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Congress Should Advance U.S.-Peruvian Free Trade Ties

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On April 12, the United States and Peru concluded negotiations for the United States-Peru Trade Promotion Agreement, a major advance in economic and security relations between the U.S. and Latin America's fifth most populous country. Peru's legislature has already approved the deal, and it now awaits action in the U.S. Congress. Economically, this free trade agreement (FTA) with Peru will benefit producers in both countries with greater market access and consumers with less expensive products. From a security standpoint, it will consolidate a partnership with the seventh largest economy in South America—critical in a region where opposition to free markets and U.S. influence is being fed by populist, nationalist governments in Venezuela and Bolivia. While the FTA commits Peru to improving labor standards and their enforcement, a lingering misconception that Peru fails to fully protect workers' rights will make passage of the agreement contentious. But failure to approve the agreement would jeopardize U.S. influence in Latin America.

Economic Benefits

Despite the small size of Peru's economy relative to the United States', the U.S.-Peru FTA will substantially benefit consumers and producers in both countries. Peru already enjoys low barriers for exports to the U.S. market under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which will expire in December 2006. The new FTA will make some of those benefits permanent while

lowering barriers for U.S. exporters and investors. The U.S. International Trade Commission estimates a variety of benefits:

- U.S. imports from Peru will increase by \$439 million, or 8 percent, and U.S. exports to Peru will increase by \$1.1 billion, or 25 percent;
- The largest value increases in U.S. exports will be in machinery and electrical equipment, chemicals, rubber, plastics, wheat, rice, pork, and poultry;
- Trade facilitation provisions, such as the definition of custom procedures, administration, and dispute, will lead to a more stable and reliable trading environment, further buttressing U.S.-Peru trade and investment; and
- The protection of intellectual property in Peru, through new rules Peru commits to under the agreement, will be significantly improved.

Security at Stake

After only Chile and Colombia, Peru is an important democratic ally in South America's Andean region. It trades nearly \$6 billion in goods and services annually with the United States and

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cooperates in combating illegal drug trafficking.

Under outgoing President Alejandro Toledo, Peru has enjoyed five years of peace and prosperity. Steady GDP growth of 5 percent per year helped balance accounts and reduce poverty by a few percentage points. However, as in all Andean countries except Chile, poverty still afflicts about half the population. Peru needs a more skilled workforce, stronger rule of law, a reduction in burdensome regulations, and a commercial code that helps the poorest of citizens start a business as easily as the richest. The FTA will advance these objectives.

On June 4, Alan García won the Peruvian presidency over Lieutenant Colonel Ollanta Humala in a runoff election. Humala is an admirer of Venezuela's Hugo Chávez, and so his loss represents a setback for Chavez's leftist agenda for the region. But Humala's strong showing demonstrates that his plans to nationalize industries and boost business taxes to fund social spending appeals to many Peruvians as the best answer to blocked social and economic advancement. The FTA will provide incentives for Peru to become more competitive and thus less likely to succumb to authoritarianism and closed markets. For U.S. interests in the region, this is critical.

The Right Approach on Labor Standards

The U.S.-Peru FTA fully meets the labor objectives set out by the U.S. Congress in its Trade Promotion Authority legislation. Labor obligations are part of the core text of the FTA. It specifies that both workers and employers must have adequate access to tribunals to enforce labor laws and that proceedings be fair, equitable, and transparent. It establishes a bilateral Labor Affairs Council so that the countries may cooperate to improve labor standards. Further, the FTA imposes monetary fines

and loss of preferential trade benefits should a party fail to enforce its own labor regulations. This obligation is enforceable through the FTA's dispute resolution procedures.

Beyond that, Peru is already making progress in addressing concerns over its labor standards:

- Peru's constitution guarantees freedom of association, collective bargaining, and the right to strike;
- Under the Toledo administration, Peru enacted laws to reduce the number of workers needed to form a union and abolished regulations that prohibited unions from engaging in political activity; and
- Peru is a member of the International Labor Organization (ILO) and, as such, has ratified the eight core ILO conventions.

Conclusion

The 9/11 Commission concluded that a comprehensive strategy to counter terrorism and enhance U.S. security "should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future." The United States-Peru Trade Promotion Agreement advances those goals, as well as economic growth and prosperity in both countries.

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