of aid that would be appropriate. To the extent that the Reagan and Bush administrations did try to respond to the Sendero threat, their proposal was traditional: military aid. However, military aid for counterinsurgency objectives was for the most part opposed by the U.S. Congress.¹⁶ Indeed, during much of this period the Brooke-Alexander Amendment prohibited U.S. military aid to countries that were in arrears on their official debt service to the U.S. government, as Peru was. Also, many U.S. Congressmen believed that the Peruvian military was engaged in a persistent pattern of gross violations of internationally recognized human rights, and that U.S. aid to the Peruvian military would thus violate U.S. law and signal toleration of the Peruvian military's human-rights violations. Accordingly, U.S. aid to the Peruvian military—or at least aid to the Peruvian military that was not classified as anti-narcotics aid—was minimal. U.S. military aid to Peru between 1981 and 1990 averaged \$4 million annually, and between 1986 and 1990 only about \$1.25 million.¹⁷

¹⁴Gustavo Gorriti, "The Betrayal of Peru's Democracy: Montesinos as Fujimori's Svengali," Covert Action 49 (Summer 1994): 49.

¹⁵See Chapter IV.

¹⁶McClintock, Revolutionary Movements, 242.

¹⁷U.S. Agency for International Development, , annual editions.

In January 1989, the Bush administration increased the U.S. emphasis upon international narcotics control (see Chapter IV), and aid for the Peruvian military was pursued as anti-narcotics aid; this effort was more successful in the U.S. Congress. Anti-narcotics aid increased to about \$10 million annually in 1989 and 1990, and a considerable percentage of this aid was disbursed to Peruvian security forces.¹⁸ The Bush administration also advanced a \$35.9 million military aid package for Peru that was labeled anti-narcotics aid but was probably also expected to be advantageous for counterinsurgency. However, this package was rejected by García in April 1990 and Fujimori in September 1990.

Military aid was not the kind of U.S. aid desired by most Peruvians--not only civilian Peruvians but also military officers.¹⁹ They feared that repressive counter-narcotics actions would be counter-productive to the anti-Sendero effort, pushing angry peasants into a closer alliance with the insurgents. They worried too that U.S. military advisers would provoke a nationalistic reaction in Peru and that they would not understand the Peruvian context. Peruvian political leaders and citizens wanted not U.S. military aid, but U.S. economic aid. As one political leader said, ""What we need in this country are greenbacks, not Green Berets."²⁰ Ultimately, the kind of U.S. aid that proved helpful to the defeat of the Shining Path was neither military nor economic, as will be evident below.

In approximately 1989, as the Shining Path threat intensified and as the links between the Peruvian and Soviet security forces dissipated, both the U.S. and Peruvian leaderships began to consider new kinds of U.S. support for counterinsurgency. The García government emphasized that enhanced intelligence against Sendero in general and the capture of Guzmán, in particular, were key priorities. Working with his close friend Agustín Mantilla at the Interior Ministry, García augmented the resources and staff of the antiterrorist police, subsequently called DINCOTE (Dirección Nacional Contra El Terrorismo). For the first time since 1968, primarily under Mantilla's auspices, the contours of a working relationship between Peruvian security personnel and the CIA were explored by the two governments.²¹ On the U.S. side, according to knowledgeable but off-the-record sources, in early 1990 Assistant Secretary of State Bernard Aronson asked the CIA to support Peruvian intelligence efforts. It is probable that, in March 1990,

¹⁸U.S. Agency for International Development, U.S. Overseas Loans and Grants, annual editions.

¹⁹McClintock, Revolutionary Movements, 242-243.

²⁰The Aprista congressman Hector Vargas Haya, quoted in Christian Science Monitor (3 May 1990), 3.

²¹Gorriti, "The Betrayal," p. 54; author's interview with Agustín Mantilla, in Lima, June 16, 1997.

the CIA did support the establishment of a small, elite unit named the GEIN (Grupo Especial de Inteligencia) that had one specific mandate: the capture of Guzmán.²²

After the inauguration of Fujimori and the Peruvian government's overall shift towards a closer relationship with the United States, the ties between Peruvian security personnel and the CIA were greatly strengthened. The strengthening was vigorously promoted by Fujimori's top national-security adviser, Vladimiro Montesinos.

Montesinos's relationship with the CIA began in the 1960s or early 1970s, when he was an army captain working for various powerful government ministers.²³ Montesinos was keenly interested in geopolitics and security issues, and his knowledge of these issues was impressive to his superiors. However, when it was realized that high-level meeting agendas were almost immediately known at the U.S. Embassy, Montesinos was quickly suspected as a trafficker in top-secret documents for U.S. intelligence officials.²⁴ In 1976, Montesinos defied orders for his transfer to a distant Peruvian city to travel to Washington to speak at two conferences, one at the CIA and the other at the Pentagon. Montesinos was recognized at a reception by a Peruvian general and charged with disobedience, dishonesty, and betrayal of his country by spying (delivering secret documents to the CIA). He was convicted of the first two charges and cashiered from the army. Although Montesinos was exonerated of the spying charges for lack of proof, suspicions that he had been a paid CIA agent remained widespread among knowledgeable Peruvians.

Presumably in part building on his previous connections, in the 1990s Montesinos developed a close working relationship with the CIA—at least according to insiders who are willing to discuss the question. (As is its custom, the CIA does not comment.) Said President Fujimori, in April 2000: “There is a very good relationship between the Drug Enforcement Administration, the CIA, and Montesinos. The CIA calls Montesinos from time to time. There is cooperation. It is good for both countries.”²⁵ However, the contact between Montesinos and CIA officials was by most accounts much closer than sporadic telephone conversations. Based on off-the-record interviews with Western

²²Mantilla interview; author's off-the-record interviews with knowledgeable U.S. Department of State officials.

²³The information in this and the next paragraphs is based in part on Gorriti, “The Betrayal,” 4-12 and 54-59; “El Doctor Vladimiro Montesinos,” *Debate* 20, no. 103 (November-December 1998): 24-32 (a series of short articles by various authors) and Fernando Rospigliosi, “Imponiendo Soluciones,” *Caretas* (October 22, 1998): 16-17; and Francisco Loayza Galván, *El Rostro Oscuro del Poder* (Lima: Ediciones Referéndum, 1998).

²⁴Gorriti, “The Betrayal,” 7.

²⁵President Fujimori, cited in an interview with the *New York Times* correspondent; see Clifford Krauss, “Fujimori's Shadowy Aide Highlighted by Election,” *The New York Times*, (April 2, 2000), 3.

diplomats, Gustavo Gorriti concluded that in 1990 Montesinos was “a prized and protected asset of the CIA” and that collaboration between Montesinos and the CIA’s station chief in Lima mutually reinforced their increasing political power.²⁶

As Montesinos became more powerful, so did the agency that he unofficially headed: the National Intelligence Service (SIN). The SIN’s organization and activities were predominantly covert, and thus cannot be rigorously documented. However, it is clear that during the 1990s the SIN became not only one of the very largest agencies in the Peruvian government but also the most important for the execution of the government’s political plans. Gradually, the first and foremost role of the SIN became espionage and sabotage against opponents of the government.

In the early 1990s, however, the SIN’s primary concern was counterinsurgency. Although again the CIA does not comment, there is consensus among insiders speaking on and off the record that, as head of the SIN, Montesinos secured generous resources from the CIA for DINCOTE and the GEIN.²⁷ Although the CIA had probably supported the GEIN from its inception, the amount of support increased considerably in early 1991. CIA personnel provided the GEIN with sophisticated cameras, video recorders, listening devices, and instruction in their use--plus, according to some sources, a virtual blank check. On September 12, 1992, in the turning point of the anti-Sendero effort, the GEIN captured Guzmán and key lieutenants at a safe house in Lima.

Although the SIN facilitated CIA support for the GEIN, the working relationship between the SIN and both DINCOTE and the GEIN was poor. Turf battles were intense; the GEIN was often disparaged as a group set up by García’s colleague, Mantilla. To their fury, neither Montesinos nor Fujimori was alerted that the capture was imminent and neither was present at the event to bask in the media glory. Fujimori, whose favored intelligence unit was of course the SIN, expressed his resentment by summarily transferring most of the top officials at DINCOTE and the GEIN to relatively unimportant positions soon after the capture.

After the capture of Guzmán, the SIN coordinated a psychological campaign that intensified Senderistas’ demoralization after the capture of their leader. It is not known

²⁶Gorriti, “The Betrayal,” 54-55.

²⁷Christopher Simpson, National Security Directives of the Reagan and Bush Administrations: The Declassified History of U.S. Political and Military Policy, 1981-1991 (Bolder, Colo: Westview Press, 1995), 641; Carlos Reyna, “Cómo fue realmente la captura de Abimael Guzmán,” Debate 17, no. 82 (1995): 46-50; Clifford P. Krauss, “The U.S. Reaction is Mixed,” Houston Chronicle, September 14, 1992), 5; Sally Bowen, “Political Indicators,” The Peru Report 5, no. 2 (1991): 44 and Jonathan Cavangh, “Political Interview” in The Peru Report 6, no. 8 (1992): 3. Among the author’s numerous interviews with U.S. and Peruvian officials on this issue, the most knowledgeable on-the-record confirmation of the CIA’s role was with Agustín Mantilla (interior minister under García), in Lima, June 16, 1997.

whether or not Montensinos discussed this campaign with CIA agents, but the pattern of the relationship would suggest that he did. In any case, the capture of Guzmán and the subsequent psychological campaign were very important to the decimation of the Shining Path over the next few years.²⁸

Other initiatives were important to the decimation of the Shining Path as well—in particular the military’s establishment of peasants’ self-defense patrols (*rondas*) and judicial changes—but U.S. actors appear to have played no role in these initiatives.²⁹ General Hermoza, the commander of the armed forces between 1991 and 1998, was a hardliner who regularly attacked critics of the military’s human-rights performance; there is no indication of any particular friendship between Hermoza and his U.S. counterparts.

The dramatic strengthening of security collaboration between the United States and Peru was especially evident during the 1996-97 hostage crises at the Japanese Ambassador’s residence. On December 17, 1996, 14 MRTA rebels took over the Japanese Ambassador’s residence during a party. Although warnings of an imminent major MRTA operation had been made, police officers and bodyguards had let an ambulance carrying the armed guerrillas pass through a cordon towards the residence.³⁰ Most of the 600-odd partygoers were quickly released, but 72 military officers, businessmen, and diplomats—including Peru’s foreign minister Francisco Tudela, the Japanese Ambassador, the Bolivian Ambassador, and Fujimori’s brother—remained captive.

The Fujimori government opened negotiations with the MRTA rebels, who were led by Néstor Cerpa Cartolini. The government offered the rebels safe passage to Cuba and ransom. Cerpa responded derisively that, if he had wanted to leave Peru, he could have found an easier way than seizing an embassy. The MRTA’s key demand was the release of more than 400 of their imprisoned comrades. The release of such a large number of MRTA prisoners was opposed by more than 80 percent of Peruvians, and Fujimori was categorical against the demand.

Subsequent negotiations, led by Archbishop Juan Luis Cipriani, brought the two sides’ positions somewhat closer. The government considered parole for some MRTA

²⁸The Shining Path was responsible for about 300 deaths in 1996, versus an average of 2,250 annually between 1989 and 1992.

²⁹Cynthia McClintock, “The Decimation of Peru’s Sendero Luminoso,” in *Comparative Peace Processes in Latin America*, ed. Cynthia Arnson (Stanford, CA: Stanford University Press, 1999), 223-249.

³⁰It is not clear who made this warning or whether it was made with any sense of urgency. Ultimately, police authorities rather than intelligence services were blamed for the lax security, but there has been no thorough public investigation of the relevant facts. See Yusuke Murakami, *El Espejo del Otro: El Japón ante la crisis de los rehenes en el Perú* (Lima: Instituto de Estudios Peruanos, 1999), 32-77 and the *Latin American Weekly Report*, no. 18 (6 May 1997), 208.

prisoners who had not committed violent crimes and improved prison conditions for the others. For his part, Cerpa reduced the number of MRTA prisoners whose release he demanded; in the last negotiations on April 14-15 the number was 21, including his wife Nancy. Fujimori accepted the release of 6—who were youths, elderly, or very low-ranking in the MRTA. By this time, Cerpa was ready to yield, and would have done so if his wife were released with the other 6 prisoners; but Cerpa's proposal was rejected by his MRTA colleagues.³¹ The viewpoints of the MRTA leaders were known to the Fujimori government through listening devices.

Virtually from the start, the government also pursued a military alternative. Its plan was called Chavín de Huantar, in honor of a pre-Incan architectural tunnel complex. Early in January, expert miners began to build five illuminated, air-conditioned tunnels to different parts of the residence. In February, the best commandos from various branches of Peru's armed forces were selected and then provided training by U.S. Special Forces.³² Throughout, intelligence was gathered; the information about the precise strategies remains classified. Apparently, however, a U.S. antinarcotics plane, an RG-8A known as "the condor," which looks like a normal plane but has exceptional intelligence capabilities, was used for aerial photography that facilitated maps of the area, for the detection of mines planted by the rebels, and for eavesdropping on conversations inside the residence.³³ Retired Admiral Luis Giampetri of the Peruvian Navy, an expert in intelligence and command operations, was provided with a tiny radio set. Sophisticated miniature microphones and video cameras were smuggled into various locations in the residence.

The rebels detected the construction of the tunnels, but they were not aware of the other extensive intelligence gained by the government. They did not know, for example, that their propensity for an afternoon soccer game on the first floor had been detected. Also, they believed that the Fujimori government would need Japan's approval for a military solution: by international law, the residence was Japan's property; Japan was a

³¹Murakami, *El Espejo*, 113-115; and the video "Endgame," broadcast on CNN Perspectives, August 15, 1999.

³²Larry Johnson, former Deputy Director of the U.S. State Department's Office of Counter-Terrorism, interviewed on "ABC News Nightline," April 22, 1997.

³³"El mosquito espía," *Cambio* (Colombian weekly), February 14-21, 2000. Both Johnson on "ABC News Nightline," April 22, 1997 and Admiral Luis Giampetri on "Endgame," August 15, 1999, report high-technology strategies for intelligence collection but say that they are not at liberty to provide the specifics. "CIA surveillance to storm the residence" is cited by M.J. Zuckerman, "Point man on terrorism knows security issues," *USA Today* (May 22, 1998), 6A. Later, Fujimori credited his son Kenyi and Kenyi's personal telescope for intelligence inside the residence; this possibility seems unlikely in the extreme and suggests that Fujimori does not want to identify the actual intelligence strategies.

strong supporter of the Fujimori government; and Japan was adamantly opposed to a military solution. (In the event, Fujimori did not seek Japan's approval.)

By April 20, more than four months after the MRTA's assault, negotiations between the government and the rebels appeared exhausted; when Cerpa abruptly refused to permit medical teams to visit the hostages, Fujimori readied the military option. In the afternoon of April 22, Giampetri notified intelligence officers through a microphone that most of the rebels were on the first floor of the residence playing soccer. Assured that other key conditions had been met as well, Montesinos telephoned Fujimori, who gave the go-ahead.

From the tunnels, roofs of neighboring buildings, and the front gates, 140 Peruvian commandos blasted into the residence. By conventional standards, the rescue operation was successful: 71 of the 72 hostages and 138 of the 140 commandos survived. The reverse, however, was also true: the lives of one hostage and two soldiers were lost, as were the lives of all 14 MRTA rebels (including adolescents and rebels who were allegedly killed after they had surrendered). The agriculture minister and several other hostages would probably have died if a rebel who had entered their hide-out and raised his rifle had opted to shoot.

In the aftermath of the rescue, tensions erupted between the intelligence sector and the military over the allocation of credit for the success. Since December 1991-January 1992, when Montesinos had been pivotal to the appointment of his ally General Hermoza first as commander of the army and then as head of the Comando Conjunto (Peru's joint chiefs of staff), the two men had worked together.³⁴ By and large, the crafty, ambitious, and ruthless Montesinos dominated Hermoza, whose military career had been undistinguished. However, they collaborated towards several key goals. In particular, they transformed the system of military promotions. Whereas since the 1950s promotions had been based on academic performance, service record, and seniority, in 1991-92 the key criterion became loyalty to Montesinos and Hermoza. Also, whereas the terms for commanders and other top officers had generally been restricted to one year and retirement after 35 years of service was mandatory, these limits were lifted. Hermoza was in the dual position of army commander and armed-forces commander for almost seven years and had passed his deadline for retirement.

³⁴On the evolution of the relationship between Montesinos and Hermoza, and on the changes in the system of military promotions, see Mauceri, "Military Prerogatives," 15, Bowen, The Fujimori File, 67, and Obando, "Cooptation," 8.

Gradually, however, relationships within the “power triangle”—President Fujimori above Montesinos and Hermoza—frayed.³⁵ In October 1997, about six months after Chavín de Huantar, Hermoza wrote a book about the operation that portrayed his own role as central but Fujimori’s as peripheral. For the next two weeks, Hermoza and Fujimori each furiously countered the other’s claims to the direction of the raid. Fujimori would have presumably dismissed Hermoza, but in December Hermoza rallied his regional military commanders to his side in Lima and Fujimori decided that Hermoza would stay—at least for awhile.

B. The Resolution of External Conflict: The Peru-Ecuador Boundary Dispute³⁶

When the Spanish empire ended, border conflicts erupted among most of the new nations of South America. One of the most intense conflicts was between Ecuador and Peru over some 350,000 square kilometers--about the size of France--mostly north of the Marañón River in remote Amazonian jungle areas. Beginning in 1827, the two countries not only argued the legal issues but also sporadically fought on the battlefield.

Fundamental to Ecuador's case was the international legal principle uti possidetis (signifying for Ecuador that the administrative frontiers of the Spanish Empire became the international frontiers of the newly independent countries); fundamental to Peru's position was physical possession and occupation of the territory.

After the failure of intense negotiations in the mid-1930s, border skirmishes became common. The Peruvian government, dissatisfied with other recent territorial losses, prepared for war. Between July and September of 1941, well-equipped and well-led Peruvian armed forces, including an effective air force, quickly and overwhelmingly defeated vastly outnumbered Ecuadorian troops. The Peruvian military penetrated deeply into Ecuador itself, threatening even Guayaquil. The Peruvian military was not to withdraw from Ecuador until Ecuador recognized Peruvian claims in the Amazon. The victory was the most decisive in Peruvian history.

³⁵Bowen initiates the felicitous concept “power triangle” in her book, The Fujimori File.

³⁶Valuable accounts of this dispute include Luigi R. Einaudi, “The Ecuador-Peru Peace Process,” in Herding Cats: Multiparty Mediation in a Complex World, eds. Chester A. Crocker, Fen Osler Hampson, and Pamela Aall (Washington, D.C.: U.S. Institute of Peace Press, 1999); Eduardo Ferrero Costa, “El proceso para la ejecución plena del Protocolo de Rio De Janeiro: Un testimonio (1),” Análisis Internacional 15 (July-December 1998), 7-56; Gabriel Marcella and Richard Downes, Security Cooperation in the Western Hemisphere: Resolving the Ecuador-Peru Conflict (Miami: North-South Center Press, 1999); David Scott Palmer, “Peru-Ecuador Border Conflict: Missed Opportunities, Misplaced Nationalism, and Multilateral Peacekeeping,” Journal of Inter-American Studies and World Affairs 99, no. 3 (fall 1997), 109-147; David R. Mares, “Deterrence Bargaining in the Ecuador-Peru Enduring Rivalry: Designing Strategies Around Military Weakness,” Security Studies 6, no. 2 (winter 1996/97); Eduardo Toche, “El conflicto con Ecuador y la política interna,” in Perú-Ecuador: entre la guerra y la paz, eds. Eduardo Toche, Walter Ledesma, and Pierre Foy (Lima: DESCO, 1998), 13-50.

The peace treaty, entitled the Protocol of Peace, Friendship, and Boundaries and commonly called the Rio Protocol, was signed by the Peruvian and Ecuadorian foreign ministers in Rio de Janeiro in January 1942. Just entering World War II, the United States was extremely concerned that all American nations stand together against the Axis and pressed for a rapid agreement. U.S., Brazilian, Argentine, and Chilean officials worked with the two foreign ministers and committed their respective nations to act as "guarantors" to help settle subsequent disagreements about the treaty.

Under the terms of the Protocol, Ecuador renounced its claims to the disputed territory. Also, Ecuador ceded to Peru approximately 13,500 square kilometers that Ecuador had previously held, including navigable portions of Amazonian tributaries that were important for Ecuador's access to the river. The Protocol denied Ecuador sovereign access to the Amazon, although it did give Ecuador the right to transit rivers. Virtually no civilian populations were displaced, however. The precise boundary was to be demarcated according to identified sites and physical features of the land. The treaty was approved by the congresses of both Peru and Ecuador.

Ecuador, however, was soon unhappy with the Protocol, arguing that it had been imposed by force. Official Ecuadorian maps continued to depict its sovereignty over the land won by Peru, and its official publications included the inscription "Ecuador Was, Is and Shall Be an Amazonian Nation." In 1948, after markers were in place along more than 95 percent of the border, Ecuador interpreted a U.S. aerial survey to mean that there was no single watershed along the Condor mountain range (Cordillera del Condor) between the Cenepa and Coangos Rivers, as the Protocol framers had stipulated. Accordingly, the Ecuadorian government declared the Protocol impossible to implement and halted demarcation of the border. In 1960, Ecuador declared the Protocol null and void in its entirety.

In 1981, the day before the 39th anniversary of the signing of the Rio Protocol, shooting broke out. The consensus among international analysts was that Ecuador precipitated the hostilities to secure renewed international attention to its claims.³⁷ After five days of fighting and some 200 deaths, however, Peru triumphed again. To secure the terms for a ceasefire, Ecuador humbly requested the auspices of the guarantors of the Protocol that it had repudiated.

In the wake of Peru's second decisive victory, a conventional wisdom emerged among not only Peruvian leaders but also U.S. experts that renewed military conflict over

³⁷William P. Avery, "Origins and Consequences of the Border Dispute Between Ecuador and Peru," Inter-American Economic Affairs, 38, no. 1 (summer 1984), 72.

this border area was extremely unlikely; neither President Belaúnde nor President García was highly attentive to the problem.³⁸ It seemed obvious that Peru enjoyed both the stronger military capability and the superior legal case. The value of the disputed land did not appear to warrant another risky military gamble by Ecuador. Moreover, both Peru and Ecuador were now democratic nations, and democratic nations were not expected to fight each other. From Peru's perspective, the border problem was unfortunate, but not as serious as the country's other pressing challenges. Also, the overall trend during the decade appeared positive: in 1989 a new mechanism for diplomatic consultation between Ecuador and Peru was established, and President García became the first Peruvian president in decades to set foot on Ecuadorian land.

However, beginning in 1991, Ecuador gradually redeployed military units into the disputed territory between the Cenepa and Coangos Rivers. Border incidents ensued in mid-1991. A "gentleman's agreement" was signed between the foreign ministers of Ecuador and Peru, but was soon disavowed by Peru as it became clear that stipulations in the agreement violated the Rio Protocol. Gradually, Ecuadorian military units constructed three fortified outposts in the disputed territory, including one on high ground at Tiwintza. The Ecuadorian military command ordered these advances in the beliefs that the Peruvian military would not be able to fight as effectively as in the past; that the Peruvian military's priority was the struggle against the Shining Path guerrillas; that Peruvian military preparedness was suffering amidst the nation's economic crisis; and that Fujimori's politicization of promotions within the military hierarchy was undermining its capabilities.

Concerned, President Fujimori made significant overtures to Ecuador. In January 1992, he made the first official visit ever of a Peruvian head of state to Quito, presenting proposals for a border agreement to the Ecuadorian government. He visited subsequently as well, but found scant response among the Ecuadorian leaders. Not only was Ecuador hoping to take advantage of Peru's weakened military capability, but Fujimori's overtures appeared personal; in the wake of the autogolpe, the institutional foundations for an international agreement were lacking.

In January 1995, war broke out in the disputed area. The immediate cause was the bombardment of a new Peruvian helicopter landing zone by Ecuador. Intense

³⁸Enrique Obando, "The Impact of the 1995 Conflict on Peru and Peruvian-Ecuadorian Relations," in Security Cooperation in the Western Hemisphere: Resolving the Peru-Ecuador Conflict, eds. Gabriel Marcella and Richard Downes (Miami: North South Center Press, 1999), 97. During the 1980s and early 1990s, U.S. analysts (including the author) believed that Peru should focus its military resources against Sendero rather than against Ecuador.

fighting continued for four weeks, primarily around the three fortified outposts that Ecuador had recently constructed in the disputed territory. Although the outcome of particular battles was disputed, it appeared that at the end of the fighting Ecuador remained in control of at least two of its forward outposts, and that--despite Fujimori's claims to the contrary--Peru did not fully recover the outpost at Tiwintza.³⁹ The human toll was 300 to 400 deaths and the economic cost up to 1 billion dollars.

Ironically, in various respects the war was advantageous to the eventual forging of an accord. For Ecuador, the war's outcome established important new attitudes among its military officers and also among many citizens. On the one hand, Ecuadorians believed that their military had recouped respect; but at the same time, Ecuadorians did not want to risk this renewed respect in another war, which they were likely to lose.⁴⁰ This was especially the case as Peru began to purchase sophisticated new weapons, including twelve Russian combat MIG-29 jets. For Peru, the war was a painful reminder that the border conflict endured despite the Rio Protocol, and persuaded some officers that concessions would be appropriate for its resolution. At the same time, however, Peru's dismal performance in the war led other Peruvian military leaders—including General Hermoza—to hope for an opportunity for revenge.

Another important ironic plus of the war was that it prompted intense concern by the four guarantor countries and their respective envoys. Especially pivotal to the peace process was Luigi Einaudi, the U.S. special envoy for the Ecuador-Peru peace process from its inception in 1995 to its conclusion in 1998 (and former U.S. Ambassador to the Organization of American States, among other high-ranking positions in the U.S. government). He was the only one of the envoys for whom the peace process was his full-time job; in his sixties, he was the only one who hoped that his work towards a settlement would be his signatory life achievement.⁴¹ In recognition of his role, Einaudi was decorated by Mahuad and Fujimori in Washington in February 1999. Said one of Peru's foreign ministers: "He was very important. He helped to bring the parties together, and he advanced proposals."⁴² Commented Jorge Valdéz, a vice foreign minister for Peru: "Luigi Einaudi was the only American who followed this [process] throughout. His creativity and diplomatic skills were major contributions."⁴³ In Apoyo's

³⁹Palmer, "Peru-Ecuador Border Conflict," 118-121 and Toche, Ledesma, and Foy, *Perú-Ecuador*, 180.

⁴⁰David R. Mares, "Political-Military Coordination in the Conflict Resolution Process: The Challenge for Ecuador," in *Security Cooperation*, 183-184.

⁴¹Personal interview, Luigi Einaudi, Washington D.C., November 19, 1999.

⁴²Personal interview, Eduardo Ferrero, Lima, July 19, 1999.

⁴³Jorge Valdéz, in a presentation at the Inter-American Dialogue, Washington, D.C., November 17, 1999.

1999 poll about the foreign actors who most influenced events in Peru, Einaudi was ranked eighth.⁴⁴

Enrique Cardoso (ranked as the ninth most influential foreign actor in the Apoyo poll) also played a major role. As the widely respected president of the largest guarantor country--the only one of the three Latin American nations that was not traditionally allied with either Ecuador or Peru--Cardoso carried a political weight that a diplomat such as Einaudi did not. At critical moments, when concessions were being resisted by Peruvian military officers or other Peruvian leaders, Cardoso stood by Fujimori and helped him carry the day.⁴⁵ Also, when U.S. military support for MOMEPE was flagging, Cardoso stepped in to provide the necessary resources.

On February 17, 1995, the Peace Accord of Itamaraty was signed, and a request made by Ecuador and Peru for guarantor support for ceasing hostilities. For the first time since 1960, Ecuador officially accepted the existence of the Rio Protocol. However, fighting continued until February 28, when representatives of all the relevant countries met for the inauguration of the president of Uruguay. In early March, the Military Observer Mission Ecuador-Peru (MOMEPE), composed of military personnel from the guarantor countries, reached the conflict area. Within a few weeks, it achieved the separation of the Ecuadorian and Peruvian forces and within the next few months the establishment of a 528-square-kilometer demilitarized zone. MOMEPE's success was something of a double-edged sword for the U.S. government; it feared that Peru and Ecuador would not have sufficient incentive to forge an agreement, and frequently stated that U.S. financial and military support for MOMEPE was conditional upon progress in the negotiations.

In 1996, meetings among the foreign ministers began, and agreement was reached on the substance and procedure for discussion. However, despite frequent meetings, by September 1997 the two countries' positions were virtually the same as they had been for decades: "Peru reaffirmed its claim to every millimeter of the territory it had always claimed, while Ecuador sought to document rights to major parts of that very same territory."⁴⁶ Peru's major goal was the demarcation of the Peru-Ecuador boundary as stipulated by the Rio Protocol, while Ecuador continued to argue that the Protocol was partially inapplicable and sought sovereign access to the Amazon via the Marañon River.

A breakthrough was finally achieved in Brasilia in November 1997. Peru and Ecuador agreed that four commissions, composed of diplomats and technical experts,

⁴⁴*Debate*, XXI, no. 106 (June-August 1999): 39.

⁴⁵Personal interview, Luigi Einaudi, Washington, D.C., November 19, 1999.

⁴⁶Einaudi, "The Ecuador-Peru Peace Process," 8.

would be established to study the issues of contention and propose solutions. The four issues were commerce and navigation for Ecuador on the Amazon; border economic integration; confidence-building measures; and finally and most important, on-site border demarcation. The demarcation commission was to be composed of geographers and legal experts, and its judgment was to be issued last.

The commissions worked effectively, and areas of disagreement narrowed. In May 1998, the border demarcation commission issued its judgment confirming the rightness of the Peruvian claim--that the demarcation stipulated in the Protocol for the Condor mountain range was correct. The verdict was rejected by the outgoing Ecuadorian president, and war loomed once again.

Both Ecuador and Peru mobilized thousands of troops in the jungle, some just yards apart from each other. On August 6, Peruvian foreign minister Eduardo Ferrero accused Ecuador of infiltrating troops several kilometers into Peruvian territory. Possibly, Peru hoped to focus the attention of incoming Ecuadorian President Jamil Mahuad and of the guarantors on the problem early in the new president's term. Also, Peru--and in particular hawkish armed forces commander General Hermoza--probably sought to serve notice to Mahuad that Peru really would resort to force if necessary. Ultimately, however, the two nations drew back from the brink; Peruvian and Ecuadorian forces were separated in the area in question.

A common perception continued that Hermoza was opposed to a settlement, and this perception became a cogent reason for Fujimori's dismissal of the general (which Fujimori had wanted since their rival claims to the leadership of Chavín de Huantar). To the extent that Hermoza had previously enjoyed international allies, it is likely that his hawkish position on the border conflict had alienated them. On August 20, 1998, having gathered other key commanders in the presidential palace and having secured their support for his decision, Fujimori called Hermoza to his office; to the general's total surprise, Fujimori announced Hermoza's retirement.

Progress towards a settlement accelerated dramatically. Born in a border region of Ecuador, Mahuad was especially aware of the potential benefits of a peace settlement. Mahuad and Fujimori met privately several times in different Latin American capitals (in particular at least once over a long lunch), and rapport emerged.

The primary remaining question seemed to be--given that the border was to be demarcated as Peru had sought--the kind of concession that could be given to Ecuador so that the settlement would be palatable for it. Discussion focused on Tiwintza, the military outpost in Peru that Ecuador had captured (and that Fujimori had inaccurately claimed to have fully recovered) during the 1995 hostilities. For many Ecuadorians,

ownership of Tiwintza would be a symbol of their military strength and valor; unfortunately, of course, for many Peruvians it would be a symbol of the reverse. The expectation of a concession to Ecuador on Tiwintza sparked the resignation of Peru's foreign minister, Eduardo Ferrero, on October 2.

Mahuad and Fujimori decided to ask the legislatures of their respective countries to authorize the guarantors to arbitrate the definitive demarcation of the border. This request was in accord with Protocol stipulations; whatever the decision of the guarantors was, it would be binding. It seems likely that Mahuad and Fujimori had already decided the terms of border demarcation and the fate of Tiwintza between themselves, but believed that the terms would be accepted more readily in both countries if it appeared to be made by the guarantors; otherwise, the terms might be rejected by their respective congresses.⁴⁷ Both congresses voted favorably within a matter of days, and within ten days the guarantors reported their decision.

The peace agreement was signed in Brasilia on October 26, 1998. Peru achieved its major objective: permanent frontier markers (granite obelisks called hitos) would finally be placed where Peru and now the technical commission had said they should be along the 78 kilometers of formerly disputed territory. On either side of the border, ecological preserves would be established (whereas a single binational park where the border would not be precisely demarcated had been favored by Ecuador). However, Ecuador was granted significant concessions. Probably most important was Peru's ceding to Ecuador ownership over Tiwintza, identified as one-square-kilometer area within Peru. The concepts of ownership and sovereignty were divided: Ecuador gained ownership but Peru would retain sovereignty. Ecuador said that it would build a memorial to its fallen soldiers at the site.

Also very important, Ecuador gained free navigation along the Amazon and the right to establish two 150-hectare areas with port facilities, storage facilities, and processing plants on important Amazon routes within Peru. These provisions were deeply resented by Peruvians in this region, who feared Ecuadorian infiltration into Peruvian territory and considered the commercial rights granted to Ecuador excessive.

Considerable resources for border integration were also envisaged in the agreement. Approximately \$3 billion in the next several years for joint projects including roads, airports, health centers, schools, irrigation canals and other river port

⁴⁷Personal interview, Enrique Obando, Washington, D.C., November 18, 1999, and off-the-record interviews.

installations was expected from the international financial community. At the same time, Peru and Ecuador agreed not to spend a cent on new armaments in the next four years.

All parties hailed the agreement. Fujimori said, "There are no losers, but all [are] winners."⁴⁸ The guarantors were delighted; "[The peace agreement is] a triumph for the entire hemisphere," said Einaudi.⁴⁹ The peoples of Peru and Ecuador were not so enthusiastic, however. Especially in Peru, where citizens had had little knowledge of the likely terms of the agreement, the first reaction was dismay, and serious demonstrations against the treaty erupted in Iquitos. For many Peruvians--who had never recognized the validity of Ecuadorian claims in the first place and who had received scant warning that Tiwintza's fate was in question--this concession was a humiliating shock.

Are the prospects for permanent peace favorable? A minority of analysts--and, over the year after the signing of the agreement, a declining minority--were skeptical. For these analysts, an unpatriotic president had allowed the United States to impose peace terms that were against Peru's national interest. Just as Leguía in 1929, Fujimori had ceded territory that was rightfully Peru's without due consultation with the Peruvian congress or the Peruvian people. To gain the settlement, Fujimori had dismissed both his commander of the armed forces and his foreign minister.

Most analysts, however, were optimistic. By the first anniversary of the agreement, a majority of Peruvians were supportive; in October 1999, 58 percent of Peruvians approved the agreement and another 26 percent disapproved but accepted it; only 14 percent rejected it.⁵⁰ Only in the area of Iquitos did public opinion remain strongly opposed. For most analysts, it was clear that Fujimori and his foreign ministers had worked long and hard on the peace terms and that the negotiations had been in good faith; it was also clear that Peru had had to make some concessions if border demarcation were to be achieved and the human and economic devastation of another war avoided. Also, for these analysts, Fujimori's decision to allow Tiwintza's fate to be determined by the guarantors was probably necessary given the realities of the Peruvian political process; the guarantors had not imposed peace terms on Peru, but rather they had assumed their due responsibilities. That Fujimori, Mahuad, and the guarantors' envoys had developed the mutual respect and trust to achieve the peace settlement was an extraordinary advance from the years of suspicion during the Cold War.

⁴⁸"A Creative Peace for Ecuador and Peru," Peace Watch V, no 3 (April 1999): 6.

⁴⁹"A Creative Peace for Ecuador and Peru," Peace Watch V, no. 3 (April 1999): 6.

⁵⁰The survey was by the Peruvian firm Apoyo in both Peru and Ecuador; see La República (22 October 1999), 5. The percentages for Ecuador were similar. Earlier surveys in the two countries were by different companies but suggested less support; see Resumen Semanal XX, no. 992 (28 October-3 November 1998): 5-6. See also Latin American Weekly Report (18 May 1999): 224.

C. Conclusion

Enhanced U.S.-Peruvian collaboration was fundamental to Peru's dramatic security achievements during the 1990s. U.S. support for the police unit that captured Guzmán and for the rescue operation at the Japanese Ambassador's residence were significant to the Fujimori government's defeat of challenges by internal enemies. U.S. actors, in particular Luigi Einaudi, were pivotal to the 1998 Peru-Ecuador peace agreement that resolved the two countries' intense border dispute and dramatically reduced the threat of external war.

Is U.S.-Peruvian security collaboration likely to be sustained after the departure of Fujimori and his national-security adviser Montesinos? It seems likely that the U.S.-Peruvian security relationship will remain much more positive than in the 1980s, due to the end of the Cold War and the implications of this fact discussed above. However, it also seems likely that the relationship will not be as close as it has been under the Fujimori government. First, the strength of the tie between Montesinos and the CIA appears unusual by Latin American standards. Also, by the late 1990s Montesinos's conspiratorial behavior and politicization of security institutions had provoked resentment in large sectors of the military. It seems likely that military commanders in a new Peruvian government will want to distance themselves from Montesinos and his colleagues in the future—including, very possibly, his international colleagues.

Another complex question is the political upshot of the revelations of the U.S. security role in Peru in the 1990s. Although the international contribution to the resolution of the Peru-Ecuador border conflict was not secret, the international contribution to Peru's counterinsurgency efforts has been. Given that CIA operations are covert, it is not surprising that Fujimori and Montesinos do not acknowledge the U.S. role, preferring to maximize their own roles. The secrecy seems unfortunate. If Peruvians had been informed of the U.S. contribution, it seems probable that they would have appreciated it. Now, however, after the Fujimori government has for the most part convinced Peruvians that the defeat of Sendero Luminoso and the MRTA was its own exclusive achievement, and the U.S. government has said nothing to the contrary, the U.S. role may not be positively evaluated. Indeed, it is possible that CIA complicity in the elaboration of a mythology about the Fujimori government's security achievements will provoke dismay when the CIA's role is eventually public knowledge in Peru.

IV. The Bilateral Agenda from the 1980s to 2000: The Control of Narcotics

By the mid-1980s, drugs were becoming an important political issue within the United States. The Reagan administration launched the "war against drugs," the Bush administration intensified it, and the Clinton administration continued it. The war against drugs became a U.S. policy priority for various reasons, especially domestic political pressure within the United States (predating the end of the Cold War) and also to a degree the U.S. military's desire for new international roles after the end of the Cold War. As for many years the producer of more than half the cocaine that was transported into the U.S., Peru became a key theater in the war.

The war against drugs was not the priority for Peru that it was for the United States. Also, although Peruvian presidents were in broad agreement with the United States on the overall objective--curbing cocaine production--they were in disagreement on the means to this objective until approximately 1995. Washington favored military interdiction and eradication of the coca plants, whereas Lima advocated crop substitution and alternative development programs, which would be more palatable to Peru's approximately 200,000 coca farmers. Also, Peru sought more U.S. economic support against a problem for which they believed the U.S. bore considerable responsibility; as Peruvian and other Latin American leaders often put it, without U.S. demand for drugs, there would be no Latin American supply. This argument over strategy was intense not only during the Belaúnde and García administrations but also during the first few years of the Fujimori administration.

Only as of about 1995 did the Clinton and Fujimori administrations begin to build an effective partnership in the control of narcotics. The change towards cooperation appeared the fruit of a slight change in the U.S. perspective on antinarcotics policy--tolerating Lima's resistance to forced coca eradication--and a dramatic change in the Peruvian perspective--enthusiastically endorsing military air interdiction. The reasons for the change in Lima's position are various and not entirely clear, but the most likely explanations are suggested below.

A. The "War on Drugs": The First Decade, 1982-1992

The "War on Drugs" was first declared by President Ronald Reagan in 1982. The declaration was a reflection of the introduction of cocaine and crack into much wider

sectors of U.S. society, and skyrocketing rates of abuse of these drugs, especially among youth. The strong U.S. demand led to high prices for coca and cocaine in the Andean countries and roughly a tripling of the area under coca cultivation in Peru between 1980 and 1985.⁵¹ President Belaúnde agreed with Reagan that cocaine was a scourge, and established CORAH (Special Project for the Control and Eradication of Coca in the Upper Huallaga Valley). In 1983-1985, CORAH's 450-odd workers' primary effort was to manually dig up coca plants; while at the Project's peak in 1985, almost 5,000 hectares of coca were eradicated, this figure paled beside the 20,000-odd new hectares that came under cultivation that year.⁵²

In 1986, a young basketball star, Len Bias, died from cocaine poisoning, and his death stirred intense concern. President Reagan declared drug trafficking to be a problem of U.S. national security, and the U.S. Congress enacted stricter antidrug laws. Among these was the requirement that foreign countries be "certified" by the U.S. President as cooperating in the war against drugs if they were to receive U.S. aid. (In the certification process, the United States either 1) certifies a country as fully cooperating with the United States in the war against drugs--"full certification" 2) does not certify the country as fully cooperating with the United States but granted the country a waiver from the concomitant sanctions on the grounds of U.S. national intercessor 3) denies certification. Against nations that are denied certification, the concomitant sanctions include the withdrawal of most U.S. foreign assistance and U.S. opposition to loans for these countries from the multilateral development banks.)

President García was eager to declare his cooperation with the United States in the war against drugs.⁵³ Under García, Peru took the lead in promoting regional cooperation against illegal drug processing and established a 500-strong anti-drug police force equipped with helicopters that targeted cocaine laboratories. In 1988, the biggest antidrug base in the Americas opened at Santa Lucía in the Upper Huallaga Valley; approximately 25 agents of the U.S. Drug Enforcement Administration plus about eight

⁵¹Mateen Thobani, "Peru: Agricultural Policies for Economic Efficiency," Washington, D.C.: World Bank (1991): 68. Precise figures vary, but the trend is not in question.

⁵²Richard B. Craig, "Illicit Drug Traffic: Implications for South American Source Countries," Journal of InterAmerican Studies and World Affairs 29 (Summer 1987): 13.

⁵³For antinarcotics policy during the early years of the García administration, see Cynthia McClintock, "The War on Drugs: The Peruvian Case," Journal of InterAmerican Studies and World Affairs 30 (Summer/Fall 1988): 127-142. For Peru's record during 1988, see the Bureau of International Narcotics Matters, U.S. Department of State, International Narcotics Control Strategy Report (Washington, D.C., March 1989): 85-90.

U.S.-supplied helicopters and 450 Peruvians were located at the base.⁵⁴ The year 1998 was the García government's most successful in the war against drugs: some 75 cocaine laboratories were destroyed and 500 metric tons of coca seized. As under Belaúnde, however, these advances were insufficient to check the overall trend towards more hectares under coca cultivation in the country.

In January 1989, President Bush was inaugurated, and he immediately increased the U.S. emphasis upon international narcotics control. Arguably, anti-narcotics was at the very top of the U.S. agenda for Peru during the Bush administration.⁵⁵ In September 1989, Bush announced the Andean Initiative, proclaiming that the United States could most effectively reduce the supply of cocaine by destroying it at its source in the Andean nations. Whereas under Reagan the U.S. strategy was the eradication of coca and the destruction of laboratories by police and paramilitary forces, the failure of this strategy convinced Bush that actual military action was necessary. During his term, Bush spearheaded two summit meetings on anti-narcotics with Latin American leaders, one in Cartagena in 1989 and one in Texas in 1992.

For Peru, the Bush administration proposed a \$35.9 million military aid package. Under the U.S. proposal, the U.S. was to station 20 to 50 U.S. Army Special Forces instructors in Peru to train Peruvian military units; equip the roughly 5,500 Peruvians who would be trained by the U.S. instructors; and enhance Peru's military arsenal through refurbishing 20 ground-attack planes and supplying river patrol boats.⁵⁶ It was also expected that the U.S. would support alternative development programs in coca-producing areas, but precise amounts were not specified.

The Bush administration's \$35 million military aid proposal was rejected first by President García in April 1990 and then by President Fujimori in September 1990. The presidents' rejection of the U.S. proposal came during the period when the Shining Path guerrillas were at their strongest, and dominated much of Peru's primary coca-producing territory in the Upper Huallaga Valley. The presidents feared that a repressive antinarcotics program would undermine the counterinsurgency effort, and that the latter

⁵⁴Joseph B. Treaster, "On Front line of Drug War, U.S.-Built Base Lags in Peru," New York Times, October 31, 1989, A1 and A10.

⁵⁵This was said to be the case by U.S. Ambassador Luigi Einaudi, in an address to a symposium at CEPEI, November 6, 1990, and by U.S. Ambassador Anthony C.E. Quainton, addressing the conference "Peruvian Counternarcotics Efforts: A Contextual View," at the Meridian International Center, January 11, 1993. Roberto MacLean, Peruvian Ambassador to the U.S. in 1991-1992, had the same impression; see The Peru Report V (February 1991): 4.

⁵⁶James Brooke, "U.S. Will Arm Peru to Fight Leftists in New Drug Push," The New York Times, April 23, 1990, 1 and 18; and an interview with U.S. Ambassador to Peru Anthony C.E. Quainton, "Las Condiciones de la Ayuda," Caretas, April 30, 1990, pp. 16-17 and 32 (among other sources).

was more important. They believed that if military repression were not combined with alternative development and crop substitution programs, it would only lose more Peruvian peasants' hearts and minds to the Shining Path.⁵⁷ They cited the example of General Alberto Arciniega, who in 1989 had regained control of an area in the Upper Huallaga Valley by relentlessly pursuing Senderistas but ignoring coca farmers and traffickers--much to the dismay of U.S. antinarcotics officials.

There were other concerns as well. Human-rights leaders in both Peru and the United States feared that the military aid would undermine Peru's weak civilian institutions and exacerbate the serious pattern of human-rights abuse.⁵⁸ Others just thought that the Peruvian government was excessively beleaguered already; the U.S. request that Peru wage an earnest war against drugs was compared to "asking a country that's fighting the Civil War and going through the Great Depression to take on Prohibition as well."⁵⁹

Finally, however, in May 1991, President Fujimori accepted the \$35 million military aid package. The shift in Fujimori's position reflected intense U.S. pressure; although U.S. officials denied that U.S. support for Peru in the international financial community was contingent upon Peru's signing the military aid agreement, the Peruvian government repeatedly indicated that it was, and Peruvian journalists routinely interpreted the negotiations in this fashion.⁶⁰ A second factor was that, in the course of U.S.-Peruvian negotiations between September 1990 and May 1991, the Bush administration compromised.⁶¹ In particular, the Bush administration promised greater economic aid, especially for crop substitution. Also, the administration modified some of its conceptualization; for example, peasant producers were not labeled criminals.

But tensions continued. The U.S. military aid proposal was under consideration in the U.S. Congress for several months. Finally, in September 1991, the U.S. Congress reduced the amount of military aid from \$35 million to \$25 million; the \$10 million that had been earmarked for the Peruvian army--the service most often cited for abuses by human-rights groups--was withheld, and the remaining funds were conditioned upon various improvements in the Peruvian security forces' human-rights performance.⁶²

⁵⁷Lawrence A. Clayton, Peru and the United States: The Condor and the Eagle (Athens: University of Georgia Press, 1999): 279-285 and McClintock, "The War on Drugs," 130-139.

⁵⁸Cogent critical statements include the Washington Office on Latin America (1991b) and Congressman Peter H. Kostmayer, "Opening Statement: The Andean Initiative (Part II), Subcommittee on Western Hemisphere Affairs, U.S. Congress, June 20, 1990.

⁵⁹Quoted in Peter Andreas, "Peru's Addiction to Coca Dollars," The Nation, April 16, 1990.: 515.

⁶⁰McClintock, Revolutionary Movements, 241.

⁶¹McClintock, Revolutionary Movements, 241, and Palmer (1992: 72-74).

⁶²McClintock, Revolutionary Movements, 241.

Gradually, the May 1991 agreement unraveled. Both the Fujimori and Bush administrations held high expectations for the May 1991 agreement--expectations that were dashed.⁶³ Although the agreement did not specify precise figures for U.S. economic support for anti-narcotics, Fujimori assumed a massive allocation. In the event, although U.S. AID reported \$19 million for anti-narcotics economic programs in 1991, smaller numbers were calculated by Peruvian experts.⁶⁴ For their part, U.S. officials expected improved anti-drug performance on the part of Peruvian officials, but the pattern of events suggested that official complicity with drug traffickers remained a serious problem.⁶⁵ Accordingly, the U.S. government delayed its disbursements of aid; the delays angered the Peruvians. In February 1992, at the drug summit in Texas that President Bush hoped would showcase his administration's anti-narcotics achievements, his policies were sharply criticized by Fujimori. Fujimori publicly accused the DEA of corruption and complicity in the drug traffic.

Finally, after April 5, 1992, U.S. military aid for anti-narcotics was suspended by Fujimori's autogolpe. The prospects for anti-drug cooperation appeared yet dimmer when, on April 24, 1992, two Peruvian fighter jets shot a U.S. Air Force Hercules C-130 flying off the northern Peruvian coast from its base in Panama, causing rapid decompression in the C-130 that sucked an American crewman out of the aircraft to his death. Although the various interpretations of the tragedy were not fully investigated and reported, apparently the Hercules C-130 had been on a secret drugs surveillance mission in the Upper Huallaga Valley and had not responded to the Peruvians' warnings because of interception rules established for spy planes during the Cold War and misunderstandings.⁶⁶ The Bush administration maintained that the Hercules C-130 was clearly identifiable as a U.S. aircraft, and accordingly the incident raised concerns among U.S. authorities that Peruvian military officers were not only not cooperating in the war against drugs but were actually on the enemy's side, trying to discourage drugs surveillance by the United States. U.S. Congressmen, especially hard-line Republicans, loudly protested the Peruvian attack. Undaunted, the Peruvian government presented the United States with a \$20,000 bill for costs incurred by the event. Although the Peruvian government said that the Hercules C-130 was not identifiable as a U.S. aircraft, it

⁶³Ambassador Anthony C.E. Quainton, in an address to the conference "Peruvian Counternarcotics Efforts: A Contextual View," Meridian International Center, January 11, 1993.

⁶⁴McClintock, Revolutionary Movements, 397-398.

⁶⁵McClintock, Revolutionary Movements, 241.

⁶⁶The best account is Douglas Waller, "A Spy Mission Gone Wrong," Newsweek, May 31, 1993: 34-35.

appeared likely that the Peruvian military officers who had shot at the plane were angry at the U.S. aid cutoff.⁶⁷

B. The Clinton and Fujimori Administrations, 1993-1994: Bilateral Conflict

During his first two years in office, President Clinton sought to lower the high salience of international narcotics control during the Bush administration.⁶⁸ In contrast to Presidents Reagan and Bush, Clinton rarely talked about the issue. He slashed the staff and budget of the Office of National Drug Control Policy and appointed as its Director a New York City police commissioner, Lee Brown, who proved to be an ineffective leader. The administration proposed to the U.S. Congress a shift away from the anti-supply emphasis in the drug policy budget towards anti-demand, focusing upon treatment and rehabilitation. Clinton reduced funding for interdiction programs in the transit zones bordering the United States.

While President Clinton was trying to determine what he wanted his administration's narcotics control policy to be, however, officials at different ranks and at different bureaucracies were making their own policies. One analyst commented, in a 1994 study for SOUTHCOM: "With the Department of Defense barely on speaking terms with its number one customer--DEA--[in many areas of Latin America it] is the equivalent of two battalions going into combat, with one having the bullets and the other having the guns."⁶⁹

The lack of consensus within the Clinton administration was especially apparent on May 1, 1994, when the U.S. Defense Department decided to stop sharing with the Peruvian and Colombian government's intelligence about drug trafficking that U.S. officials gained from radar installations and AWACS flights in the region. The Defense Department's decision was opposed by the State Department, which did not advise the Andean governments that the intelligence cutoff was imminent. The Defense Department's explanation was its concern that, with U.S. intelligence, civilian planes were being shot down by the Peruvians and Colombians; the U.S. Justice Department

⁶⁷Idem.

⁶⁸Among other publications, see Raphael F. Perl, "Clinton's Foreign Drug Policy," Journal of InterAmerican Studies and World Affairs 35, no. 4 (1993-94): 143-152.

⁶⁹Quoted in Peter Zirnite, Reluctant Recruits: The U.S. Military and the War on Drugs (Washington, D.C.: Washington Office on Latin America, 1997): 26. See also The Economist, September 14, 1996, 26-27, and Coletta Youngers, "Política Antidrogas: No Hay Consenso en Washington," Ideele 40 (November 1994): 39-41

had ruled that this action could expose U.S. military personnel to prosecution for murder. There was outrage among many anti-narcotics officials and numerous members of the U.S. Congress. In the fall of 1994 the U.S. Congress responded by providing official immunity for authorized U.S. personnel assisting foreign countries in anti-drug aircraft interdiction, and in December President Clinton determined that U.S. intelligence-sharing could resume. However--especially in conjunction with the September 1993 U.S. decision to stop funding the U.S. helicopter base at Santa Lucía--the Clinton administration was giving Lima the impression that antinarcotics was in disarray and no longer a top U.S. priority.⁷⁰

This was not ultimately to be the case, however, because of both change in President Clinton's position and actors within the administration who remained committed to militant anti-supply efforts. The U.S. Assistant Secretary of State for International Anti-Narcotics Strategy, Ambassador Robert Gelbard, was a hardliner in the war against drugs and a stern advocate of eradication programs in the Andes. In the annual U.S. certification process, the judgments of Peru became harsher. For the first time, on the basis of its performance during 1993, Peru was certified in 1994 only as a result of the national-interest waiver. In the report by the Bureau of International Narcotics Matters (BINM), Peru was criticized sharply for its failure to adopt an eradication program.⁷¹ The report praised the Fujimori government on other grounds--arrests of traffickers and disruption of trafficking operations--but these successes were insufficient to secure full certification for the country.

In the November 1994 midterm elections, the Republican Party won a majority in Congress and shortly thereafter the new Republican majority began to exert intense pressure upon the Clinton administration to re-escalate the war against drugs. Within this context, Gelbard sought decertification and a denial of the national security waiver for Peru. This was the case despite the fact that Peruvian counter narcotics missions and seizures of illegal drugs were increasing.⁷² Only an emergency effort by the Assistant Secretary of State for Latin America at the time, Ambassador Alexander Watson, enabled Peru to retain the national security waiver for its 1994 anti-narcotics performance.⁷³ The

⁷⁰Patrick L. Clawson and Rensselaer W. Lee III, The Andean Cocaine Industry (New York: St. Martin's, 1998), 229.

⁷¹Bureau of International Narcotics Matters, United States Department of State, International Narcotics Control Strategy Report (Washington, D.C.: Government Printing Office, 1994), 118-122.

⁷²Bureau of International Narcotics Matters, United States Department of State, International Narcotics Control Strategy Report (Washington, D.C.: Government Printing Office, 1995), 99.

⁷³Peruvian Ambassador Ricardo Luna in his presentation "U.S.-Peruvian Relations 1992-1999: Assessment and Prospects for the Future," sponsored by the George Washington University Seminar on Andean Culture and Politics and the Washington Office on Latin America, May 27, 1999.

annual BINM report repeated the previous year's criticism that the Fujimori government opposed the eradication of mature coca plants unless increased international development assistance was forthcoming.⁷⁴

The BINM's emphasis upon coca eradication as the most effective anti-narcotics strategy was not shared by other key U.S. authorities, however. Apparently, at the same time that the BINM was demanding that the Fujimori government adopt an eradication program, the Commander in Chief of SOUTHCOM, the highly respected four-star general Barry R. McCaffrey, was encouraging air interdiction.⁷⁵ The goal was to deny the "air bridge"--the air transport of cocaine paste from Peru to Colombia, where the cocaine refining would be finished. It is not clear whether the air bridge denial strategy was McCaffrey's or his staff's own idea, whether the strategy emerged in joint discussions with Peruvian leaders, or whether it was first suggested by Peruvian leaders.⁷⁶

C. The Clinton and Fujimori Administrations, 1995-1998: Bilateral Cooperation

Intensive U.S.-Peruvian collaboration to deny the air bridge began in early 1995, after the resolution of the concerns about the shoot-down of civilian planes cited above. The Pentagon supplied the Peruvian air force with sophisticated radar and surveillance equipment, and also helped in the actual capture of drug planes. In the course of 1995, approximately 21 airplanes trying to fly cocaine paste from Peru to Colombia were intercepted.⁷⁷

The air interdiction effort was considered highly successful by U.S. and Peruvian authorities. As the danger and cost of flights to Peru rose for the Colombian traffickers, their demand for Peruvian paste declined, and the prices paid to Peruvian coca farmers plunged. At the end of 1995, the prices of coca and cocaine paste were less than one-quarter the prices at the beginning of the year. The coca farmers began to abandon their fields and to express greater interest in alternative development. Although the U.S. Bureau for International Narcotics and Law Enforcement Affairs continued to criticize the Fujimori government's refusal to eradicate mature coca plants, its tone towards the

⁷⁴Bureau of International Narcotics Matters, Report (for 1995), 99.

⁷⁵Zirnite, Reluctant Recruits, 2 and 29.

⁷⁶As the saying goes, victory has a thousand authors, while defeat is an orphan.

⁷⁷Government of Peru, "Peruvian Efforts on Drug Control 1995" (Washington, D.C.: Embassy of Peru, 1996): 2. The International Narcotics Control Strategy Report for 1996 puts the number at 23.

government's anti-narcotics effort became considerably more positive.⁷⁸ For the first time in two years, in March 1996 Peru was fully certified by the United States.

Concerned about Republican attacks on his antinarcotics effort and their implication for his upcoming reelection effort, Clinton apparently resolved (as he usually did) to essentially adopt the Republican position rather than continue to try to forge a new policy. Presumably considering at least in part the apparent Peruvian success story, Clinton named McCaffrey as Director of the White House's Office of Drug Control Policy in January 1996. The appointment signaled that the Clinton administration would end its mixed signals about international drug control and endorse the militarization of international drug control efforts. The administration was confident that McCaffrey would boldly invigorate and coordinate U.S. antinarcotics policy. Not surprisingly also, in an administration whose top leaders rarely traveled to the region, McCaffrey rapidly became one of its most visible authorities.

U.S.-Peruvian antinarcotics cooperation intensified. As of February 1997, 175 U.S. military trainers traveled to Peru for eleven deployments a year for periods between two weeks and thirty days.⁷⁹ U.S. military personnel worked to interdict drug trafficking flights and disrupt trafficking routes not only with the Peruvian Air Force but also with a new Peruvian agency, the Peruvian National Police Drug Directorate (DINANDRO). The Peruvian government reported that, between 1993 and February 1997, more than 60 drug trafficking flights were intercepted.⁸⁰ The statistic most emphasized by the U.S. and Peruvian governments was the reduction in coca cultivation from 115,300 hectares in 1995 to 51,000 hectares in 1998, an amazing decline of 56 percent.⁸¹

In other words, key components of what had been the U.S. proposal for military repression of antinarcotics from the late 1980s to the early 1990s were now endorsed by the Fujimori government. Why did the Fujimori government change its position? How did a leader who in 1992 had accused the DEA of corruption at a drug summit and had authorized the submission of a bill to the United States for his government's expenses in an attack on a plane that occasioned the death of a U.S. crewman emerge as the Office of National Drug Control's Latin American hero?

⁷⁸Bureau for International Narcotics and Law Enforcement Affairs, U.S. Department of State, International Narcotics Control Strategy Report (Washington, D.C.: Government Printing Office, 1996): 99-105.

⁷⁹Clifford Krauss, "Pentagon to Help Peru Stop Drug-Base Shipping on Rivers," The New York Times, February 3, 1997: A3.

⁸⁰Idem.

⁸¹Office of National Drug Control Policy, National Drug Control Strategy 1999 (Washington, D.C.: Office of National Drug Control, 1999): 75.

The reasons are not entirely clear, but appear to be various. First was the substantive change in security conditions in the coca-producing area.⁸² It was emphasized above that the period 1989-1992 was one of intense threat from the Shining Path, and that both Presidents García and Fujimori feared that antinarcotics would undermine counterinsurgency, and both prioritized the latter. By 1995, however, the Shining Path guerrillas were decimated, and the implications of antinarcotics for counterinsurgency were not a concern. On the contrary, the Peruvian military was now eager to establish its presence in the areas formerly controlled by the Shining Path.

A second important factor was the relationship forged between McCaffrey and the Peruvian leadership. The precise dynamics and personalities were not entirely clear, but the fact that unusual trust developed is not in doubt. Said McCaffrey: "I have tremendous admiration for Alberto Fujimori."⁸³ In November 1994, McCaffrey reported on his meetings with General Hermoza, the commander of the armed forces: "General Hermoza committed his personal time to this visit. He hosted me at his Headquarters for briefings and meetings with the Air Force and Navy Chiefs, then traveled with me to Tarapoto and Yurimaguas. He seemed very comfortable and willing to talk fairly candidly...[He] is cautiously interested in a closer relationship with the U.S. military."⁸⁴

Presumably, trust also developed between McCaffrey and Vladimiro Montesinos, who as indicated in Chapter III has been the primary architect of the Fujimori government's security policies and its primary liaison with U.S. intelligence and military personnel. The construction of trust between the U.S. drug czar and Montesinos may have been complex; in the 1980s, Montesinos had worked as a lawyer for drugtraffickers, and in 1996 a jailed drug baron, "El Vaticano," claimed that at one time he paid Montesinos \$50,000 a month for securing military acquiescence to drug trafficking. In 1992, it was reported that Montesinos was a government advisor "whom the CIA appears to love but the DEA mistrusts."⁸⁵ Montesinos, however, was a problem-solver who was aware of the importance of anti-narcotics cooperation with the United States and, apparently, also able to gain relatively strong commitment to antinarcotics norms among military officers. However, in April 1998, Montesinos may have broken a promise to

⁸²Ricardo Soberón, "Entre cuarteles, caletas y fronteras," QueHacer 102 (July-August 1996): 53. This was also the explanation for the change in the Fujimori government's position provided by Robert E. Brown, Jr., Assistant Deputy Director, Office of Supply Reduction, Office of National Drug Control Policy, in author's interview on June 3, 1999, Washington, D.C.

⁸³General Barry McCaffrey, at a talk at the Woodrow Wilson Center, Washington D.C., May 1, 1997.

⁸⁴General Barry R. McCaffrey, "Memorandum for Record: Peru Trip, 1-3 November 1994, United States Southern Command, Department of Defense, November 7, 1994, p. 2. (Memorandum obtained through Freedom of Information Act request.)

⁸⁵"Political and Economic Trends," The Peru Report VI (July 1992): 2.

McCaffrey when a video of the two leaders at a meeting was released (in an apparent effort by Montesinos to enhance his public image), and interpersonal tensions presumably ensued.

Other factors may also have been relevant. It may have been important that the Peruvian leadership felt that, although it was acceding to the U.S. view that interdiction was necessary, the U.S. was acceding to the Peruvian view that eradication was not; in other words, both sides were compromising, not only Peru.⁸⁶ One factor that was not significant--despite Peruvian demands about it prior to 1995--was the level of U.S. economic support for antinarcotics. U.S. economic assistance for antinarcotics increased gradually from \$8.4 million in 1994 to \$25.8 million in 1997, but the 1997 sum was not the degree of increase that Peru had sought in the early 1990s.⁸⁷

Alternative explanations might be offered by cynical analysts. Perhaps, it might be argued, the Peruvian leadership supported the air bridge denial strategy because the primary victims would be Colombians, not Peruvians. Over the medium term, the ousting of Colombian traffickers from Peru would expand trafficking opportunities for Peruvians. In this interpretation, of course, Montesinos would not have changed his attitudes about drugs and drug trafficking, and could perhaps even be secretly working with would-be Peruvian traffickers to build an industry in new sites with new routes out of the country.

D. Conclusion

Whatever the reasons behind the unprecedented level of anti-narcotics military cooperation between the United States and Peru, the facts were that the air bridge strategy had successfully obstructed Colombian traffickers' access to Peruvian coca and that the number of hectares in coca cultivation in Peru had been reduced by more than half, an accomplishment that most analysts would have considered impossible only a few years before. Accordingly, not surprisingly, both U.S. and Peruvian officials were touting the country as a showcase in international narcotics control. The reality, however--as is acknowledged by these officials but more frequently publicly explained by independent analysts--is more complex.⁸⁸

⁸⁶Ambassador Ricardo Luna, in his Appendix to his curriculum vitae, indicating the accomplishments of his tenure as Ambassador to the United States, faxed to Cynthia McClintock on June 3, 1999.

⁸⁷The funds for U.S. economic assistance for antinarcotics are provided in U.S. Agency for International Development, U.S. Overseas Loans and Grants and Assistance from International Organizations, July 1, 1945-September 30, 1997 (Washington, D.C.: U.S. Agency for International Development): 108.

⁸⁸The complex reality was acknowledged by Robert E. Brown, Jr., Assistant Deputy Director, Office of Supply Reduction, in author's interview, Washington, D.C., June 3, 1999. See Theo Roncken (ed.), "The

First, from the U.S. perspective, what matters is not trends in coca production in Peru but trends in coca production in Latin America and indeed the world. The data on coca cultivation in the Andes suggests that, for every hectare in coca that was abandoned in Peru, a hectare came under cultivation in Colombia.⁸⁹ Presumably, Colombian traffickers responded to the air bridge denial by deciding to verticalize their industry and grow the raw material closer to the refining laboratories in Colombia itself. It is even possible that Colombian traffickers' decision to verticalize preceded the air bridge denial strategy. In any case, the decline in the total number of hectares in coca cultivation in the Andean nations between 1985 and 1998 was only about 10 percent, and there is no evidence of change in the supply of cocaine in the United States.⁹⁰

For Peru, the reality is also complex. On the one hand, the number of coca farmers declined, and the number planting other crops increased. The Fujimori government vigorously sought international funds for alternative development, and secured considerable amounts.⁹¹ It is not clear, however, that this trend can be sustained. For example, in February 1998, a Le Monde journalist assessed conditions in the Apurímac River Valley, traditionally the second-highest area of coca cultivation in Peru.⁹² The journalist found that the value of coca production in the Valley in 1997 was less than 10 percent of its value in 1995. However, although \$10 million had been spent on alternative development programs in the Valley since August 1995, only about one-quarter of the farmers had benefited from the programs. The customary problems--patronage, red tape, lack of credit, lack of roads, competition from imports in Lima--abounded. Ultimately, the total value of key crops in the Valley in 1997 was less than 20 percent of the total value in 1994. The journalist cited one analyst's lament: "They were promised alternative development and instead, they got alternative poverty."⁹³ The journalist worries that many farmers will gradually backslide into coca. The possibility of a return to coca would be increased if, as some analysts believe, the reason for the decline in coca cultivation was not only the air bridge but a fungus--*fusarium oxysporum*--that spread in coca-growing valleys in the early 1990s and could ultimately be contained.

Drug War in the Skies: The U.S. 'Air Bridge Denial' Strategy: The Success of a Failure," Findings of the Research Project of the 'Drugs and 'Democracy' Program, Acción Andina, Transnational Institute, Cochabamba, Bolivia, May 1999; and Ricardo Soberon, "Drug Trafficking in Perú, A Successful Model?" Peru Solidarity Forum 25 (April 1999): 10-13.

⁸⁹Roncken, "The Drug War," 52.

⁹⁰Idem.

⁹¹Diego García-Sayan, At a Slow Pace (Lima; Comisión Andina de Juristas, 1999): 56-58.

⁹²Nicole Bonnet, "Special Report--the Apurímac River Valley," The Peru Report and Peru Business Digest, February 18, 1998: 29-37.

⁹³Idem: 29.

Also important for Peru, although coca cultivation has declined, it has not disappeared, and the new strategies for cocaine production and transport appear to be more adverse for Peruvians than the previous ones. Not only are traffickers exporting cocaine via the rivers in the Amazon area, but increasingly Peruvian traffickers are collaborating with Mexican mafias to export cocaine by sea from Callao and other coastal ports. To this end, they have established cocaine laboratories near Lima and other major coastal cities. In other words, whereas previously cocaine was produced in sparsely populated areas of the country and then exported, now it is produced in heavily populated areas and increasingly sold to Peruvians themselves. For example, cocaine is now regularly offered for sale to young Peruvians in trendy cafés and night clubs for less than \$1. In short, for most Peruvian families the recent trends in cocaine production are negative, not positive. As with respect to other issues on the U.S.-Peruvian bilateral agenda, it is important that benefits be extended to Peruvian majorities if U.S.-Peruvian collaboration is to be sustained over the long term.

V. The Bilateral Agenda from the 1980s to 2000: Democracy and Human Rights

Whereas democracy and human rights had been one of the few issues that had not led to confrontation between the García government and the United States, it was the issue that sparked the most severe tension between the two nations during the 1990s. Although the authoritarian actions of the Fujimori government have to date not been internationally sanctioned for any period of time, the possibility of such sanctions loomed both in 1992 and 2000. Except for the period 1993-96, the clash between the United States and Peru over democratic standards in the region hovered ominously over the bilateral relationship.

The first critical period was April-May 1992, when the Fujimori government's autogolpe suspended Peru's constitution, closed its congress, and repressed opposition leaders. For several months, Fujimori's authoritarian actions were at the top of the bilateral agenda; the pressure from the Bush administration and the Organization of American States (OAS) was successful in gaining significant concessions from the Fujimori government, although Fujimori remained in power (in contrast to President Jorge Serrano who attempted a similar autogolpe in Guatemala in 1993).

The second critical period was March-June 2000, during Peru's presidential and congressional elections. The OAS Mission to Peru, led by former Guatemalan Foreign Minister Eduardo Stein, and virtually all other election-monitoring organizations declared

that Peru's elections did not meet international standards for freedom and fairness. The U.S. Department of State criticized Peru's electoral process and sought action against Peru in the OAS General Assembly meeting in Windsor, Canada, in early June. However, U.S. pressure was not as intense as it had been in 1992, and it seemed likely that Fujimori would be inaugurated for a third consecutive presidential term in July 2000—amidst widespread protest in Peru.

A. The U.S. and Peru's Electoral Democracy, 1980-1992

The Reagan and Bush administrations emphasized democratization as a primary U.S. goal in Latin America, but defined democracy almost exclusively as elections. In Peru between 1980 and 1992, democracy by this definition had been achieved. Presidential and legislative elections were held concurrently in Peru in 1980, 1985, and 1990, and the results were not seriously questioned by the losing political candidates. Most citizens believed that the electoral process was fair, and that no sector was discouraged from participation by the government.^{lvi} The average turnout for these three elections was 66 percent of the eligible population, a percentage higher than in most Latin American and many industrialized countries.^{lvii} Especially by the end of the 1980s, political violence against electoral candidates, poll-watchers, and voters was chilling, but electorally-related violence was perpetrated almost exclusively by the Shining Path guerrillas, not the government.^{lviii}

Peru's achievement of electoral democracy was acknowledged by the United States. Each U.S. State Department report on human rights during this period began with the statement that Peru enjoyed a "freely elected democratic government."^{lix} Accordingly, during this period democratization and human rights were for the most part an issue of bilateral agreement and cooperation. During the one short period in late 1989 when it appeared that some sectors of the Peruvian military might be plotting a coup against the beleaguered García government, the U.S. Embassy merely confirmed the Bush administration's commitment to democracy, and apparently this confirmation was sufficient to stop the plotting.

Ironically, perhaps, the facts of agreement and cooperation meant not that the two countries would work together to enhance democratization, but that democratization was taken for granted. Democratization was not in the "to do" box; rather, it had been "done." Although successive U.S. Ambassadors reported that democratization was one of their mandates, in fact they spoke very little about the issue; especially by the mid-1980s, international narcotics control was their primary articulated emphasis, and was their

perceived primary emphasis by Peruvians.^{lx} One of the probable reasons for the scanty discussion of democracy and human rights was that neither the U.S. government nor any multilateral institution allocated significant resources for democratization--either in Peru or elsewhere. For better or worse, democratization was not a process such as anti-narcotics control that was annually graded by the U.S. government and upon this grade significant financial carrots and sticks were applied. A "Democracy Program" did not even exist within the U.S. Agency for International Development for much of this period, and the funds for key initiatives that would come under this rubric, such as Administration of Justice, were at best \$2 to \$3 million a year.^{lxi}

Although Peru enjoyed an electoral democracy between 1980 and 1992, the institutions that composed democratic government were not working well. Primarily in the efforts to counter the Shining Path and MRTA guerrillas, the Peruvian military committed large numbers of human rights violations. In some years of both the Belaúnde and García administrations, more than 400 Peruvians were forcibly disappeared and the number of disappearances in Peru was among the highest in the world.^{lxii} Of course, this toll provoked intense concern among U.S.-based human-rights groups; these groups emphasized that the correct U.S. response was a denial of U.S. military aid to Peru, and indeed U.S. military aid to Peru was minimal during most of this period. For its part, the U.S. Department of State acknowledged the tragic number of human-rights violations, but throughout the 1980s also noted that the violations occurred in response to political violence instigated by the guerrilla movements and that they were not condoned by the government. The tone of the U.S. Department of State became more critical over time, however, and the U.S. call for investigations into human rights abuses by the military and paramilitaries became more adamant.^{lxiii}

At no time did human-rights concerns approach the top the bilateral agenda, however.^{lxiv} Neither the Reagan nor the Bush administration appeared seriously engaged with the question of how Peru's human-rights performance could be enhanced. For example, despite recommendations by the U.S. Congress and U.S. human-rights groups--beginning by at least 1985--that the U.S. government support Administration of Justice programs in Peru, Peru's judiciary began to receive U.S. support only in 1989, and the total budget for the three-year program was a mere \$3.4 million.^{lxv} Perhaps even more important than U.S. resources would have been U.S. encouragement of dialogue, in particular in the late 1980s when the García government tried but failed to launch various judicial reforms that would probably have been valuable in the counterinsurgency effort but did not garner significant support.^{lxvi} In general, the U.S. failed to spark debate about

the counterinsurgency strategies that would be effective and appropriate for a democratic Latin American nation.

The reasons for the meager U.S. attention to these issues--which at the time were intensely important to Peruvians--are numerous. First, as mentioned above, resources were scant. Second, the overall relationship between the U.S. government and the Belaúnde and García administrations was cool at best. The nature of the Shining Path movement was a third factor; the Shining Path was anomalous--not in virtually any respect the kind of guerrilla movement that had been active in many Latin American nations during the Cold War--and the identification of an effective and appropriate response to it may have been as complex for the U.S. government as it was for the Peruvian.

B. From the Autogolpe to the 1995 Elections

On April 5, 1992, President Fujimori, with the strong support of the military, executed the autogolpe, which at first appeared possibly to portend indefinite dictatorial rule. Not only did the government suspend parts of the country's constitution and dissolve the congress, but it repressed opposition media and political leaders. Troops occupied the offices of most of Peru's main newspapers, newsmagazines, and television and radio stations. At least twenty-three journalists and twelve political leaders (eleven of whom were members of Alan García's APRA party) were detained.^{lxvii} A determined but ultimately unsuccessful attempt was made to capture Alan García; in the security forces' effort to locate him, his secretary was detained and her husband badly beaten when he tried to intervene.^{lxviii} The presidents of both houses of congress and several other legislators were placed under house arrest. A deed that was of special concern to the United States was the detention of Gustavo Gorriti, an internationally respected journalist with numerous American friends and colleagues. Also, the government announced a reorganization of the judiciary, and more than 100 judges and prosecutors were purged.^{lxix}

The autogolpe surprised and outraged the international community. The U.S. Assistant Secretary of State for Latin America, Bernard Aronson, had just arrived in Lima, expecting to offer Fujimori an ambitious new alternative development and counter narcotics program the next day; Aronson canceled the meeting. In the first few days after the autogolpe, Aronson, an articulate former trade unionist affiliated with the Democratic Party who had been appointed Assistant Secretary in part to facilitate collaboration between the Republican executive and the Democratic congress, lobbied swiftly and

effectively for a strong U.S. response.^{lxx} Secretary of State James A. Baker III was also actively engaged in the decision-making process.

On April 6, the United States suspended \$164 million in new economic aid and \$39 million military assistance to Peru--a total of almost \$200 million. The United States continued only food and other humanitarian aid channeled through NGOs. Economic aid was also curtailed by Canada, Germany, and Spain. At the same time, the World Bank and the Inter-American Development Bank announced the suspension of loans.

After about a week, the severity of the crisis abated. For the Fujimori government's part, it checked its most egregious repression; Gorriti and most other detainees were released and media outlets reopened. Fujimori stated that he would not govern past 1995.^{lxxi} For the international community's part, it became aware of Peruvians' strong support for the autogolpe: in public-opinion polls, more than 75 percent of citizens approved Fujimori's administration and his actions against the legislature and the judiciary. The international community was realizing that Fujimori's autogolpe was a unique and complex challenge to the advocates of international democratic principles: a coup with the support of the military, but executed by a democratically elected president, in a country where democratic institutions had not been performing effectively and where the rupture was welcomed by most citizens. It was clear too that Fujimori's rationale for his autogolpe was acceptable to Japan, where U.S.-style democracy was not as strongly valued and whose leaders had established considerable rapport with the Latin American president of Japanese descent.

Accordingly, by mid-April neither the United States nor most other Latin American nations favored a trade embargo or other economic sanctions against Peru similar to what had been enacted (without evident success) against the 1991 military coup in Haiti. At the Ad Hoc Meeting of the Ministers of Foreign Affairs convoked by the OAS in accord with the Santiago Commitment and attended by Secretary of State Baker, a resolution was issued on April 13 that "deplored strongly" the autogolpe and called for the immediate reestablishment of democracy, but did not specify any sanctions.^{lxxii} Nor, although steps had been taken by Peru's dissolved congress towards the declaration of Peru's first vice president Máximo San Román as the country's legal president--a declaration that occurred on April 21--was there any statement to the effect that Fujimori might not be the legal president.

From mid-April to mid-May, negotiations between key international actors and the Fujimori government were intense. On April 20, President Bush called Fujimori, speaking with him for about thirty-five minutes; Bush was reported to have told Fujimori that the U.S. was "disappointed with the measures taken by Peru," and urged Fujimori to

move back to a constitutional government "as soon as possible."^{lxxxiii} However, Bush issued no threats or ultimatums, and said also that he "understood the pressures fragile democracies are under."^{lxxxiv} Assistant Secretary Aronson returned to Peru to speak with Fujimori, and two Organization of American States missions led by Uruguayan Foreign Minister Héctor Gross Espiell also met with him. In these meetings, Fujimori proposed a July 5 plebiscite on his rule, after which his cabinet would draft constitutional reforms; he rejected holding elections for a constituent assembly. International actors and the political opposition favored scheduling elections.

Meanwhile, the Peruvian opposition tried to make its case. It argued that, in its view, the 1979 constitution remained in effect; since Fujimori's actions had violated the constitution, first vice president San Román was Peru's legal president. To advance their arguments, Peru's traditional parties and unions successfully organized a large rally in downtown Lima on May 15. However, San Román, who had become Fujimori's vice-presidential candidate as a representative of Peru's small and medium-sized businesses, was an international nonentity. There is no indication that the U.S. or any other government seriously considered San Román as an alternative to Fujimori.^{lxxxv}

The key pending question was U.S. funds for the Support Group, which was planning a roughly \$1 billion bridge loan for Peru (see Chapter II). The United States was the leader of the Support Group initiative and without the U.S. the initiative would founder. Also, although within a few weeks international bank officials were less critical of the autogolpe than U.S. authorities, the Treasury Department apparently persuaded Bank authorities to continue to suspend disbursements, affecting more than \$200 million at the IDB.^{lxxxvi}

On May 18, at an OAS meeting in the Bahamas where foreign ministers were deciding further policy towards Peru, Fujimori surprisingly appeared. Speaking at the meeting, Fujimori promised elections for a constituent assembly within five months. Fujimori's shift towards the position of his international and domestic opposition was a crucial compromise, apparently negotiated primarily among Fujimori's adviser Hernando de Soto, Gross Espiell, Aronson, and U.S. Deputy Secretary of State Lawrence Eagleburger.^{lxxxvii} In the foreign ministers' resolution at the end of the meeting, they eschewed not only sanctions against Fujimori but even criticism; the key decision was only that the OAS would monitor the elections for the constituent assembly. Eagleburger was the U.S. representative at the meeting, and his official statement sounded a similar tone, applying the title of president to Fujimori and praising his economic policies, but calling for a return to democracy and emphasizing that the "devil is in the details."^{lxxxviii}

Despite the official "wait-and-see" U.S. attitude, most Peruvian analysts (and apparently Fujimori himself) believed that the international spotlight would no longer be focused on Peru and that, unless the constituent assembly elections were blatantly fraudulent, Peru's re-insertion into the international financial community would proceed. The Peruvian view proved correct: The Fujimori government designed electoral procedures to its benefit and set the agenda during the campaign, and accordingly the election was boycotted by most of Peru's major traditional parties (APRA, Acción Popular, and the larger left parties). On election day, adequate numbers of voting-table officials were not fielded, and the rates of abstention and voided ballots were markedly higher than for any previous general election.^{lxxxix} None of these developments received significant comment from U.S. officials, however; the post of U.S. Ambassador was vacant and in any case U.S. attention was upon its own November presidential elections. Nor was the skewed electoral playing field or election-day problems criticized by the OAS Foreign Ministers, who described the elections as an important step in the restoration of democracy in Peru and declared its post-autogolpe debate on Peru closed.^{lxxx}

By the end of 1992, it appeared that the bilateral relationship between Peru and the United States was normalized. The tone of the 1992 U.S. State Department Human Rights report was optimistic about Peru's return to democracy. The relationship between Fujimori's economic team and the international financial community was excellent.^{lxxxix} By the end of 1992, the IDB had disbursed the full U.S. \$390 million that it had planned to provide to Peru that year.^{lxxxii} Negotiations with Support Group members were scheduled to resume in February 1993.

In fact, however, normalization had not been achieved. In January 1993, Bill Clinton was inaugurated, and human-rights concerns were rapidly highlighted by the new administration. In the wake of the autogolpe, human-rights issues in Peru had multiplied, but had not been a priority focus for the Bush administration. By contrast, encouraged in particular by the member of the National Security Council responsible for Latin America, Richard Feinberg (the only Latin Americanist member of Clinton's foreign policy team for several months, due to delays in the nomination and confirmation of an Assistant Secretary of State for Latin America), the Clinton administration criticized Peru's human-rights performance and conditioned the U.S. role in the Support Group upon improvements.^{lxxxiii} In particular, the Clinton administration demanded that the International Committee of the Red Cross be granted access to military and police detention centers as it had been in the past.^{lxxxiv} The administration expressed concern too about the post-autogolpe changes in Peru's legal code whereby defendants accused of

terrorism would be tried in summary procedures before "faceless" judges or even in military courts. A third U.S. criticism was the lack of progress in the government's investigation of major human-rights violations, in particular the massacre of 17 people in the Barrios Altos areas of Lima in November 1991 and the July 1992 disappearance of a professor and 9 students at the La Cantuta Teachers' College in Lima. The Clinton administration's hold-up of U.S. aid was supported by the U.S. Congress, in part because legislators concerned about human rights allied with Senator Jesse Helms and other Republicans concerned about Peru's shutdown of a U.S. C-130 plane in April 1992 (see the section on International Narcotics Control).

Ultimately, however, the Clinton administration did authorize the Support Group's bridge loan for Peru. In March 1993, Peru's arrears were cleared with the IMF and the World Bank, and Peru had taken its most important step towards reinsertion. Although sporadic threats against economic support for Peru were made by U.S. officials in both the executive and legislative branches through 1993, the trajectory towards renewed collaboration was clear. Collaboration was enhanced by the arrival in Lima of Ambassador Alvin Adams (which had been delayed many months by Senator Helms). U.S. aid increased considerably; Peru was second after Bolivia as the largest recipient of U.S. aid in Latin America in 1993 and first in 1994 (a year when it was fourth in the world).^{lxxxv}

The U.S. Department of State continued to indicate problems of democratic governance in Peru, but without a sense of outrage or urgency. Both the 1993 and 1994 human-rights reports criticized continuing human-rights violations, the restrictions on due process, and the failures of investigations into major past violations, but also pointed out that human-rights trends were positive. The executive branch is also repeatedly described as "dominant."

However, as had been the case during the 1992 constituent assembly elections, the U.S. Department of State was almost mute about voting processes in Peru. In particular, a referendum on the new constitution was held on October 31, 1993 that approved the new document narrowly (52 percent yes to 48 percent no, in the official result). The referendum was flawed in numerous respects.^{lxxxvi} As in the constituent assembly election, the Fujimori government retained tight control over decisions about the scheduling and format. Also, critics believed that in highland areas where the military continued to wield maximum authority under state-of-emergency provisions, ballots and tallies were manipulated. Six weeks elapsed between the referendum and the announcement of the official results--an unprecedented delay for Peru's post-1980 era--and one member of the national elections commission denounced the result as fraudulent.

But the primary comment of the U.S. State Department was terse: the OAS had monitored the referendum and found it fair.^{lxxxvii}

In the years 1993 and 1994, Peru made major gains. The Shining Path was decimated, and as relative political peace returned at the same time that the government achieved macroeconomic stabilization, the economy grew (see previous chapters). The Fujimori government's approval ratings were high.

In the context of the Fujimori government's achievements, the results of Peru's 1995 presidential elections were not surprising. In contrast to the 1992 and 1993 contests, the April 1995 presidential election was a landslide. Fujimori won an impressive 64 percent of the valid votes in a field of fourteen candidates. The runner-up was Javier Pérez de Cuéllar, the distinguished former secretary-general of the United Nations, who had not been able to unite the ideologically diverse opposition groups as had been hoped, and who had also not interacted easily with most Peruvians in the campaign.

More surprising than Fujimori's victory in the presidential contest was the official result of the legislative race, which gave Fujimori's political vehicle, Cambio 90/Nueva Mayoría, 52 percent of the votes and a majority of the seats.^{lxxxviii} A whopping 41 percent of the ballots for the legislative race were declared void; more ballots were declared void than were cast for Cambio 90/Nueva Mayoría. The election was marred in other respects as well, in particular another 6.8 percent of voters who were "missing" from the congressional tabulation. While the national electoral commission explained these flaws as tabulation mistakes by voting-table officials, opposition leaders feared fraud in good part because pre-electoral polls had reported that their parties would win a legislative majority and Cambio 90/Nueva Mayoría only 25 percent to 35 percent of the vote (versus the 52 percent in the official tally).

Despite these serious flaws in the legislative race, international and national observer groups--namely, an OAS group and the Peru-based Transparencia, a respected group that had received considerable support from the U.S. National Endowment for Democracy--endorsed the results. The OAS's and Transparencia's endorsements were made the night of the election, and their emphasis was upon the presidential contest; many of the problems in the tabulation of legislative votes became evident subsequently.^{lxxxix} After their endorsements, however, the criticisms of the race by the opposition were unlikely to be heeded, and indeed they were not. Unfortunately, no investigation of the unprecedented percentage of invalid votes was recommended by the U.S. or the OAS, and none was made; the mistrust of official tabulations in this 1995 contest became the historical context for the mistrust in 2000.

For the U.S. government, however, the 1995 electoral results were the culmination of Peru's return to democracy after the autogolpe.^{xc} The tone of U.S. Ambassador Alvin Adams, who served in Peru between 1993 and 1996, seemed indicative of the overall U.S. position: brief, mild criticism of the government's human-rights performance amidst detailed praise for the Fujimori government's advances on free-market reforms, national security, and narcotics control.^{xc} Among many U.S. officials, the autogolpe was now relegated to the status of an anomaly. The years 1995-96 were the apex of U.S.-Peruvian collaboration.

C. The Fujimori Government's Second Term

Not long into Fujimori's second term, however, doubts about the democratic character of the regime reemerged. Criticism of Peru's low democratic standards was expressed in the U.S. Congress, in key U.S. media, and by the 1996-99 Ambassador to Peru, Dennis Jett. Overall, U.S. government officials became increasingly unhappy about the Fujimori government's ever-more-blatant authoritarian actions—but also seemed, in general, resigned to his continuation in power.

U.S. concerns were numerous. First, despite the decline in the strength of Peru's guerrilla movements, many cases of terrorism continued to be tried in military courts without due process. In January 1996, U.S. citizen Lori Berenson was convicted of treason in a faceless military tribunal and sentenced to life imprisonment. The Peruvian action prompted requests from U.S. congressional representatives and human-rights groups for open trials in a civilian court, not only for Berenson but for all suspects.

In August 1996, Fujimori's congressional majority passed a law permitting Fujimori to run for a third consecutive term. Its argument was that, although the 1993 constitution permits only two consecutive terms, Fujimori's 1990-1995 term did not count because his 1990 election was under the auspices of the previous constitution. To most experts this interpretation was absurd. They pointed out that Fujimori had been Peru's president between 1993 and 1995 under the new constitution, and derided the government's mathematics: 1 plus 1 plus 1 equals 2. As previously mentioned, in 1992 Fujimori had promised not to run even in 1995, and the virtual universal assumption among Peruvians had been that his 1995-2000 term would be his last. Significantly, however, the U.S. government's position on Fujimori's eligibility for a third term was clear: no comment.^{xcii}

The Fujimori government's endeavor to secure the president's eligibility was challenged from various quarters. Although the Constitutional Tribunal, a tribunal of

seven judges charged with control and interpretation of the constitution, did not declare the law unconstitutional, in May 1997 three of its judges called a press conference and announced their opinion that the law was "inapplicable" to the Fujimori case. Thereupon, a congressional committee accused the three judges of exceeding their authority and Tribunal president Ricardo Nugent of failing to prevent the action of his three colleagues. In turn, Congress voted to remove the three judges from office. New members of the Tribunal were not appointed and, without a quorum, it could not function.

Polls consistently showed that at least two-thirds of Peruvians opposed a third consecutive term; spearheaded by the Foro Democrático, opposition leaders sought a referendum on the issue. The Peruvian congress responded with a law requiring not only 1.2 million signatures for the referendum to take place but also the votes of 48 of the 120 members of congress. The opposition worked vigorously to secure as many as 1.4 million signatures (the extra 200,000 signatures were thought necessary in case some signatures were judged invalid). However, in August 1998, the referendum initiative was terminated when it fell three votes short of the necessary number. Several opposition legislators who tried to enter the congress to vote in favor of the referendum were denied access. Once again, the U.S. State Department had no official comment.

At the same time, repression--for the most part coordinated by the National Intelligence Service (SIN) headed by Vladimiro Montesinos—increased. The first notorious case was against Baruch Ivcher, the Israeli-born majority owner of the Channel 2 television station, which had revealed torture by Army Intelligence Service officers, systematic wiretapping by the SIN against opposition leaders, and Montesinos' large income. In July 1997, Ivcher's Peruvian citizenship was revoked and his right to own a Peruvian media organization denied; Channel 2's critical investigative reporting ceased.

The Fujimori government's harassment of journalists did provoke sharp criticism by U.S. and other international actors.^{xciii} Former Assistant Secretary of State for Latin America Elliott Abrams lobbied intensively on Ivcher's behalf, especially in the U.S. congress. In February 1999, when Presidents Mahuad and Fujimori visited Washington to celebrate the Ecuador-Peru peace treaty, The Washington Post praised the treaty in an editorial, but included a rebuke against the Fujimori government for its machinations against Ivcher.^{xciv}

To the Fujimori government's dismay, the 1996-1999 U.S. Ambassador to Peru, Dennis Jett, frequently criticized its machinations against the Constitutional Tribunal and the media. The U.S. State Department Report on Human Rights Practices in Peru for 1998 was markedly more critical than in previous years, beginning with the statement "Peru is a multiparty republic with a dominant executive branch that often uses its control

of the legislature and the judiciary to the detriment of the democratic process." As Jett prepared to leave Peru in June 1999, he gave an interview to the main opposition newspaper La República (whose director had been the recent target of scurrilous personal attacks in pro-government media) and reiterated the importance of freedom of expression as a principle of democracy.^{xcv}

Yet, even at the U.S. State Department, there was ambivalence.^{xcvi} At no time did Jett state that Peru was no longer a democratic country or that a third term for Fujimori was of dubious legitimacy--or even problematical in any way to the United States.^{xcvii} When Principal Deputy Assistant Secretary of State for Inter-American Affairs Jack Leonard responded to the various concerns about the 2000 elections raised by four Peruvian opposition leaders in a meeting in June 1999, he was cautious and non-committal: "We'll be watching."^{xcviii} Neither Jeffrey Davidow, Assistant Secretary of State [date] nor Peter Romero, Acting Assistant Secretary [date] made official visits to Peru or official declarations about the country's democratic process.

During the final months of 1999, it became clear that the Fujimori government was seriously skewing the electoral playing field for the 2000 elections. The government intensified its control over the media, which were judged "not free" in the annual Freedom House survey. The government's achievements were regularly showcased on the major television stations, and the character of the major opposition candidates relentlessly assassinated. The first Carter Center-National Democratic Institute delegation to Peru visited Peru in November and expressed serious concern about the skewed playing field.

Concern was not expressed, however, by the U.S. Department of State. On December 28, 1999, after Fujimori officially proclaimed his presidential candidacy, the Department of State declared that it was "neutral on whatever government is elected in Peru." The terse, impassive statement called for a free and fair electoral process—but implied that the Department of State had not observed any problem to date that was sufficiently serious to call into question the legitimacy of the democratic process. At a conference on Peru in Washington on January 27, 2000, Deputy Assistant Secretary William Brownfield was similarly non-committal: "We're looking at the process as it's unfolding. We are where we are."

On February 29, 2000, it was revealed that one million signatures had been forged in the registration of Fujimori's coalition for the 2000 elections, and that electoral officials had been complicit in the forgery. This revelation sparked much more serious concern about the electoral process among U.S. officials, and also within the OAS Observer Mission led by Eduardo Stein. The U.S. Congress passed Resolution 43, calling

for “modifications” in the U.S. relationship with Peru if the April 9 first-round elections were not judged free and fair by the international community.

When the polls closed April 9, it soon became clear that the Fujimori government desperately wanted to proclaim a first-round victory, even though this result was declared impossible by the several respected institutions that carried out quick counts. The government’s computers were advancing very slowly in tabulating the electoral results, and suspicion of official manipulation of the results was widespread. Statements advocating a run-off were made by Stein as well as by U.S. Secretary of State Madeline Albright, Barry McCaffrey, and other high-level U.S. officials—at the same time that the official runner-up, Alejandro Toledo, galvanized popular protest in many parts of Peru. Finally, Peru’s electoral authorities announced that there would indeed be a run-off.

After the first round, U.S. pressure against the Peruvian authorities lessened. Within Peru, however, negotiations about the conditions for the run-off were not going well. When Stein asked for additional time for an OAS review of the Peruvian electoral authorities’ computer software, and the government rejected the request, Toledo announced that he would boycott the runoff. The U.S. Department of State criticized not only the government’s decision but also Toledo’s—even though Toledo had been saying since April 9 that he would not compete unless electoral conditions had improved. Stein and U.S. authorities pressured Fujimori to revise his decision and postpone the run-off that was scheduled for May 28, but he did not.

Not only did Toledo not compete in the May 28 event, but the OAS Mission and the other major observation groups declined to monitor the election. Stein presented his mission’s report to an OAS meeting in Washington on May 31 and then to the OAS General Assembly the following week, calling Peru’s elections “far from free and fair.” At first, on May 29 (which was a holiday in the United States), the U.S. Department of State called the Peruvian elections invalid, but it retreated from this verdict the next day, saying that they were only “flawed.” The U.S. government sought first the invocation of Resolution 1080 by the OAS and, when this failed, the implementation of other punitive measures. However—in contrast to Bush administration actions in 1992—the U.S. did not immediately threaten the suspension of any of its aid to Peru. It was not clear why the U.S. opted for a multilateral strategy when most analysts were aware that, for various reasons, the OAS was extremely unlikely to take a strong stand.

As of the writing of this Working Paper, tensions between the U.S. government and Peru about the 2000 elections seemed likely to continue, albeit at a reduced level. It was expected that the U.S. Congress would express significant criticism. The OAS had

opted to send a high-level commission to Peru, and the commission could prove to be a lever for further U.S. action.

D. Conclusion

Twice, the Fujimori government has narrowly escaped significant international sanctions against its authoritarian behavior. However, the government's behavior did provoke U.S. concern and pressure. To date, U.S. pressure appears to have been greater in response to the 1992 autogolpe than in response to the unfair 2000 elections—but U.S. pressure could increase upon U.S. congressional action or after the election of a new U.S. president.

Why did the U.S. Department of State tolerate the drastic lowering of democratic standards in Peru? First, at no time was President Fujimori a Raoul Cedras whose hands were covered with his citizens' blood; and U.S. officials were likely to have feared making a bad situation worse. In 1992, the autogolpe enjoyed widespread support among Peruvians, and the country was desperately trying to reduce the serious threat posed by the savage Shining Path guerrillas. In light of this threat, the autogolpe was understandable to many U.S. and international authorities--and perhaps even desirable to some.^{xcix}

In 2000, it was not clear how the U.S. government might have persuaded Fujimori to step down. The U.S. Department of State was not particularly enthusiastic about any of the opposition candidates, and for the most part the opposition was divided. In the midst of the U.S. election campaign, it is dubious that President Clinton wanted to cope with a major crisis in Peru. U.S. Department of State officials enjoyed scant resources with which to try to promote democracy in Peru (or elsewhere); the budget for the Democratic Initiatives and Training office within U.S. AID averaged \$2 to \$3 million annually for Peru in the second half of the 1990s.^c Also, despite global democratization in the 1990s, there is a lack of consensus about the definition of democracy and a lack of both a strategy and resources for its promotion. The assessment of electoral "freedom" and "fairness" is complex; if the OAS had judged Peru's 2000 elections invalid, it would have been its first such judgement. In short, there was a lack of confidence among U.S. State Department officials that they could positively influence politics in Peru.

The Department of State's caution was also a result of its knowledge that support for a third Fujimori term was considerable among numerous important U.S. groups. As other chapters have indicated, the Treasury Department, the Central Intelligence Agency, and the Office of National Drug Control Policy were pleased with the Fujimori government's performance. Even as of 1999, the international financial community and U.S.-based businessmen tended to believe that Peru needed "a strong leader" and that a third Fujimori term was the best hope for the continuation of Peru's free-market policies.^{ci} In May 1999, the International Monetary Fund agreed to a \$4.5 billion credit line for Peru, paving the way for \$1.3 billion in loans.^{cii}

Accordingly, the U.S. officials who were seriously concerned about the possibility of major political unrest in Peru as a result of the unfair 2000 elections as well as about the possibility of its setting a dangerous regional precedent were facing considerable bureaucratic and private-sector opposition. None of these officials seemed to believe that they could gain President Clinton's ear and persuade him to take a clear pro-democracy position over the objection of the other agencies.

Yet, although democratic standards were not upheld in Peru by the Clinton administration, the Fujimori government's authoritarian actions did damage the bilateral relationship. Given the dramatic advances in U.S.-Peruvian cooperation on other key components of the bilateral agenda, there may well have been an opportunity in the mid-1990s for the development of friendship between the U.S. and Peruvian governments. This was not to be. As the long-standing adage puts it, the United States gives an embrace to the democrat but a handshake to the dictator.

VI. Conclusion

Peru was the only Latin American nation that shifted in the 1990s towards cooperation with the United States on all key components of the bilateral agenda except democratization. What did this pattern signify about U.S. policy during the decade? What did the pattern imply for the sustainability of economic and political trends in Peru?

For the United States, its relationship with Peru over the decade was a test of U.S. policy priorities, both in 1992 for the Bush administration and in 2000 for the Clinton administration. Both administrations decided to try to maintain the U.S. partnership with Peru on free-market reform, security, and narcotics control despite the cost of lowering

democratic standards for the country. Both administrations did so reluctantly, however, and, in 2000, without any apparent input from President Clinton. Clinton's aloofness from the policy-making process presumably facilitated influence by the heads of the various bureaucracies who had established solid ties with their Peruvian counterparts over the decade and did not want to threaten these proven relationships. Also, both administrations reached this decision after efforts to prod the Fujimori government towards higher democratic standards, and likely concerns that continued U.S. efforts could be problematical in numerous respects.

The implications of this pattern for Peru are complex. One interpretation could be that the policies of cooperation with the United States undertaken by the Fujimori government were unlikely to benefit Peru's majorities and unlikely to develop a solid base of support within the country, and that authoritarian leadership was necessary to maintain the policies of cooperation. In this interpretation, President Fujimori would be similar to Augusto Leguía, whose 1919-1930 government was fervently pro-American but also authoritarian, and was overthrown amidst the global depression and considerable popular backlash against his policies?

Such an interpretation could ultimately prove correct. As previous chapters have indicated, the free-market policy and the anti-narcotics policy have not to date generated unequivocal benefits for Peru's majorities, and in the late 1990s popular support for these policies was not strong. As data in Chapter II indicated, Peruvians were not convinced that the Fujimori government's transition towards capitalism and the free market was in their best interest. As Chapter IV indicated, although the anti-narcotics policy reduced the export of cocaine to the United States, its results may not have benefited Peruvians, who in any case did not give the same priority to the drug problem that the U.S. government did.^{ciii} Further, in Iquitos and some other jungle areas of Peru, opposition to the 1998 border agreement with Ecuador was intense.^{civ} Perhaps especially important over the longer term, the U.S. failure to push President Fujimori harder for the maintenance of democratic standards seemed likely to alienate the large swathe of educated Peruvian civil society that by the late 1990s was firmly opposed to his continuation in power; it would be the leaders of this sector who would ultimately interpret the meaning of the Fujimori era for Peruvians.^{cv}

Overall, even during Fujimori's heyday in the mid-1990s, only 35 percent of Peruvians had a favorable image of the United States.^{cvi} (This figure was the same as the average for South American countries in this sample.) Peruvians' attitudes towards Japan were considerably more positive than their attitudes towards the United States.^{cvi}

It seems more likely, however, that this interpretation is exaggerated. Large percentages of Peruvians agree that the García government's militant anti-U.S. positions were catastrophic for the country and do not want to repeat that period. Although the Fujimori government's free-market and anti-narcotics policies were not strongly supported, nor were they strongly opposed. Peru after Fujimori will probably seek to modify the country's free-market reforms in some respects, but will not want to be isolated from the United States or the international community in general. During the 1990s globalization took hold in Peru; as Peruvians became accustomed to participation in this process, they became less and less likely to want to disrupt it.^{cviii} In the 2000 elections, not one presidential candidate proposed any major breach with the Fujimori government's free-market or anti-narcotics policies.

To the contrary, it is possible that the Fujimori government represents a missed opportunity for Peru to develop not only cooperation but also friendship with the United States. For various reasons that hopefully will not be repeated—major security threats and massive narcotics exports—the United States was more engaged with Peru in the 1990s than would have been expected for a medium-sized Latin American nation on the West coast of South America after the Cold War. The U.S and Fujimori governments both seem to have chosen to conceal the U.S. contribution to Peru's counterinsurgency effort in the early 1990s and to the rescue of the hostages at the Japanese Ambassador's residence in 1998, but knowledge of these contributions would presumably have prompted considerable enthusiasm for the U.S. among Peruvians. And, most importantly, the opportunity for friendship was missed because of Fujimori's ambition to continue in power for fifteen years, at whatever the cost to democracy.

In short, the end of the Cold War was the beginning of what will likely prove to be several decades of greater U.S.-Peruvian cooperation. Whether the cooperation will eventually evolve towards friendship will depend in part upon the continuation of U.S. interest in Peru and the capacity of the U.S. to reconsider those bilateral policies that prove not to benefit Peruvian majorities. It will also depend in part upon a return to democracy in Peru.

ⁱDuring 1987-1989, Peru's voting coincidence with the United States in the United Nations was 15 percent or below; see the U.S. Department of State, Voting Practices in the United Nations, 1986-1989. Low rates of coincidence for the entire 1980s is suggested in Miguel Marín-Bosch, Votes in the UN General Assembly (Cambridge, MA: Kluwer Law International, 1998), 212.

ⁱⁱU.S. Department of State, Voting Practices in the United Nations, 1995-1998.

ⁱⁱⁱU.S. Agency for International Development, U.S. Overseas Loans and Grants and Assistance from International Organizations: Obligations and Loan Authorizations, July 1, 1945-September 30, 1998, and annual editions. Following Peru as major recipients were Bolivia and Haiti.

^{iv}Valuable overviews include John Crabtree, Peru under García: An Opportunity Lost (Pittsburgh: University of Pittsburgh Press, 1992), 25-68 and 121-151 and James D. Rudolph, Peru: The Evolution of a Crisis (Westport: Praeger, 1992), 101-150.

^vAlan García, "Inaugural Address to Congress, July 28, 1985," The Andean Report (August 1985), 16.

^{vi}García, "Inaugural Address," 11.

^{vii}Interview with Russell Graham, Economic Section, U.S. Information Service, August 19, 1987, in Lima.

^{viii}Paul Glewwe and Gilette Hall, "Poverty, Inequality, and Living Standards During Unorthodox Adjustment: The Case of Peru, 1985-1990," Economic Development and Cultural Change, 42 (July 1994): 715.

^{ix}Perú económico, 13 (August 1990): 1-6.

^xCynthia McClintock, Revolutionary Movements in Latin America: El Salvador's FMLN and Peru's Shining Path (Washington, D.C.: U.S. Institute of Peace, 1998), 165-166.

^{xi}On these measures and their political context, see Carlos Boloña, "The Viability of Alberto Fujimori's Economic Strategy," in The Peruvian Economy and Structural Adjustment: Past, Present, and Future, ed. Efraín Gonzales de Olarte (Miami: North South Center Press, 1996), 183-264; Sally Bowen, The Fujimori File: Peru and Its President, 1990-2000 (Lima: Peru Monitor, 2000), 75-83; and The Andean Report, Vol. XVIII, no. 10 (October 1991): 157. Ricardo Luna, Peru's 1992-1999 Ambassador to the United States, also gave a very informative presentation describing the economic policy change at a symposium hosted by the George Washington University's Andean Seminar on Culture and Politics and the Washington Office on Latin America, June 10, 1999, in Washington, D.C.

^{xii}"Country Profile: Peru 1999-2000," The Economist Intelligence Unit (London: 1999), 22.

^{xiii}Bowen, The Fujimori File, 83.

^{xiv}Latin American Weekly Report, Vol. 91, no. 37 (26 September 1991): 7.

^{xv}Author's interview with Ambassador Ricardo Luna, Peru's Ambassador to the United States, July 23, 1999, in Washington D.C.

^{xvi}Bowen, The Fujimori File, 171; Resumen Semanal, no. 708 (March 3-9, 1993), 1.

^{xvii}Latin America Weekly Report, 39, no. 19 (May 20, 1993): 223.

^{xviii}Sebastian Edwards, "The Andean Community Reforms: How Much Progress? How Far to Go?" in The Andean Community and the United States: Trade and Investment Relations in the 1990s, eds. Miguel Rodríguez Mendoza, Patricia Correa, and Barbar Kotschwar (Washington, D.C.: Organization of American States, 1998), 20. The other country was Argentina.

^{xix}Gerald P. O'Driscoll Jr., Kim Holmes, and Melanie Kirkpatrick, "Economic Freedom Marches On," The Wall Street Journal, November 30, 1999, A26. Peru's ranking has risen gradually since 1995, when its score was below Bolivia's and Brazil's; see Edwards, "The Andean Community Reforms," 24.

^{xx}Efraín Gonzales de Olarte, El Neoliberalismo a la Peruana: Economía Política del Ajuste Estructural, 1990-1997 (Lima: Instituto de Estudios Peruanos, 1998), 44.

^{xxi}On the agreement, see "Country Profile: Peru, 1996-1997," The Economist Intelligence Unit, 44-45.

^{xxii}Author's interview with Luis Quesada, Charge d'Affairs, Peruvian Embassy to the United States, July 30, 1999, in Washington, D.C..

^{xxiii}Carlos Boloña and Javier Illescas, "Trade and Investment between Peru and the United States," The Andean Community and the United States, 209.

^{xxiv}Boloña and Illescas, "Trade and Investment," 207.

^{xxv}Boloña and Illescas, "Trade and Investment," 207.

^{xxvi}Inter-American Development Bank, Facing Up to Inequality in Latin America: Economic and Social Progress in Latin America: 1998-99 Report (Washington, D.C.: Johns Hopkins University Press, 1998), 231-232.

^{xxvii}Inter-American Development Bank, Facing Up to Inequality, 231-232.

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- ^{xxviii} Jaime A. García Díaz, “Evolución del comercio exterior y las inversiones entre el Perú y Estados Unidos de América,” Política Internacional, no. 53 (Julio/septiembre 1998), 67-68.
- ^{xxix} During most of the 1990s, the U.S. share of imports was higher than the share of exports. Boloña and Illescas, “Trade and Investment,” 200-202. For earlier decades, see Rosemary Thorp, Progress, Poverty, and Exclusion: An Economic History of Latin America in the 20th Century (Baltimore: Johns Hopkins University Press, 1998), 349.
- ^{xxx} “Country Report: Peru, April 2000,” The Economist Intelligence Unit, 5.
- ^{xxxi} “Country Report: Peru, April 2000,” The Economist Intelligence Unit, 5 and “Peru: Country Profile, 1998-99,” The Economist Intelligence Unit, 33.
- ^{xxxii} Commission for the Promotion of Private Investment (COPRI), “Peru: A Country on the Move,” Lima, 1999, 31, and “U.S. Direct Investment Abroad: Country Detail for Selected Items,” International Investment Data, Bureau of Economic Analysis, U.S. government (www.bea.doc.gov/bea/di/lonctyx.htm May 13, 1999).
- ^{xxxiii} Bowen, The Fujimori File, 171-175.
- ^{xxxiv} “U.S. Direct Investment Abroad,” Bureau of Economic Analysis.
- ^{xxxv} Jorge L. Daly and Rebecca Lee Harris, “Private Capital Flows to the Andean Region,” in The Andean Community and the United States, 52.
- ^{xxxvi} “U.S. Direct Investment Abroad,” Bureau of Economic Analysis.
- ^{xxxvii} Economic Commission for Latin America and the Caribbean, Preliminary Overview of the Economies of Latin America and the Caribbean 1998 (Santiago: CEPAL, 1998), 83.
- ^{xxxviii} Economic Commission for Latin America and the Caribbean, Preliminary Overview 1998, 83.
- ^{xxxix} Economic Commission for Latin America, Preliminary Overview 1998, 85.
- ^{xl} Bowen, The Fujimori File, 301-302.
- ^{xli} Interview with John Youle, head of the international consulting firm Macroconsult and President of the American Chamber of Commerce in Peru, July 20, 1999, in Lima; “The Camisea Shock,” The Economist (April 4, 1998), 40; and “Camisea’s role looks less certain,” Latin American Weekly Report, Vol. 99, no. 27 (July 13, 1999), 319.
- ^{xlii} “Focus Report: Camisea—Behind the pull-back,” The Peru Report (July/August 1998), 27.
- ^{xliiii} “Trend Report: Sour winds blowing into foreign investment climate,” Peru Monitor Monthly (February 25, 2000), 5-9, and Katey Downs, “Words from Washington: Island of Calm in the Andes,” Contact Peru, Vol. 5, no. 1 (January-February 2000), 14-15.
- ^{xliiv} Edwards, “The Andean Community Reforms,” 28-29, and author’s interview with John Youle, July 20, 1999.
- ^{xli v} “Country Report: Peru, First Quarter 2000,” The Economist Intelligence Unit, 5 and 20; Richard Webb, “Economic Interview,” The Peru Report (November 19, 1999), 23.
- ^{xli vi} CEPAL, Balance preliminar de las economías (Santiago: CEPAL, 1999), 93 and Shane Hunt, “Economic Interview,” The Peru Report and Peru Business Digest (November 18, 1997), 23.
- ^{xli vii} CEPAL, Balance Preliminar, 92, and Richard Webb and Graciela Fernández Baca, Perú en números 1999 (Lima: Cuánto, 1999), 568.
- ^{xli viii} Webb and Fernández Baca, Perú en números 1999, 1, 269.
- ^{xli x} “Economic and Political Interview with Fred Levy (World Bank representative in Lima), The Peru Report (February 18, 1998), 11-15.
- ^l U.S. Agency for International Development, U.S. Overseas Loans and Grants and Assistance from International Organizations (Washington, D.C.: U.S. AID, 1999). Bolivia and Haiti were the only other two Latin American nations receiving significant amounts of food aid.
- ^{li} McClintock, Revolutionary Movements, 244.
- ^{lii} Webb and Fernández Baca, Perú en números 1999, 1, 271.
- ^{liii} Webb and Fernández Baca, Perú en números 1999, 1, 271.
- ^{li v} Surveys by IDICE published in La República, July 23, 1999, 7, and November 25, 1999, 5.
- ^{li v}
- ^{li vi} Public-opinion polls on this question are cited in McClintock, Revolutionary Movements, 110-112.
- ^{li vii} Ibid., 121.
- ^{li viii} Ibid., 112-120.
- ^{li x} U.S. Department of State, Country Reports on Human Rights, annual editions.

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- ^{lx}See for example "Embajador Watson: Diálogo en el Estribo," Caretas, July 3, 1989: 16-20 and also the interpretation of U.S. policy by Peruvian Ambassador Roberto MacLean, The Peru Report 5 (February 1991): 4-6. Also, author's interviews with Ambassador Alexander Watson, December 6, 1987 and July 6, 1989, in Lima; Ambassador Anthony Quainton, April 21, 1999, in Washington D.C.; U.S. Deputy Chief of Mission John Youle, July 14, 1986, in Lima; Peruvian Minister of Foreign Relations Alan Wagner, July 25, 1986, in Lima; and numerous other officials.
- ^{lxi}McClintock, Revolutionary Movements, 239.
- ^{lxii}McClintock, Revolutionary Movements, 114-119.
- ^{lxiii}U.S. Department of State, Country Reports on Human Rights Practices, annual reports.
- ^{lxiv}Documents and interviews cited above.
- ^{lxv}McClintock, Revolutionary Movements, 239.
- ^{lxvi}Cynthia McClintock, "The Decimation of Peru's Sendero Luminoso," in Comparative Peace Processes in Latin America, ed. Cynthia J. Arnson (Stanford: Stanford University Press, 1999), 238-239.
- ^{lxvii}U.S. Ambassador Anthony Quainton, Memorandum from U.S. Embassy in Lima #05426, April 1992 (precise date not given) (made available through Freedom of Information Act), p. 1-3.
- ^{lxviii}U.S. Ambassador Anthony Quainton, Memorandum from U.S. Embassy in Lima #05167, April 7, 1992 (made available through Freedom of Information Act), p. 2.
- ^{lxix}U.S. Ambassador Anthony Quainton, Memorandum from U.S. Embassy in Lima #06168, April 25, 1992, p. 2.
- ^{lxx}Ambassador Viron Vaky in comments at the conference "The Constitutional Crisis in Guatemala: The Response of the OAS and Civil Society in Defending Democracy," U.S. Institute of Peace, July 26, 1993.
- ^{lxxi}U.S. Ambassador Anthony Quainton, Memorandum from U.S. Embassy in Lima #05866, April 18, 1992 (made available through Freedom of Information Act), p. 1. See also The Economist, July 11, 1992: 42.
- ^{lxxii}On the U.S. and Latin American positions at this meeting, see Thomas L. Friedman, "U.S. Is Shunning Sanctions Against Peru," New York Times, April 14, 1992, p. A8.
- ^{lxxiii}U.S. Ambassador Anthony Quainton, Memorandum from U.S. Embassy in Lima #06112, April 24, 1992 (made available through Freedom of Information Act), p. 2.
- ^{lxxiv}"The President's Peruvian Approach," U.S. News and World Report, May 4, 1992, p. 16.
- ^{lxxv}Author's inference from the U.S. Embassy memorandums cited herein. On April 22, a U.S. spokesperson declared that the U.S. would "continue to deal with the government of Fujimori because that's the current government"--provoking consternation among the Peruvian opposition. See Anthony Quainton, Memorandum from U.S. Embassy in Lima #05989, April 22, 1992 (made available by Freedom of Information Act), p. 2.
- ^{lxxvi}Stokes, "Peru: The Rupture of Democratic Rule," p. 65; David Scott Palmer, "Peru: Collectively Defending Democracy in the Western Hemisphere," in Tom Farer (ed.), Beyond Sovereignty (Baltimore: Johns Hopkins University Press, 1996): 273; and The Economist, July 11, 1992, p. 42.
- ^{lxxvii}"Trend Report," The Peru Report 7 (February 1993): 6.
- ^{lxxviii}Statement by Deputy Secretary of State Lawrence S. Eagleburger at the OAS Meeting of Foreign Ministers on Peru, Nassau, Bahamas, May 18, 1992 (Washington, D.C.: General Assembly of the Organization of American States).
- ^{lxxix}Richard Webb and Graciela Fernández Baca, Perú en Números 1996 (Lima: Cuánto, 1996): 402.
- ^{lxxx}Domingo E. Acevedo and Claudio Grossman, "The Organization of American States and the Protection of Democracy," in Tom Farer (ed.), Beyond Sovereignty (Baltimore: Johns Hopkins University Press, 1996): 141.
- ^{lxxxi}"Peru savours return of global goodwill," Financial Times, December 1, 1992, p. 3.
- ^{lxxxii}Stokes, "Peru: The Rupture of Democratic Rule," p. 65.
- ^{lxxxiii}Peruvian Ambassador Ricardo Luna, speaking on "U.S.-Peruvian Relations, 1992-1999: Assessment and Prospects for the Future," at George Washington University, June 10, 1999.
- ^{lxxxiv}Author's interview with Ann Patterson and Ann Hall at the U.S. Department of State, January 19, 1993.
- ^{lxxxv}U.S. Agency for International Development, U.S. Overseas Loans and Grants, annual editions.
- ^{lxxxvi}On the points in this paragraph, see Latin American Studies Association Delegation, The 1995 Electoral Process in Peru (Pittsburgh: Latin American Studies Association, 1995): 6-7.
- ^{lxxxvii}U.S. State Department 1994 Report on Human Rights for Peru, Section 3.

^{lxxxviii} An excellent report on the issues raised in this paragraph is Catherine M. Conaghan, "Troubled Accounting, Troubling Questions: Looking Back at Peru's Election," LASA Forum XXVI (summer 1995): 9-12.

^{lxxxix} Although different reasons for Transparencia's actions were provided to the authors by different analysts, the explanation that its focus had been on the presidential and not the congressional was the most persuasive. This explanation was offered by Susana Villarán, in an interview in Lima, June 19, 1998, and Jorge del Castillo, in an interview in Washington, March 1, 1999, among others.

^{xc} In the Peru report of the U.S. Department of State's Country Reports on Human Rights Practices for 1995, the problems in the legislative race are mentioned in one sentence, but are not discussed.

^{xcⁱ} See for example U.S. Ambassador Alvin Adams, "Statement," in Instituto de Estudios Internacionales (ed.), Working Seminar Towards a New Convergence in Peru-United States Relations (Lima: Pontificia Universidad Católica del Perú, 1994), 11-20.

^{xcⁱⁱ} See for example the U.S. Department of State, Country Report on Human Rights Practices for 1996, Peru Report, Section 3.

^{xcⁱⁱⁱ} During the first six months of 1999, three well-known organizations--the Inter-American Commission on Human Rights of the Organization of American States, the Committee for the Protection of Journalists, and Freedom House--all criticized the sharp decline in media freedom in Peru. See Isaías Rojas, "La Crisis de la Libertad de Prensa y (También) El Caso Lúcar," Ideele 118 (May 1999): 18-21.

^{xc^{iv}} The Washington Post, February 4, 1999, A26.

^{xc^v} La República, June 8, 1999, 4.

^{xc^{vi}} This paragraph is based on authors' interviews with U.S. Ambassador Dennis Jett, Political Counselor Jim Wagner, and Political Officer Dan Lawton, in Lima, June 9, 1998, and with Principal Deputy Assistant Secretary of State for Inter-American Affairs, Jack Leonard and the Director of the South America and Mexico Office of the Latin American and Caribbean Division at the U.S. Agency for International Development, Thomas Cornell, in Washington, D.C., June 2, 1999.

^{xc^{vii}} Luis Peirano and Carlos Reyna, "Estados Unidos y La Triple 'D'" [Interview with Ambassador Dennis Jett] QueHacer 107 (May-June 1997): 30-38. See also the U.S. Department of State Country Report on Human Rights Practices for 1998 for Peru.

^{xc^{viii}} Principal Deputy Assistant Secretary of State for Inter-American Affairs Jack Leonard, June 2, 1999, in Washington, in an interview with Peruvian opposition leaders and the author.

^{xc^{ix}} One Peruvian military officer told a U.S. official that SOUTHCOM supported the autogolpe, and Ambassador Quainton was sufficiently concerned that he asked SOUTHCOM to call the Peruvian officer to correct his view. U.S. Ambassador Anthony Quainton, Memorandum from Lima #05339, April 10, 1992 (obtained from the Freedom of Information Act), p. 2.

^c Carrie Thompson, Deputy Chief of Democratic Initiatives and Training for U.S. AID/Peru, June 9, 1998, in Lima.

^{ci} Coletta Youngers, "La Percepción Estadounidense del Caso Fujimori," QueHacer 117 (March-April 1999): 18-19; Francisco Durand, "El 2000 y las Opciones Empresariales," Working Paper, Department of Political Science, University of Texas at San Antonio, 3, and author's interview with George Boomgaarden, Director of Latin American affairs at the German Foreign Ministry (and recent participant in meetings about Peru with the U.S. Chamber of Commerce), June 10, 1999, in Washington D.C., among other interviews.

^{ciⁱ} CNN.com/ world/americas, May 1, 1999.

^{ciⁱⁱ} PromPerú, Latinobarómetro: Un instrumento de medición comparativa de la opinión pública latinoamericana (Lima: Apoyo, 1996), 11. Also, given the importance of narcotics control in the U.S. agenda for Peru, the paucity of attention to the issue in the Peruvian media is striking. Review of the Peruvian journals Debate, Ideele, and QueHacer from January 1996 to April 1999 found only four articles on the topic, all in QueHacer. For the Western hemisphere in general, the United States Information Agency reported intense criticism of the annual U.S. certification process as "interventionist;" see United States Information Agency, "Foreign Media Reaction," p. 2.

^{ci^v} Latin American Weekly Report 99-19 (May 18, 1999): 224, among other sources.

^{cv} Data on Peruvians' attitudes towards democracy and the Fujimori government are provided in Cynthia McClintock, "Resucitando la designación de regimen autoritario? Perú bajo Fujimori, 1995-1998," in Enigmas del Poder, ed Fernando Tuesta (Lima: Fundación Friedrich Ebert, 1999).

^{cvⁱ} PromPerú, Latinobarómetro 27.

^{cvi}PromPerú, Latinobarómetro, 27 and 31.

^{cvi}Globalization is defined as the worldwide integration of trade, finance, people, information, and ideas, a process effectively symbolized by the World Wide Web. One thoughtful recent discussion is Thomas L. Friedman, "A Manifesto for the Fast World," The New York Times Magazine, March 24, 1999: 40-44, 61, 70 -71, 84, 96-97.

In both the United States and Europe, broader geopolitical changes add to internal democratic weaknesses. Political scientists like Russell J. Dalton and Pippa Norris already in the 1990s had observed decreasing levels of trust in political institutions across many established democracies.⁴ This long-standing trend exploded into the public consciousness with the unexpected electoral successes of populist outsiders in 2016 and 2017, which highlighted widespread public disenchantment with the political status quo. In the United States, the majoritarian electoral system creates a fundamentally different party landscape, with limited opportunities for new party formation. Yet voter identification and satisfaction with political parties has also declined. The United States and Peru in the 1990s: cooperation with a critical caveat on democratic standards. Cynthia McClintock. June 2000. The early 1990s were a critical turning point in the relationship between the United States and Peru. Whereas during the 1970s and 1980s the relationship between the governments of the two countries was contentious, in the 1990s the relationship improved dramatically. The conflict over democratic standards was a major factor limiting the relationship between the United States and Peru to cooperation on specific components of the bilateral agenda and impeding the development of friendship. There were other factors impeding friendship as well.