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THE WHITE HOUSE
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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Belaunde of Peru ~~(C)~~

PARTICIPANTS: The President
Kenneth W. Dam, Acting Secretary of State
Secretary of Treasury Donald Regan
Robert C. McFarlane, Assistant to the
President for National Security Affairs
U.S. Ambassador to Peru David C. Jordan
OAS Ambassador William Middendorf
Lowell C. Kilday, Deputy Assistant Secretary
of State for Inter-American Affairs
Edwin Meese, III, Counsellor to the President
Jacqueline Tillman, NSC

President Fernando BELAUNDE Terry
Sandro MARIATEGUI Chiappe, President of the
Council of Ministers
Ambassador Luis Marchand
Jose Venavides, Minister of Finance

DATE, TIME: September 27, 1984
AND PLACE: 9:30-10:00 a.m., Oval Office

President Reagan: Welcome. We are pleased to have you here and have noted with great interest your efforts to install your democracy and are very pleased with what we are seeing. ~~(C)~~

President Belaunde: There is no reelection in Peru. Our new constitution does not allow direct succession. But our Constitution names presidents Senator for life. So I don't have to campaign. (laughter) ~~(C)~~

President Reagan: I wonder if we could have something like this. (laughter) Well, you must have some agenda issues. ~~(C)~~

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President Belaunde: I read in the papers that Peru is broke. I must correct that. Peru is not floating in abundance but it is not drowning in bankruptcy either. We are managing our problems, like Argentina and Brazil. We have, however, terrorists. With their insurrection they are trying to establish a beachhead in Peru. But we have this under control. This has meant a great sacrifice and great expense from the Peruvian people. For example, we just moved 2,000 troops into a region where both terrorists and narcotics traffickers are operating. We are burning tons of cocaine. We are burning millions of dollars worth of cocaine. We are cooperating. I would like to congratulate you on your rich United Nations address, which was both eloquent and direct. We are grateful for your decision on copper. (C)

President Reagan: We thought it was the right thing to do. (e)

President Belaunde: Low copper prices are part of the problem. We are selling in 1984 at 1980 prices. We would be gaining \$400 million in exports if the prices were higher. We would be able to face our problems on better terms. Both silver and copper are down. (C)

Secretary Regan: The 1980 prices were the height of inflation. Inflation is down. Prices may not return to 1980. (C)

President Reagan: Our own recovery has moved from recovery into an expansion. We solved our economic problems by reducing taxing, which created economic growth. In Ohio yesterday I opened a new steel plant. When it is completed it will produce steel with less energy costs and lower labor costs--it's a high-tech operation. But the investment to build it amounted to 2/3 of the total capital worth of the company. It could not have taken place without with the 1981 tax breaks. Business was able to do more with depreciation. And thousands of workers were affected. It was interesting that my opponent was receiving the endorsement of the Steelworkers Union. Well, I don't know about the hierarchy of the unions. The rank and file was there yesterday. (C)

President Belaunde: The people of Peru know. We had bad floods so I issued a bond that everyone had to buy at \$250 a month or 10% of wages. Everyone cooperated. No one complained. Buying bonds in times of high inflation shows that the people of Peru want to face their problems. (C)

President Reagan: We are able to help a little more with an additional \$5 million in PL-480. (C)

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President Belaunde: The AID people in Peru are very good people. All the programs are going well. Programs with the World Bank, AID, and the Inter-American Development Bank are going well with more development credit. It is important to reduce local matching funds. (C)

Ambassador Jordan: Our counterpart funds in the disaster relief funding helped reduce the matching fund needs for Peru. (C)

Secretary Regan: We're going to be at the April 1985 combined IMF and World Bank conference. One question will be how to focus on these problems in less developed countries. The international institutions haven't focussed on this. (C)

President Belaunde: This will be an important meeting. (To President Reagan) Have you ever been to Peru? We would love to have you visit. (C)

President Reagan: I'd like to do that. I've never been to Peru. We had not been further south than Mexico before we came in. (C)

President Belaunde: We would be honored if you visited us. (C)

President Reagan: In spite of the many programs in the past regarding our neighbors to the South, we never had the close relations I believe we should have. (C)

President Belaunde: There have been distinguished American contributions to Peru. Our railway, one of the highest built in the world, was built by a Stanford man, Mr. Maise. He gambled and went into Chile. Then Peru picked him. One bridge of a canyon was attacked. But we fixed it in two weeks. A great achievement. Americans have contributed scientific people and explorers. Americans go out in the jungle. (C)

President Reagan: Are there ways that we could be helpful? (C)

President Belaunde: AID helps a lot. There are American couples in the jungle. I always say about U.S. students, they are unemployed pioneers. (laughter) This afternoon I will be speaking to students at George Washington University where I taught when I was in exile and then I go to Texas where I studied. In 1967, I met President Johnson at the Puenta del Este meeting. We were discussing various problems, and things were tense. I told him, how could he do this to someone who had studied at Texas. I told him I wished I had gone to California. (laughter) Then the meeting went better. (C)

President Reagan: We want to be as helpful as we can. With your economic problems and all though, I can't help but wonder about your continued purchases of weapons from the Soviets. (C)

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President Belaunde: From 1963 to 1968, your Ambassador Jones tried to get supplies from the United States, especially with the Air Force. We wanted F-5s, but you said we weren't ready for them. Our Air Force is small but up to date. We have Mirages. We insisted on U.S. suppliers in the hemisphere. In the Navy, it is being done. We also have supplies from Italy, France, Holland. When I was away, the Air Force made Soviet acquisitions. It is a long-term thing. I would welcome a replacement. I want U.S. supplies. It cannot be done overnight. U.S. contact with the Air Force is essential. Helicopters are made for Peru, with our high mountains. And the performance is exceptional. Flying in the Andes. We are not trying to enlarge the Air Force, just to replace obsolete planes. It is nothing to worry about. They are eager to replace with newer models. The Navy is trained along American lines. We were in UNITAS, the joint exercise. People ask, why do we have Armed Forces? Well, you never know where war is going to occur. We have other projects and a compact armed force. (e)

President Reagan: We know why countries need armed forces. We know about those who tried unilateral disarmament and how vulnerable it left us. I guess I'll be discussing some of these things tomorrow with a gentleman. (laughter) (e)

President Belaunde: But you have worldwide responsibilities. (e)

Secretary Regan: How did it go with the IMF? (e)

President Belaunde: We had frank discussions. They don't think we are doing enough. We are trying to reduce our budget, we are doing all we can. All we ask is for the same treatment as Argentina. The staff levels criticize us. But they overlook the political and social aspects. For example, gas in Peru costs the same as gas in Washington. We are a gas producer, and export a small amount. They propose an increase in prices. They would cause riots. During my exile I taught at Harvard. I lived in the River View Apartments on the Charles. (e)

Secretary Regan: I was born there. (e)

President Belaunde: When they raised the price from 10¢ to 20¢ for the bus, a 100% increase, everyone understood, and I was unhappy. But in Peru, people would burn the buses, the experts don't understand this. (e)

Secretary Regan: If you bring it down to 6% I think that would satisfy the IMF and the banks. (e)

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President Belaunde: It can be done. We have to pay \$1.3 billion between now and July. We need badly bridge loan financing. \$300 million is essential. It is hard to face the obligations with the banks. It would not need to be immediate disbursement. \$100 million each month for 3 months. We would like the same treatment given to Mexico and Argentina. (C)

Secretary Regan: They agreed to reduce government expenditures and to get inflation down. Then the money was forthcoming. (C)

President Belaunde: I don't know about the banks. With the loan to Peru, we had disbursement of \$100 million coming. We owe \$145 million. I told the banks we would pay \$100 million. They did not accept. (C)

Secretary Regan: They were taking their cue from the IMF. (C)

President Belaunde: We have many worries. Same as in Central America. We make great efforts and enjoy the confidence of the people. We try to keep going and keep order. (C)

President Reagan: I'm happy you could be here today and tell us about these things. (C)

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