

Be Careful What You Wish For

Peru Gets its Free Trade Agreement with the United States

By Ariela Ruiz Caro | November 13, 2007

More than three years after the first negotiations, Peru is the first and only Andean country on the verge of finally signing a Free Trade Agreement (FTA) with the United States. Nov. 8 the U.S. House of Representatives approved the agreement with a majority of 285 in favor and 132 against, passing the bill on to the Senate floor for approval. Peru's president, Alan Garcia, is planning to visit Washington in the next two weeks to sign the final agreement.

Paradoxically, this wide margin of votes in favor of the FTA with Peru comes when the Democrats have retaken legislative control, led by Speaker of the House Nancy Pelosi, with a campaign focused on changing the country's trade policies. The Democratic vote was practically split: 109 voted in favor and 132 against.

These results aren't that surprising. The North American Free Trade Agreement (NAFTA) was approved while Bill Clinton was president, with the support of a large portion of Democrats. This is explained by the fact that, even if sectors of U.S. society are worried about the effects these agreements have on their country—for example, job losses resulting from relocation to neighboring countries where the cost of labor is much cheaper (especially in the automotive, electronics and textile industries, as with Mexico)—powerful groups such as the corporations that exploit natural resources, high-tech, agro-industry, pharmaceuticals and chemicals, along with services like banks, insurance, and entertainment, have a vested interest in signing free trade agreements, not only in Latin America, but throughout the world.

Despite the opposition of some sectors of U.S. society that are expressed in Congress in the Democratic Party, it's difficult to expect that unions or the textile or sugar industries would have the power to throw out a negotiation undertaken by the president in the name of powerful corporate

interests and supported by multilateral institutions (the International Monetary Fund, World Bank, and the Inter-American Development Bank).

The FTA and U.S. Interests

The economic logic and the political content of these types of agreements form an important axis of current U.S. foreign policy. The Trade Promotion Authority (TPA) that authorized the negotiations, under predetermined parameters, of Free Trade Agreements with other countries, establishes that the expansion of international trade "is of vital importance to the national security of the United States. Trade is a critical factor for the economic growth of the country and its world leadership (...) Stable trade relations promote security and prosperity.

Today trade agreements serve the same objectives that security agreements did during the Cold War, committing nations to a series of rights and obligations."¹

The stable supply of natural resources has acquired renewed importance in the national security of the United States. The Santa Fe IV document (2000), which orients the nation's policy in the region, notes that one of the fundamental geostrategic elements for national security lies in the availability of the hemisphere's natural resources to respond to U.S. national priorities.



Guaranteeing the free flow of trade and investment in economic activities related to those resources, access routes, and deposits of crude oil and minerals, as well as access to the genetic potential present in the enormous biodiversity in the Southern Hemisphere, especially in Latin America, are central objectives for national security strategies of most industrialized countries. The implementation of a growing number of FTAs constitutes a uniform way to facilitate trade and seek to avoid all types of restrictions to access to natural resources, or activities related to the service and technology sectors, for large corporations.

Despite all this, it is important to point out that the Democratic Party sought and achieved significant concessions that translated into the inclusion of clauses protecting workers and the environment in Peru. Also, they proposed the extension of Trade Adjustment Assistance (TAA). TAA is a program run by the Department of Labor that provides economic assistance to people in the United States who lose their job as a consequence of FTAs. In 2006, the TAA budget was \$966 million and it financed several programs: job training, job search assistance, and salary subsidies for the laid-off workers.

On the other hand, Peru—a country with high levels of social unrest—is not adequately contemplating assistance programs for the losing sectors in the FTA deal. Initially the government had approved compensation for \$32 million annually over five years to wheat, corn, and cotton producers, an absolutely insufficient amount. Now it is considering reducing that amount due to high international prices for those products.

Identity Crisis—Between CAN and FTA

What now worries the Peruvian government are the more than 60 modifications that will have to be put into effect to implement the agreement after its signing. According to the Foreign Trade Ministry, there are complicated matters such as intellectual property that touch on agreements with the partners of the Andean Community of Nations (CAN).

There are common market rules in the region that will have to be modified to correspond to the responsibilities assumed in the FTA. If that can't be achieved, Peru's Vice Minister for Foreign Trade Eduardo Ferreyros has clearly stated what the priorities are: "There is no way Peru is going to give up having an FTA because we can't implement a commitment to the CAN—that will never happen."²

The Peruvian government has had no reservations about putting its membership in the Andean Community in second place. Back when Alejandro Toledo was president, he suggested negotiating bilaterally with the United States, just as President Garcia has requested bilateral negotiations with the European Union, despite the agreement with Andean partners in their regional integration institution to go about it as a bloc.

The FTAs with the United States negotiated by two member countries in the Andean Community, Peru and Colombia,³ have had significant impacts on the subregional integration process. The most significant has been the withdrawal of Venezuela from the group. At the same time, in practice it has meant an important loss in the CAN technical committee's ability to make proposals. The United States demanded that the secretary general of this group not participate in the FTA negotiations. The member countries accepted that when the agreement was concluded they would be informed, but could not object to it.

From Subregional to Bilateral

Negotiations for the signing of the U.S.-Peru FTA began in May of 2004. The U.S. negotiators insisted that the talks take place in conjunction with the Andean subregional bloc, and not individually as some governments had wanted. Venezuela did not participate because only countries receiving benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) were selected.

With an agenda imposed by the United States, the negotiations turned out to be more drawn-out and tricky than expected. The process ended in a competition to see who could sign an agreement first. In

this race, coordination between the Andean countries broke down, and the agreement, which had pretended to be multilateral between the Andean partners and the United States, fractured into bilaterals.

Peru was the first to conclude negotiations, almost three months before Colombia, at the end of February 2006. The United States decided to suspend negotiations with Bolivia and Ecuador because of reforms that both countries made in their oil legislation with the objective of generating more income for the State.

Since the beginning of FTA negotiations with the United States, the debate has centered on trade elements. Analysis of the agreement in geopolitical terms, as part of a national development plan, as a specific form of regional integration, and as a method of insertion into the international economy has been less intense and less publicized.

Two Scenarios

The U.S.-Peru FTA, like all FTAs, opens up a range of scenarios. The two extremes can be characterized as:

1) *Growth with social inclusion.* This scenario banks on the advantages that the negotiating governments publicize through the FTA propaganda campaigns—that large and small producers and businesses will develop; that they will link up among themselves; that they will be access export markets; that they will generate more jobs; and that the internal market will expand. Development of this nature would produce a positive relationship between external insertion and local demand.

2) *Economic modernization of certain sectors along with social exclusion.* This scenario predicts an increase almost exclusively in exports by a small group of large corporations, without development—or very little—of local markets, and a breakdown of internal productive chains. This scenario can lead to an exclusive modernization that deepens inequalities, increases the social conflicts and destabilizing

factors, which affect several Latin America countries, and places democracy in jeopardy.

The economic reasoning of these NAFTA-style agreements—juridical asymmetry; lop-sided negotiation processes; the weakening of collective action in multilateral forums and regional integration schemes—point to a serious risk that signing the FTA can lead to the second scenario, exclusive modernization that advances concentration of wealth and increased inequality.

Peruvian society, and what is worse, most politicians in the Andean countries, do not seem to have adequately grasped the reach of FTAs with the United States, and tend to evaluate them in purely commercial terms. In a scenario of social instability, governments should present the FTAs with their entire economic, political, judicial, and social implications, so that the public gets involved in designing programs to compensate displaced sectors. Their fear of publicizing the risks and negative aspects of the agreement is based on their knowledge of the limited ability to modify its contents, limits set by previously signed agreements.

The ability to democratically influence the content of FTAs is nearly nonexistent, which can lead to the agreements being perceived as imposed and not the result of a democratic exercise. This way of acting erodes a sense of belonging that could in the future affect the sustainability of the agreement itself.

Countries that sign FTAs with the United States (or any other industrialized powerhouse) should prioritize development of the internal market and not bet the house on exportations. It's wrong to maintain, as the Peruvian government does, that because Peru's economy is small, its sustained development depends on access for its exports to bigger and bigger markets. This vision denies the importance of the domestic market. But also, and most importantly, more than two-thirds of Peruvian exports enter without tariffs into the U.S. market without needing an FTA since they are basically natural resources, or are already included under the Generalized System of Trade Preferences.

For Nobel prize-winning economist Joseph Stiglitz, these are one-way agreements, because all the power is concentrated by the United States and used in benefit of the corporations it represents. Stiglitz maintains that even if there are important reasons to support trade liberalization, the manner in which the United States and the IMF impose them is counterproductive.

Trade liberalization has not led to the transfer of resources from inefficient sectors that have benefited from governmental protection to more efficient export sectors. Instead it has destroyed jobs before creating new ones. The IMF's structural adjustment programs make it nearly impossible to create jobs because they are usually accompanied by high interest rates for the purpose of containing inflation. What finally happens is that trade liberalization, instead of transferring workers from low productivity jobs to high productivity ones, throws workers out of work, forces them into the informal economy, or traps them in poverty.

The North American market is undoubtedly important for our country. The problem is the price that we are willing to pay for it. Latin American countries in general, and Peru in particular, have not taken into account that, in a world where the generation of wealth is based more and more on knowledge and technology, opening up the U.S. market to its raw materials is counter-productive. In exchange for acceptance of our asparagus, caramel, flowers,

and other products with little added value, we are forced to accept a body of laws that consolidate the development strategy applied during the past two decades and inexorably deepen the income gap in the region exactly as it has in Mexico and Chile.

In a not-so-far-off future, as other developing countries sign FTAs with industrialized countries, the Andean countries will lose the tariff preferences that they have negotiated in exchange for a set of legal norms that determine a development strategy that is essentially favorable and workable only for large corporations.

END NOTES

- ¹ Trade Promotion Authority, Section B, Title XXI.
- ² Statement by Peru's Vice Minister for Foreign Trade Eduardo Ferreyros in "La República", Nov. 9, 2007.
- ³ Colombia's FTA will not be up for debate this year because of resistance by sectors of society and U.S. legislative bodies about the lack of sanctions on paramilitary groups for human rights violations, as well as because of demands for more proof of serious plans to convict people accused of killing union leaders.

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