

Who will gain from the Peru-US trade deal?

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Lima, Peru -- After three years of negotiation, Peru's free trade agreement with the United States looks as if it has cleared its greatest hurdle.

It was approved last week by the US House of Representatives.

A final vote in the US Senate before the end of the year looks very likely to seal the deal for Peru.

This will be a boost to President George W Bush's trade agenda, and a relief for the Peruvian government which was forced to add amendments to the text to satisfy Democrat objections over labour and environmental standards.

But the Peruvian government's aggressive drive to see the ratification of the agreement has run up against resistance from the political opposition, trade unions and non-governmental organisations, who say the deal is one-sided and will hurt rural Peruvians.

'Opportunities'

So who will be the winners and losers in this free trade agreement?

"The objective is to have opportunities for many people in the country in the agricultural sector, in the textile industry and many other industries," says Peru's minister for foreign trade, Mercedes Araoz, who negotiated the deal.

"We want to have formal, dignified labour and generate more employment and opportunities in our country."

There is little doubt the textiles and agro-export industries will benefit. They already export large quantities to the US with the help of the current APTDEA deal (Andean Trade Promotion and Drug Enforcement Agreement) which lifts US tariffs in return for drug enforcement.

For US business, the deal will immediately eliminates duties on 80% of industrial and consumer product exports to Peru, and more than two-third of farm exports.

But it's precisely the imports of subsidised agricultural produce from the US, particularly wheat, maize and cotton, which could be disastrous for up to a million Peruvian farmers, many of whom live in poverty in the rural interior of the country.

"We will have an absolutely unjust competition between Peruvian agricultural products and North American agricultural products, because the US subsidises its agricultural products and we don't", says Javier Diez Canseco, head of the Peruvian Socialist Party and a former presidential candidate.

"So there is a very strong difference between the conditions of production and the subsidies that the US farmers receive and those that Peru has to deal with."

Clear divide

Peru's government says it has a fund of about £37m to compensate farmers during the first five years of the free trade agreement (FTA).

But there is still a clear divide between the benefits of the deal for Peru's growing urban middle class and the rural population. The trickle-down is geographically patchy.

"One of the biggest losers here could be the rural households. Rural areas are widely poor", says Carmen Ponce, a researcher at Lima-based think-tank, Grades.

"But these rural people are not just farmers, they diversify their income. They might be affected if the prices of their farm products fall, but they will also gain as the consumption of goods becomes cheaper for them and they can change to other activities eventually."

Ms Ponce says it's vital to help these rural households through the transitional stage.

The "infrastructure gap" caused by long-standing underinvestment has prompted many commentators to call for concerted internal reforms in Peru's institutions, infrastructure and distribution of wealth so that the poverty gap does not widen with the FTA.

Social conflicts

Peru's economy is booming. The value of annual exports has increased three times over the past five years and it's expected to reach a record £27bn this year.

While much of this is due to high metals prices, manufacturing, construction, agriculture and textiles are also expanding.

But that economic progress could be undone by widespread social conflicts. Many of Peru's regions have seen upheaval over the last year. The worst affected have been the highlands, which have largely not benefited from the growth.

The problem is not so much that the US and Peruvian economies are uneven but that the populations are.

Peru has two economies and they are going in different directions. Almost half the population still live on less than \$2 (97p) a day.

However, as a result of Democrat objections in the US Congress, the pact now boosts protection for workers by requiring that the two countries adopt and maintain core international labour standards - such as the right to go on strike.

Environmental provisions require the US and Peru to enforce their domestic environmental laws and conform to international environmental standards.

However, the US-based watchdog organisation Amazon Watch says the trade pact is not environmentally sustainable and will mean new rights for oil companies to drill in the Peruvian Amazon, around 65% of which has already been zoned into oil and gas concessions in the last three years.

The group says investor rights provisions included in the FTA will allow foreign companies to skirt Peruvian law and regulatory authorities, potentially benefiting US corporations such as Hunt Oil and Occidental Petroleum over Peruvian and US citizens.

The strengthening of US copyright and trademark protection in the FTA also means Peru's poor could be hit as the price of medicine rises by 30%, according to research.

Rural areas to lose?

It seems clear the free trade agreement could be a window of opportunity but it's also a double-edged sword.

The Grades think-tank has calculated the FTA will only benefit the mainly coastal urban population. The rural sector in the highland and Amazon interior will see economic losses to tune of \$100m.

"It's a very, very big opportunity but it could be a disastrous if we don't help our vulnerable people to face it in the most profitable way", says Ms Ponce.

"We do need a bigger market like the US market for our products and we also need more investment.

"If we don't enhance our vulnerable people's capabilities they will be the losers because there always going to be winners in these kind of deals."

