

# WebMemo



Published by The Heritage Foundation

No. 3280  
June 7, 2011

## Peru: Obama Should Insist President Humala Strengthen Free-Market Democracy

*James M. Roberts and Ray Walsler, Ph.D.*

Although the votes are still being counted from Peru's June 5 presidential runoff election, it appears that the leftist candidate and former military officer Ollanta Humala has defeated his rightist opponent, Congresswoman Keiko Fujimori, daughter of jailed ex-president Alberto Fujimori (1990–2000), by a narrow margin. Humala's election is stoking fear that Peru, one of Latin America's brightest stars, will experience a dangerous slide toward Hugo Chávez's "socialism of the 21st century," authoritarianism, and economic nationalism. With U.S. economic and national security interests at stake, President Barack Obama and Secretary of State Hillary Clinton should immediately urge Humala to continue the successful free-market reforms of the past 20 years that have allowed Peru to become one of the fastest-growing economies in Latin America. Cooperation in the fight against drug trafficking and terrorism must also be high on the bilateral agenda.

**A Peruvian Chávez or Lula?** Ollanta Humala's ascent to the presidency opens the door to serious concerns regarding his commitment to representative democracy and market economics. An ex-military officer, Humala hails from a family deeply connected with a range of extremist causes from communism to ethno-nationalism. An officer during Peru's costly war against the terrorism of the Shining Path, then-Colonel Humala led a barracks revolt in 2000 against embattled and soon-to-be removed President Fujimori. He was later pardoned.

In the 2006 presidential runoff won by the outgoing President Alan Garcia, Humala's friendship

and ties with Venezuelan authoritarian populist President Hugo Chávez were extremely visible. Chávez's overly warm embrace of Humala coupled with his calling then-candidate Garcia "an irresponsible demagogue and thief" led President Alejandro Toledo to recall Peru's ambassador in Caracas and lodge a vigorous protest. Chávez's rashness may have cost Humala the presidency.

Since then, Humala has reportedly undergone a change of heart and mind, becoming the object of a sustained "media makeover" under the tutelage of advisors from the more pragmatic and democratic socialist camp of former Brazilian President Luiz Inácio "Lula" da Silva and his Workers' Party. Humala's apparent move toward the center has included promises to address enduring challenges of poverty reduction, social inclusion, and fairer wealth distribution without killing off Peru's booming export-led growth.

Humala also campaigned as the anti-corruption candidate against a return to the massive corruption associated with ex-president Fujimori. Other constraints that will force him to act more like Lula than Chávez include the absence of a legislative majority, a powerful if divided voting bloc in

This paper, in its entirety, can be found at:  
<http://report.heritage.org/wm3280>

Produced by the Center for International Trade and Economics (CITE)

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

the political center, and an inability to tap a ready source of wealth such as Chávez possesses through his national oil company, PDVSA.

**Ties to Chávez Better Concealed.** There is no doubt that Humala and Hugo Chávez learned from past mistakes. The cheering in Caracas for Humala's victory will be more restrained. In the aftermath of the elections, Peruvians and others will look for evidence to determine if foreign support played a role in the elections. Former U.S. Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega claims that Chávez channeled as much as \$12 million to the Humala campaign. Chávez also reportedly utilized the network associated with his Bolivarian Alternative for the Americas (ALBA) to channel assistance via pro-Humala mayors.

Given Peruvian sensitivity about term limits, Chávez advisers are said to have told Humala not to attempt to stay in power beyond his five-year mandate, but to allow his wife, Nadine Heredia, to be the candidate for 2016 following the pattern set by Nestor and Cristina Fernandez de Kirchner. As Council on Foreign Relations scholar Joel Hirst reports, according to a Wikileaks document, Heredia was on Chávez's payroll at \$4,000 a month for working as a "social communicator" for a Venezuelan-owned publication in Peru.<sup>1</sup> The U.S. and others will closely scrutinize Humala's relations with Chávez, ALBA, and with anti-American partners like Iran to determine his foreign policy orientation.

**Will Humala Kill Peru's Rising Economy?** Peru is one of Latin America's rising stars, thanks in part to its strong economic growth in recent years that has substantially reduced the poverty rate. Its score in the *2011 Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*, has merited a relatively high ranking (fifth out of 29) among the countries in the region. Outgoing President Garcia streamlined procedures for business formation, made labor regulations more flexible, reined in government spending, and fashioned a more open trade regime.

The next president needs to keep Peru on the path toward sustained financial stability and growth through continued free-market reforms and to confront ongoing problems with rule of law. These include inadequate protection of private property rights, narco-trafficking/terrorism, and corruption at all levels of government.

Although he promised a centrist approach and spoke in the campaign of supporting free trade, Humala also pledged to raise the minimum wage. Much of Peru's boom is based on its white-hot mining industry, which has benefited from billions of dollars in foreign investment, yet Humala has indicated he will seek to tax "windfall" mining profits and raise the overall tax level above the current rate of 15 percent of GDP.

Now that he is on the verge of victory, international observers are wondering if Humala's Peru will resemble Brazil and Colombia, or Bolivia and Venezuela.

**Peru's Possibilities.** The United States and Peru have a strong and positive relationship that is helping to strengthen Peru's democratic institutions and speed its integration into the globalized economy. The United States enjoys trade surpluses with Peru and is Peru's largest foreign investor. A free and prosperous Peru in future years will enjoy further reductions in poverty and will create jobs through private sector-led trade and investment. A shared commitment by both countries to opening the Pacific Rim for trade and market opportunities will add jobs in the U.S. and reinforce deeply rooted U.S.–Peruvian ties of trade and friendship.

Peru must continue reforms to curb corruption, strengthen property rights, decentralize Peru's governing institutions and make them more effective, and combat narco-terrorism. Swift appointment of centrists to the Humala cabinet will demonstrate that the new president intends to be a "Lula" and not a Chávez or a Morales when he takes office on July 28.

If Humala turns left and returns Peru to populist statism while slowing reforms, Peru's economic

1. Joel D. Hirst, "Ollanta Humala of Peru—Hugo Chavez's Secret Candidate," *latino.foxnews.com*, June 2, 2011, at <http://latino.foxnews.com/latino/politics/2011/06/02/ollanta-humala-peru-hugo-chavez-secret-candidate/#ixzz1OWFzGcJZ> (June 6, 2011).

growth and development will be stunted—posing an economic and national security problem for the United States.

**Put Humala on the Record.** President Obama and Secretary of State Clinton, along with the leadership of Congress, should send strong signals of concern to Peru's new leadership by immediately taking the following actions—aimed at eliciting responses from Humala that will require him to make a series of binding commitments to free markets and democracy:

- Congress should hold hearings soon to determine the extent to which Hugo Chávez's reported interventions (in cash and in kind) may have aided Humala's election. Presumably this will force Humala to deny such involvement by Chávez and put further distance between the two.
- The Obama Administration should press Humala for immediate negotiations toward a U.S.–Peru Defense Cooperation Agreement to combat terrorism and narco-trafficking.

- The Obama Administration should push Humala to agree to host a special Summit-level meeting of the Organization of American States in Lima just before September 11, 2011, to commemorate the 10th anniversary of the signing that fateful day of the Inter-American Democratic Charter in Lima. President Obama should announce his intention to attend the meeting.
- The Obama Administration should obtain an early commitment from Humala to continue Peru's negotiating status as a future member of the Trans-Pacific Partnership Agreement (TPPA)—a proposed regional free trade agreement that will include the United States, Australia, Peru, Vietnam, and Malaysia and build upon existing free trade agreements between the U.S. and New Zealand, Chile, Singapore, and Brunei Darussalam.

—*James M. Roberts is Research Fellow for Economic Freedom and Growth in the Center for International Trade and Economics and Ray Walser, Ph.D., is Senior Analyst for Latin America at The Heritage Foundation.*