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Six Strategic Reasons to Support a U.S.-Peru Free Trade Agreement

Ana Isabel Eiras and Stephen Johnson

Populist nationalism emanating from Venezuela seeks to counter U.S. influence in Latin America, while Chinese deal-making is undermining the region's slow evolution towards market-based economies. At the same time, congressional opponents of the Bush Administration are eager to block trade agreements to hand the President an election-year defeat. But failure to advance U.S.-Latin American trade relations would be an incredible blunder that jeopardizes one of America's best interests: preserving peace and safety at home. Worse, it would drive allies into the hands of adversaries anxious to build a new order of authoritarian governments and aid networks based on the models of Venezuelan president Hugo Chávez and Cuban dictator Fidel Castro. In contrast, approving the U.S.-Peru Trade Promotion Agreement (TPA) would mean big business for American and Peruvian enterprises and could dispel perceptions of U.S. withdrawal from the region and counteract growing anti-American sentiment.

Waning Influence

Although Latin Americans generally see the United States favorably (61 percent), favorable perceptions of the U.S. have declined noticeably in 13 out of 18 countries surveyed since September 11, 2001. Poll respondents now give the United States low approval ratings on how it manages global conflicts (23 percent) and on Iraq (15 percent). Regarding U.S.-supported institutional reforms, only 31 percent of respondents believe that democ-

racy works and 27 percent are satisfied with market economies, according to Latinobarómetro, a regional polling organization.

Throughout the hemisphere, Venezuelan president Hugo Chávez is purchasing influence with petrodollars. He says the aim of his Bolivarian revolution is to roll back U.S. "hegemony." Toward that end, he has given tacit aid to the Colombian Revolutionary Armed Forces (FARC) guerrillas and is forging anti-U.S. alliances with North Korea and Iran. Chávez allegedly financed the Movement Toward Socialism party (MAS) now in power in Bolivia and sent Venezuelan oil and fertilizer to leftist Sandinista party mayors in Nicaragua in May 2006, helping to propel Sandinista candidate Daniel Ortega to the lead in the November presidential elections. His oil concessions to Caribbean governments secured 15 votes for Venezuela in its bid to occupy a rotating seat on the United Nations Security Council.

Sensing an opportunity to feed its revving economic engine, China has stepped up contact with Latin America to acquire raw materials in exchange for Chinese manufactured goods. To obtain access

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to minerals, petroleum, and timber, China offers tempting investments in infrastructure. But these agreements tend to undermine Latin American progress toward private-sector reforms and industrialization in countries where powerful oligarchies or governments still control plantation economies.

As Venezuelan and Chinese influence has grown, the U.S. presence in Latin America is running in place, governed by bureaucratic rules of engagement and yearly Congressional budget battles.

How a U.S.-Peru Free Trade Agreement Serves U.S. Interests

Largely because of commitments elsewhere, the United States provides less and less foreign aid to Latin America as in the past. Nonetheless, it is the private sector that drives economic growth and creates jobs in free societies. The U.S.-Peru Trade Promotion Agreement will help sustain growth in this key country and maintain U.S. engagement with the region. The pact would serve America's interests in six ways:

1. **It benefits the U.S. economy.** Once approved by Congress, the trade pact will immediately allow 80 percent of U.S. industrial and textile products and over 60 percent of American farm products to enter the Peruvian market duty-free. The remaining barriers will phase out in 15 years. The pact permanently lowers U.S. barriers to Peruvian goods, to the benefit of U.S. consumers.
2. **It counters anti-American sentiment.** The U.S.-Peru TPA was approved overwhelmingly by Peru's unicameral legislature, and U.S. approval would demonstrate faith in a long-time friend and commercial partner. The TPA fills a vacuum that would be left by the expiration of U.S.-Andean trade preferences at the end of 2006. As a consequence, it would also help block Hugo Chávez's populist advances made through loan offers and oil concessions to Peruvian politicians in exchange for personal loyalty.
3. **It rewards pro-market progress.** Thanks to fiscal restraint and sound planning, Peru has enjoyed 5 percent annual economic growth since the election of President Alejandro Toledo in 2001. Over that period, more than 500,000 Peruvians have risen above the poverty line. But more needs to be done to encourage small- and medium-sized businesses. The U.S.-Peru TPA would open doors to sustained growth and mandate deeper reforms that will encourage millions more Peruvians to participate in the formal economy.
4. **It fosters stability in a highly unstable region.** The U.S.-Peru TPA would help Peruvians consolidate current reforms and build on the rules and institutions that are conducive to doing business. These reforms will increase growth and provide average Peruvians with tangible improvements in their lives. This is extremely important because, despite Peru's progress, nearly half of all Peruvians are still poor and susceptible to populist rhetoric that seeks to replace trade, investment, and markets with repressive economic and political controls, such as are now being contemplated in neighboring Bolivia.
5. **It supports a key ally.** For more than a decade, Peru has been a partner in combating narcotics trafficking and countering regional terror groups. Under President Toledo, Peru has stood up to the anti-U.S. rhetoric of Venezuela's Hugo Chávez in such forums as the Summit of the Americas. In the United Nations, Peru has voted in favor of applying nuclear safeguards to Iran and condemned North Korea for its offensive missile tests. In addition, it sent peacekeepers to help stabilize Haiti's transition back to elected rule.
6. **It nurtures a growing trade bloc.** U.S. efforts to encourage regional trade began in the 1990s with President George H.W. Bush's Enterprise in the Americas Initiative and the North American Free Trade Agreement. They were to have concluded with the Free Trade Area of the Americas last year. Approving the U.S.-Peru TPA would give hope to other countries that they can forge similar ties with the United States. Freer markets will facilitate commerce and investment and provide a more public-spirited alternative to Chinese deals involving government officials and monopolies.

Conclusion

The U.S.-Peru Trade Promotion Agreement is not the only pact needed in Latin America. Beyond it, the Bush Administration should conclude bilateral trade negotiations with Colombia, Panama, and Ecuador. U.S. interests would also be boosted by the U.S.-Uruguay Bilateral Investment Treaty—already ratified by the Uruguayan assembly—and the administration should sit down with Uruguayan negotiators again if their leaders wish to discuss a follow-on free trade agreement.

With U.S. influence in Latin America waning relative to the growing power of Venezuela and China in the region, fostering deeper ties and liberalism through strong trade agreements is a necessity. The U.S.-Peru TPA is a big step in the right direction.

Ana Isabel Eiras is Senior Policy Analyst for International Economics in the Center for International Trade and Economics, and Stephen Johnson is Senior Policy Analyst for Latin America in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.