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Peru: Politics, Economy, and Elections in Brief

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Summary

This report provides an overview of Peru's political, economic, and security conditions and of U.S.-Peruvian relations.

As President Ollanta Humala is nearing the end of his five-year term, Peru is preparing to hold national elections for the presidency and the 130-seat unicameral legislature on April 10, 2016. In several recent elections, Peruvians have elected a presidential candidate who surged from far behind in the polls in the final weeks of the campaign—as was the case with President Humala in 2011. The disqualification of two popular candidates, Julio Guzmán and Cesar Acuña, in March 2016 changed the landscape of the race and raised questions regarding the electoral institutions' neutrality and competency.

For months, center-rightist Keiko Fujimori has maintained a strong lead in what began as a field of 18 candidates. Both the strong support for and opposition to Fujimori stem mostly from the legacy of her father, Alberto Fujimori, whose harsh security policy helped to squash the Sendero Luminoso terrorist group but also entailed gross violations of human rights. The elder Fujimori is serving a 25-year prison sentence in Peru for crimes against humanity and corruption. The removal of Guzmán and Acuña opened the space for center-right economist Pedro Pablo Kuczynski and leftist Verónica Mendoza to move up in polls to a technical tie for second place just a week before the vote.

Keiko Fujimori is not expected to have enough votes to garner the 50% plus one needed to win outright, so the elections likely will proceed to a runoff between the top two contenders in June. The new president and congress are expected to assume office in July 2016.

Since 2001, Peru's economy has been one of the strongest in Latin America. President Humala's economic strategy has been to maintain free-market policies while working to narrow the wide economic distribution gap and eliminate the social exclusion of Peru's poor, mostly indigenous population. Deep social divides over how to pursue this aim have continued to undercut political stability in Peru. Social unrest and debate over exploitation of natural resources has long been and will likely remain a major challenge for any Peruvian government. The more serious disputes have involved the mining industry and the rights of indigenous peoples in those areas where mining exists or where mining interests intend to operate. Humala has found it politically difficult to balance his stated desire to help the poor and indigenous with his effort to encourage investment by the business sector, especially the extractive industry. In addition, some observers project that the current El Niño weather pattern hitting Peru could hurt Peru's economic growth.

Peru and the United States have a strong and cooperative relationship. Several issues in U.S.-Peruvian relations are likely to be considered in decisions by Congress and the Administration on future aid to and cooperation with Peru. The United States supports the strengthening of Peru's democratic institutions, counternarcotics efforts, security and respect for human rights, and environmental protection. A dominant theme in bilateral relations is the effort to stem the flow of illegal drugs, mostly cocaine, between the two countries. In the economic realm, the United States supports bilateral trade relations and Peru's further integration into the world economy. A bilateral free trade agreement (FTA) between the United States and Peru entered into force on February 1, 2009. In addition, both countries are parties to the Trans-Pacific Partnership (TPP) agreement, a proposed FTA with ten other countries.

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Political Background

President Ollanta Humala, of the left-wing Peruvian Nationalist Party (PNP) and the Gana Peru coalition, is in the last year of his five-year term. Peru's next general elections are scheduled for April 10, 2016. If none of the candidates wins an absolute majority, a runoff will be held in June, with a new president to take office in July. Presidents are constitutionally barred from running for consecutive terms, so Humala cannot run for reelection. The elections have become contentious, as the Special Electoral Board ruled two candidates ineligible in March 2016, just weeks before the elections were to take place.

The Humala Administration

Humala, president since 2011, has said that his administration's accomplishments include "the reduction of poverty, improved teaching standards, a new pension system, [and] more higher education scholarships."¹ Nonetheless, his administration has also been characterized by frequent Cabinet changes and corruption scandals. The president has appointed seven prime ministers in less than five years. The sixth prime minister was censured by congress after the national intelligence agency allegedly spied on members of the political opposition. Humala, a former military officer, is said to have staffed the intelligence agency with army associates.² Brazilian federal police investigating corruption at Brazil's state-run oil company, Petrobras, are reportedly investigating President Humala in relation to \$3 million in bribes in exchange for Petrobras contracts in Peru.³ In February 2016, Peru's attorney general's office announced that it had begun its own investigations into the allegations.⁴

The Peruvian general public has expressed widespread disillusionment with the country's political class. In the regional and municipal elections held in October 2014, more than 100 candidates were shown to have links to drug-trafficking cases—and several of those candidates still won.⁵ Five of those who were elected have been investigated for corruption and/or money laundering.⁶ Several recent corruption scandals involve close associates of the president. In one high-profile case, government investigators are looking into First Lady Nadine Heredia's ties to Martin Belaunde, a former Humala adviser awaiting trial on political espionage and money-

Peru at a Glance

Population: 30.97 million (2014, est.)

Capital: Lima

Area: 1,285,216 square kilometers (slightly smaller than Alaska)

GDP: \$202.9 billion (2014, est.)

Per Capita Income: \$6,360 (2014 est.)

Ethnic Groups: Amerindian 45%; mestizo (mixed Amerindian and white) 37%; white 15%; black, Japanese, Chinese, and other 3%

Religions: Roman Catholic 81.3%, Evangelical 12.5%, other 3.3%, none 2.9% (2007 est.)

Leadership: President Ollanta Humala; Prime Minister Pedro Cateriano; Congress President Luis Iberico

Sources: World Bank; U.S. Department of State; Central Intelligence Agency; United States Trade Organization.

¹ Rohan Chatterjee, "Humala Enters Final Year with Record Low Approval," *Latin Correspondent*, August 11, 2015.

² "Peru's Government: A Jarring Defeat; The loneliness of Ollanta Humala," *Economist*, April 4, 2015.

³ "Peruvian President Investigated in Brazil Petrobras Probe," *St. Louis Post-Dispatch*, February 27, 2016.

⁴ "Peruvian President Being Investigated for Taking Illegal Bribes," Telesur, February 26, 2016, at <http://www.telesurtv.net/english/news/Peruvian-President-Being-Investigated-For-Taking-Illegal-Bribes-20160226-0007.html>.

⁵ Economist Intelligence Unit, *Country Report: Peru*, February 2015, pp. 5, 24-26.

⁶ U.S. Department of State, *International Narcotics Control Strategy Report*, vol. 1, March 2015, p. 271.

laundering charges. These scandals, combined with a slowing economy, have led to extremely low approval ratings for Humala.

Heredia is also the leader of the PNP. She and Humala backed off from earlier consideration of changing the electoral law to allow the first lady to run for president in the 2016 election.

National Elections

Elections for the presidency and the 130-seat unicameral congress are scheduled to take place on April 10, 2016. The dynamics of what seemed like an ordinary national election became more controversial when two leading candidates were disqualified just one month before voting is to take place. On March 4, 2016, Peru's Special Elections Board (JEE, by its Spanish acronym) ruled that presidential candidate Julio Guzmán could not run for president in 2016 because of technical irregularities of his Todos por el Perú (All for Peru) party's internal selection process. Guzmán, a centrist economist who has worked for the Inter-American Development Bank, was polling in second place when he was disqualified.

The JEE also disqualified Cesar Acuña of the Alianza Por El Progreso (Alliance for Progress) party, who was polling in third and fourth place. The JEE disqualified Acuña as a candidate for giving cash to voters while campaigning, a violation of a relatively new electoral law. His campaign was already faltering, though, after a string of scandals and allegations of perjury, plagiarism, and vote-buying.⁷

The expulsion from the race of Guzmán and Acuña, whom the public viewed as outsiders, stoked anger against the political establishment and front-runner Keiko Fujimori (whom Humala defeated in 2011). Fujimori, of the conservative, populist Fuerza Popular (Popular Force) party, is a former member of congress (2006-2011) and daughter of discredited former president Alberto Fujimori, who is currently serving a 25-year jail sentence for crimes against humanity and corruption. As the younger Fujimori remains strongly linked to her father and his legacy, thousands of Peruvians protested in the streets against her, shouting, "Never again." Candidate Fujimori also is being investigated by state prosecutors for links with drug traffickers.⁸ Transparency International Chairman José Ugaz, who prosecuted Alberto Fujimori, reportedly described Keiko's candidacy as "the product of the resurgence of Peru's drug cartels."⁹

Former prime minister and economy minister Pedro Pablo Kuczynski has moved from fourth place to a second-place tie in polls. Kuczynski held various ministerial positions from 1980 to 1982 and 2001 to 2006. He is running for the centrist Peruanos por el Cambio (Peruvians for Change) party. A former World Bank economist, Kuczynski espouses fairly orthodox economic views, so he appeals to the business sector. He is also considered a moderate and therefore likely would appeal to some on the left as well, especially if he were competing against Fujimori.

The special electoral court investigated complaints against both Fujimori and Kuczynski for allegedly handing out gifts to supporters. Public suspicion that the disqualifications of Guzmán and Acuña were politically motivated was reinforced in mid-March when a court cleared Keiko Fujimori of campaign corruption allegations for actions very similar to those that disqualified Acuña. Later, the court also cleared Kuczynski. Much of the public and many analysts felt that

⁷ Colin Post, "Peru: Political Strategist Quits Cesar Acuña's Campaign," *Peru Reports*, February 29, 2016.

⁸ Rael Mora, "Keiko Fujimori Allegedly Financed by Drug Money," *Telesur*, March 24, 2016.

⁹ Peter Lind, "Drug Barons Sniff Victory in Peru Poll," *Sunday Times*, March 27, 2016.

the rulings indicated, at a minimum, inconsistent application of the electoral law, and possibly either incompetence or corruption in the electoral institutions.

Also benefiting from the shift of Guzmán supporters toward their camps are two leftist candidates who had been polling far behind: Verónica Mendoza of the Frente Amplio (Broad Front) and Andrés Barnechea of the Acción Popular (Popular Action) party. Mendoza, a psychologist and member of congress, advocates progressive labor policies, such as an increase in the minimum wage, overtime pay, and compensation for housewives. She also calls for increased respect for indigenous rights, guaranteed legal access to traditional territories for indigenous communities, and reviews of highly controversial mining projects. In late March, Mendoza pulled ahead of Barnechea for the first time in the polls, to a virtual tie for second place.

Barnechea, a former journalist, has been director of foreign relations at the Inter-American Development Bank, secretary general of the Andean Community, and a consultant to the private sector. He reportedly prefers to be called a “progressive centrist” rather than a liberal or leftist.¹⁰ He proposes diversifying Peru’s economy away from mining by investing heavily in infrastructure to help Peru become a regional leader in electricity production. Barnechea has also called for universal health care, free university education, and property titles for people in informal housing.

Other candidates include former presidents Alan García (1985-1990 and 2006-2011) and Alejandro Toledo (2001-2006). Both former presidents have been under investigation for corruption, and both say the investigations are politically driven to hamper their candidacies. García is being investigated for illicit enrichment and a payment-for-pardons case, in which hundreds of convicted drug traffickers were released early from prison during his presidency. Toledo has been indicted for money laundering in a real estate deal.

Meanwhile, Humala’s Peruvian Nationalist Party withdrew its presidential candidate, Daniel Urresti, who was garnering only about 2% of voters in preelection polls. Each party must obtain at least 5% of the vote to remain a registered political party. Parties are allowed to skip one election, however, and remain registered. Humala’s party has been losing members as the president has promoted more orthodox policies over populist ones, however. It may be difficult for Humala to rebuild the party, as he says he plans to do.

In polls released on April 3, 2016—the last to be conducted before the vote—Fujimori maintained a strong lead, with 34% support.¹¹ Kuczynski polled at almost 17% of voting intentions, and Mendoza’s support had increased to 15.5% among those polled. These polls and various analysts predict that Fujimori will win the April election but will lack an absolute majority, so that a run-off between the top two candidates will be held in June. The polls indicate that if Fujimori were to face Kuczynski in the second round, Kuczynski would win. If she were to face Mendoza, however, the polls indicate that Fujimori would win.

However, Peruvian elections have a tendency to be unpredictable; in the last couple of decades, several candidates have come from far behind in the contest’s final weeks to win in the run-off elections. In addition, about 20% of voters are still undecided. As rapidly as the electoral picture has been changing in recent weeks, surprises could be ahead.

¹⁰ Colin Post, “Peru: Who Is Liberal Candidate Alfredo Barnechea?,” *Peru Reports*, March 12, 2016.

¹¹ “Peru: Mendoza Looks the Most Dynamic Candidate,” *Latinnews Daily*, April 4, 2016.

Economic Background

Peru's economy has been one of the strongest in Latin America since 2001. Economic growth averaged 6.8% from 2003 to 2008, during the height of the country's commodity boom, led by mining and oil. Growth then fluctuated, slowing to 2.4% in 2014. The Economist Intelligence Unit reports a minor rebound to 2.7% economic growth in 2015 and predicts 3.6% growth in 2016 and an average of 4.7% economic growth from 2017 to 2018.¹²

Figure I. Peru



Source: Map created by CRS. Boundaries and information generated by Hannah Fischer using data from Department of State (2015), Esri (2014), DeLorme (2014), ArcWorld (2014), NatureServe.org (2013), and InfoRegion.pe (2012).

¹² Economist Intelligence Unit, *Country Report: Peru*, generated February 24, 2016, p. 9.

Peru's economic growth in 2016 could be negatively affected by the current El Niño weather pattern hitting the country, however. Heavy rains have caused floods and landslides that have killed some people, destroyed or damaged thousands of homes, destroyed key bridges, closed roads throughout the country, and ruined more than 8,000 acres of crops in the state of San Martín. The weather phenomenon is winding down but could continue until early summer. Economic damage has also been caused by oil spills in the first months of 2016, at least one of which may have been caused by a landslide. Peru declared a 60-day state of emergency after a spill from the state-owned Petroperú pipeline damaged local crops and basic water services in the Loreto region in February.¹³

Humala's economic strategy has been to maintain free-market policies while working to narrow the wide economic distribution gap and eliminate the social exclusion of Peru's poor, mostly indigenous population. Deep social divides over how to pursue this aim have continued to undercut political stability in Peru, however, and have thwarted some of Humala's plans.

The more radical elements of Humala's original support base and his Gana Peru coalition have become disillusioned with Humala, accusing him of abandoning the pursuit of more leftist economic policies, such as nationalization of strategic industries, which he called for during his campaign. Political forces that have resisted the more radical approaches include a strong business sector; a conservative, wealthy elite; and a centrist middle class.

Conflicts over Natural Resources

Social unrest and debate over exploitation of natural resources have long been and likely will remain major challenges for any Peruvian government. The more serious disputes have involved the mining industry and the rights of indigenous peoples in those areas where mining exists or where mining interests intend to operate. Violent protests have erupted often, sometimes resulting in loss of life. The first law Humala signed as president was a prior-consultation law requiring mining, energy, and logging companies to consult with indigenous and rural communities about projects planned in their communities. The prior-consultation law does not grant local communities veto power over investments in their area, however, and the Humala administration has allowed various mining projects to proceed without prior consultation and without a clear process or definition of eligible communities in place on which to base decisions. Humala has found it politically difficult to balance his stated desire to help the poor and indigenous with his effort to encourage investment by the business sector.

In 2016, there have also been protests over pollution caused by two (possibly three) new oil spills in Peru's Amazon region. The spills are polluting two important rivers, the Chiriaco and Marañón, affecting eight indigenous communities, and between 5,000 and 8,000 people. The Marañón is a principal tributary of the Amazon River in Peru and forms the northern border of the Pacaya Samiria National Reserve. The government has reportedly declared a "water quality emergency" in the area and promised to conduct a cleanup, although environmental groups and others criticize the government's response as being too slow.¹⁴ Indigenous and human rights groups demand that the government also repair damaged pipelines and compensate affected indigenous communities for the loss of crops and fish and the damages to their health.¹⁵

¹³ "Peru Declares State of Emergency after Amazonas Oil Spill," *Business News Americas*, February 29, 2016.

¹⁴ Andy Rowell, "Outrage Over Peru Oil Spills: 'It's a Crime that Has no Forgiveness,'" *Oil Change International*, February 26, 2016.

¹⁵ Andrew Miller, "Collateral Damage—Oil Stains Peru's Amazon, Again," *Amazon Watch*, February 19, 2016.

Falling Poverty Rates

Poverty levels in Peru have been falling for more than a decade. Nationally, poverty rates were cut by about half between 2005 and 2014, from 45% to 23% of the population.¹⁶ The proportion of the Peruvian population living below the official extreme poverty line also fell significantly during that period, from 15.8% to 4.3%. Extreme poverty remains concentrated in particular rural areas. Income inequality has also decreased, including in rural areas, although it still remains high overall. Since Humala assumed office, an emphasis on targeted social spending and poverty reduction combined with continued economic growth has led to poverty falling at a faster rate in the more poverty-stricken rural areas than in the cities. From 2011 to 2014, poverty fell in rural areas by 10.1 % and in urban areas by 2.7%.

Security¹⁷

Peru has less crime than most Latin American countries. Peru's murder rate is the fourth lowest in South America (after Argentina, Chile, and Uruguay), at 9.6 murders per 100,000 people. Robberies occur at a higher rate; one-fourth of Peruvians reported being victims in 2013, leading to a high perception of insecurity. Roadblocks and violent demonstrations are common in mining areas.

According to the State Department's 2015 Human Rights report, the Peruvian "government or its agents committed arbitrary or unlawful killings." The Peruvian National Police are responsible for internal security, except in the central-southern Valley of the Apurimac, Ene, and Mantaro Rivers (VRAEM), where the military is responsible for internal security. Approximately half of Peru's potential pure cocaine is produced in the remote VRAEM, where remnants of the Shining Path (Sendero Luminoso) insurgency operate and rely on cocaine trafficking for funding. The Shining Path's strength has been greatly reduced from the late 1980s and early 1990s, when it posed a significant threat to national security. According to *Jane's Sentinel Security Assessment*, the Shining Path currently does not pose a major security threat outside the VRAEM. In 2014, despite insurgency attacks against them, military forces regained control of several areas of the valley that had been controlled by the Shining Path. Nonetheless, firms operating in the VRAEM continue to face threats of extortion, sabotage, and kidnapping by the group.

Zika Virus¹⁸

Peru reported its first case of the Zika virus in late January 2016. The virus was brought into the country by a man from Venezuela, who contracted the infection in Colombia and is being treated in a Lima hospital. So far, Peru has not had any local transmission of the virus, meaning no cases have been spread within the local population. Health Minister Anibal Velasquez says that Peru

¹⁶ Statistics in this paragraph from Instituto Nacional de Estadística e Informática, *Evolución de la Pobreza Monetaria en el Peru al 2014*, April 2015, pp. 7, 10, at http://www.inei.gob.pe/media/cifras_de_pobreza/evolucion_pobreza_2014.pdf; and World Bank, "Peru Overview," accessed March 1, 2016, at <http://www.worldbank.org/en/country/peru/overview>.

¹⁷ IHS, "Peru: Security," *Jane's Sentinel Security Assessment*, November 23, 2015; and U.S. Dept. of State, "Peru," *Country Reports on Human Rights Practices for 2014*, 2015.

¹⁸ John Quigley, "Peru Braces for Spreading Zika Virus as First Case Confirmed," *BloombergBusiness*, January 29, 2016.

will control infection rates using the same measures used to contain the spread of mosquito-borne pathogens responsible for chikungunya and dengue diseases in recent years.

U.S. Relations with Peru

Peru and the United States have a strong and cooperative relationship. The United States supports the strengthening of Peru's democratic institutions and its respect for human rights. The two countries also cooperate on environmental protection and counternarcotics efforts. In the economic realm, the United States supports bilateral trade relations and Peru's further integration into the world economy. President Humala met with President Obama in Washington, DC, in June 2013, during President Humala's official visit to the White House. According to the Obama Administration, the two leaders discussed U.S. efforts to support the Humala Administration's agenda of social inclusion, broad-based economic growth, and citizen security. They discussed joint efforts to further Trans-Pacific Partnership Agreement negotiations (negotiations were concluded on October 5, 2015; see section below on "Trade Issues") and to cooperate on education, energy and climate change, science and technology, and bilateral trade. Humala was reportedly in Washington to launch partnerships with several U.S. universities.

U.S. Assistance to Peru

The goals of U.S. assistance to Peru are to strengthen the capacity of Peru's institutions to combat transnational organized crime more effectively, improve citizen security and social inclusion of marginalized populations, manage Peru's diverse and fragile environment in a sustainable manner, and broaden the benefits of Peru's economic progress to more of its citizens.¹⁹ Although Congress has supported these goals through appropriated funding, foreign assistance for Peru has been declining since at least FY2010, when the United States provided almost \$120 million in assistance to Peru. Funding decreased to \$97 million in FY2011 and continued to decline over the next four years, to \$84 million in FY2015.

The Obama Administration requested \$96 million for Peru for FY2016 and \$81 million for FY2017. The FY2017 request includes \$9 million for Development Assistance; \$36.9 million in Economic Support Funds; \$1 million in Foreign Military Financing; \$600,000 for International Military Education and Training; and \$33.5 million for International Narcotics Control and Law Enforcement.

Counternarcotics Efforts

A dominant theme in relations between the United States and Peru is the effort to stem the flow of illegal drugs, mostly cocaine, from Peru. Most Peruvian cocaine is sent to other South American countries for consumption or for further transportation to Europe, the United States, East Asia, Mexico, and Africa, according to the State Department's *2016 International Narcotics Control Strategy Report* (INCSR). Peru is one of the three Andean countries that produce virtually all of the world's coca and was the world's top producer of cocaine in 2015, according to the State Department's report. According to United Nations Office on Drugs and Crime figures, Peru and

¹⁹ U.S. Department of State, *Peru: Foreign Assistance Program Overview*, Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2017.

Colombia are tied as the world's largest producers of coca leaf and cocaine.²⁰ Peru is also a major importer of precursor chemicals used for producing cocaine.

The cultivation of coca and production of cocaine have contributed to social problems in Peru, such as domestic consumption of illicit drugs, environmental damage, and corruption of democratic institutions. Coca eradication is highly controversial in Peru. U.S. counternarcotics programs in Peru focus on three areas: eradication, interdiction, and alternative development.

According to the State Department's INCSR, the Peruvian government has "dedicated substantial resources" to implementing its five-year (2012-2016) counternarcotics strategy. The plan calls for a 200% increase in coca eradication by the end of the five years. In 2013, Peru contributed—for the first time—almost \$12 million to the cost of eradication and aerial support to efforts to support interdiction. Peru funded a "substantial share of alternative development and eradication operations" in 2015.

In August 2015, Peru's congress approved a law to allow Peru's air force to resume a program that called for shooting down airplanes suspected of drug trafficking.²¹ A joint U.S.-Peruvian aerial interdiction program was ended 15 years ago after a civilian plane was accidentally shot down, killing two U.S. citizens, a missionary woman and her baby, in April 2001. The United States suspended the aerial interdiction program the same month. When Peru's congress was considering the bill, William Brownfield, U.S. Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, told Peru that the United States opposed a resumption of the shoot-down program.²² The State Department said, "Both U.S and international law prohibit using lethal force against civil aircraft, regardless of whether the aircraft is being used for drug trafficking."²³ Peru began to implement the law to resume the shoot-down program on January 12, 2016.

Human Trafficking

Peru is a source, destination, and transit country for men, women, and children subjected to forced labor and sex trafficking, according to the State Department's *2015 Trafficking in Persons Report*. The Obama Administration designated Peru a Tier 2 country, one whose government does not fully comply with the minimum standards of the U.S. Trafficking Victims Protection Act (P.L. 106-386) but is making significant efforts to bring itself into compliance with those standards. The report states that Peruvian "efforts to identify and assist forced labor victims and to prosecute and convict labor traffickers remained inadequate."

Trade Issues²⁴

The United States and Peru have a bilateral free trade agreement (FTA) that entered into force on February 1, 2009. In addition, both countries are party to the Trans-Pacific Partnership agreement (TPP), a proposed FTA with ten other countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Singapore, and Vietnam. If the agreement is approved by

²⁰ IHS, "Peru: Security," *Jane's Sentinel Security Assessment*, November 23, 2015, p. 7.

²¹ IHS Jane's 360, "Peru reinstates shoot-down law for suspected drugs smuggling aircraft," August 24, 2015.

²² "Peru Eyes Backing Bill to Resume Shooting Down Drug Planes," *Reuters*, March 10, 2015.

²³ U.S. Dept. of State, "Country Report: Peru," 2016 International Narcotics Control Strategy Report (INCSR), March 2016.

²⁴ Section on trade issues written by Angeles Villarreal, Specialist in International Trade and Finance.

Congress and the other parties and enters into force, it will reduce and eliminate tariff and nontariff barriers on goods, services, and agriculture, and it will establish trade rules and disciplines covering a wide range of issues, including intellectual property rights protection, investor-state disputes, state-owned enterprises, and workers' rights. Negotiations on the agreement were concluded on October 5, 2015.²⁵

The proposed TPP, which Peru's congress is expected to ratify, would expand Peru's access to five new markets in which it has no existing FTA (Australia, Brunei, Malaysia, New Zealand, and Vietnam). The agreement could benefit Peru's agricultural sector, agribusiness, fishing, manufacturing, cotton and alpaca clothing production, and manufacturing.²⁶ Because the United States and Peru already have an FTA, the TPP likely would have little impact on U.S.-Peruvian trade. However, the TPP could change some of the rules governing U.S.-Peruvian trade and investment, because the FTA entered into force in areas such as regulatory coherence and intellectual property rights protection.²⁷

Proponents of the TPP contend that the proposed FTA has the potential to boost regulatory reforms in Peru and other member countries and to provide Peru with direct access to new markets in Asia. They maintain that the agreement would result in an increase of Peruvian exports; help to diversify Peru's economy; and help to reform Peru's regulatory system to support innovation and job creation, especially in small- and medium-sized companies.²⁸ Opponents of Peru's inclusion in the TPP contend that the agreement would have a negative impact on Peru. Social organizations, environmental groups, and other associations argue that Peru has violated its environmental and labor commitments under the U.S.-Peruvian FTA and that these issues should be addressed before approving the new agreement. They contend that there have been major violations in logging concessions, increased exploitation of indigenous Amazonian lands, and a rollback of workers' rights protections since the agreement entered into force.²⁹

The United States and Peru have had four meetings of the U.S.-Peruvian Free Trade Commission, most recently in June 2014 in Peru. The commission is responsible for overseeing implementation and further elaboration of the FTA, and it reported that bilateral relations continue to strengthen and that the agreement's implementation is proceeding well. The U.S.-Peruvian FTA Labor Affairs Council met in October 2014 in Peru to discuss cooperation on matters such as child labor and forced labor (see "Human Trafficking," above).

The U.S.-Peruvian FTA Labor Affairs Council also discussed cooperation on capacity building for labor inspections in Peru.³⁰ U.S. assistance programs aim to complement U.S.-Peruvian trade and economic relations by helping to promote socially inclusive, market-based economic growth.

In 2015, Peru ranked 41st among suppliers of U.S. imports and 30th among U.S. export markets. Total trade with Peru (imports plus exports) decreased by 13.7% in 2015, mostly due to a decline

²⁵ See CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP): An Overview*, by Brock R. Williams and Ian F. Fergusson; and CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson.

²⁶ Antoni Estevadeordal, *What Does the TPP Mean for Latin America and the Caribbean?*, American Business Dialogue, October 30, 2015.

²⁷ The text of the Trans-Pacific Partnership Agreement is available at <https://medium.com/the-trans-pacific-partnership>.

²⁸ Ambassador Demetrios J. Martins, Deputy U.S. Trade Representative, "The TPP Will Give Peru Direct Access to Markets such as Australia and New Zealand," *American Chamber of Commerce in Peru*, March 2013.

²⁹ José de Echave, "Peru's Story Haunts the TPP," *The Hill*, June 9, 2015.

³⁰ Office of the United States Trade Representative, *Peru Trade Promotion Agreement*, at <https://ustr.gov/trade-agreements/free-trade-agreements/peru-tpa>.

in oil prices. U.S. imports from Peru totaled \$5.1 billion in 2015, a 16.5% decrease from 2014. Major import items included gold, non-crude petroleum oil products, vegetables, grapes, and silver. U.S. exports to Peru totaled \$8.8 billion in 2015, a 12.9% decrease from the previous year. Major U.S. exports to Peru in 2015 included non-crude petroleum oil products, telephone sets (including cell phones), corn, automatic data processing machines, and turbojets and other gas turbines. Bilateral trade in goods between the United States and Peru has grown by more than 50% since the FTA entered into force, with U.S. exports increasing more rapidly than U.S. imports.³¹ U.S. exports to Peru increased by 78.9% between 2009 and 2015, while imports increased by 20.9%. In both imports and exports, the United States ranks second, after China, among Peru's trading partners.³² In recent years, the United States has become one of Peru's largest investors.

Environmental Protection

Peru and the United States signed a debt-for-nature swap for 2008 to 2015 that was to reduce Peru's U.S. debt by more than \$25 million. In exchange, Peru agreed to use those funds to support grants to protect its tropical forests. U.S. aid currently supports local and national capacity in creating sustainable environmental policies, practices, and livelihoods.

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³¹ U.S. trade data in this paragraph was retrieved by CRS from the U.S. International Trade Commission trade dataweb.

³² Trade data for Peru is from Global Trade Atlas and is based on trade data from the Peruvian government.