

# CRS Report for Congress

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## Peru: 2006 Elections and Issues for Congress

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### Summary

Peru held the first round of national presidential and parliamentary elections on April 9, 2006. No presidential candidate won over 50%, so a run-off election is necessary. The results among the top three candidates were so close, however, that election officials may not know until the end of April which two candidates will be in the run-off in late May or early June. It appears that populist Ollanta Humala will be one of the two candidates. The other will be either Lourdes Flores Nano, a conservative, or left-of-center former president Alan Garcia. Congressional concern regarding the elections will likely focus on the impact the winning candidate would have on U.S. relations with Peru. Humala campaigned on an anti-globalization platform; both Flores and Garcia generally favor free market policies. Other issues in U.S.-Peruvian relations include trade, drugs, democracy, and human rights. The two countries signed a free trade agreement that still must be approved by their respective legislatures. This report will be updated as warranted. See also CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, by M. Angeles Villarreal, and CRS Report RL30918, *Peru: Recovery from Crisis*, by Maureen Taft-Morales.

### Initial Electoral Results

**Presidential Race.** Peru held the first round of national elections on April 9, 2006. Initial results make it clear that a run-off presidential election will be necessary, as no candidate received the 50%-plus-one vote required to win in the first round. The results among the top three candidates were so close, however, that the official election agency says it may not know which two candidates will be in the run-off until the end of April. Final results will not be released until all appeals are resolved. Once the official results are released, a run-off must be held within 30 days, which would be in late May or early June (rather than the originally scheduled date of May 7). It appears that nationalist, leftist Ollanta Humala will be one of the two candidates. The other will be either the left-of-center former president Alan Garcia (1985-1990) or right-of-center Lourdes Flores Nano, who are only 0.79% apart in votes. With 90.4% of the vote counted, the official tally is 30.8% for Humala, of the Union for Peru (UPP) coalition,

24.35% for Garcia, of the Peruvian Apraist Party (PAP/APRA), and 23.56% for Flores, of the National Unity alliance.<sup>1</sup>

The new president is scheduled to be inaugurated on July 28 to a five-year term. Polls indicate that in a runoff between the two left-of-center candidates, the more radical Humala would defeat Garcia; but that in a runoff between Humala and Flores, other major parties would back Flores, and she would defeat Humala. The outcome is far from certain either way, however.

**Legislative Race.** The national electoral office will not release the results of the legislative elections until all of the votes are counted; there is no run-off for legislative seats. Apoyo, a polling firm that predicted the presidential race fairly accurately, predicted that Humala's alliance would win 43 of the 120 seats in the unicameral legislature; Garcia's 35, and Flores's 19 seats. The Alliance for the Future, the party of ex-President Alberto Fujimori (1990-2000) who is now in jail in Chile, is predicted to have won about 15 seats, which would make it the fourth largest bloc. Fujimori's daughter, Keiko Fujimori, who says she ran for Congress at her father's suggestion, won a seat, and appears to have gained more votes than any of the other 2,600 legislative candidates. Her stated goal is to see her father exonerated of the criminal and human rights charges against him.<sup>2</sup> The Center Front, led by Valentin Paniagua, appears to have won five seats.<sup>3</sup> No matter who wins the presidential election, his/her party will not have a majority in the legislature. Coalitions will likely have to be formed to pass legislation.

## The Outgoing Toledo Administration's Legacy

Peru under current President Alejandro Toledo has been characterized by two seemingly contradictory trends: high economic growth and extremely low popularity of the President. Toledo has presided over one of the highest economic growth rates in Latin America throughout his term, with 5.9% growth in 2005, and 5% growth expected for 2006,<sup>4</sup> in contrast to four years of stagnation under his predecessors. Despite his low level of support, Toledo has pushed through tax reforms that have increased tax collection, pension reforms to reduce that system's deficit, and fiscal reforms that have reduced expenditures and the budget deficit. Economic growth has been driven by the mining sector.

In spite of high growth rates, a substantial percentage of the population lives in poverty and is underemployed. Responding to nearly constant, widespread protests by teachers, farmers, and others for higher wages, Toledo declared several states of emergency. His administration started a welfare program in May 2005 that provides

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<sup>1</sup> "Flores Gains on Garcia for 2<sup>nd</sup> Place in Peru Election," Bloomberg, April 17, 2006.

<sup>2</sup> Juan Forero, "Fujimori's Daughter Polishes her Jailed Father's Image on the Road to Congress in Peru," *New York Times*, April 9, 2006; "Pro-Fujimori coalition advances in Peru Congressional Election," *Kyodo News*, April 10, 2006.

<sup>3</sup> Robert Kozak, "Peru's Election Results Unclear; Markets Up, but Wary," *Dow Jones Commodities Service*, April 10, 2006, and "Peru Politics: Garcia's Comeback?," *Economist Intelligence Unit*, April 13, 2006.

<sup>4</sup> "Country Report: Peru," *Economist Intelligence Unit*, Jan. 2006, pp. 5, 10.

monthly subsidies to about 25% of the 6 million Peruvians living in extreme poverty. Pedro Pablo Kuczynski — then Economy Minister, now Prime Minister — said in March 2005 that the benefits of economic growth were filtering down to poorer sectors of society. In the first three quarters of 2005, employment grew 3.5% in Lima and 6.4% in the rest of the country.<sup>5</sup>

President Toledo has been widely criticized as having weak leadership skills, his image has been damaged by personal issues, and his administration tarnished by corruption charges. His public support has remained low for most of his term, hovering at around 10% since 2004. Many Peruvians wondered whether he would be able to survive politically until the end of his term. Toledo denies allegations of corruption. Although the scandals are limited in comparison to the widespread corruption of the earlier Fujimori administration, they have proved damaging to Toledo, who came to office as a reformer. Toledo cannot run again because of term limits. In five years, however, he could run for a second, non-consecutive term.

Some analysts believe that Toledo's perceived weakness may have contributed to Peruvians' disillusionment with traditional political parties and the rise of a populist candidate. Both Toledo and his predecessor, Alberto Fujimori, won their respective elections campaigning as "outsiders" to the traditional political system. Ollanta Humala, who formally entered politics a year ago, is making the same claim.

Whoever succeeds Toledo will also be under enormous social pressure to reduce the level of poverty in Peru and widen the distribution of economic growth. About 54% of the population lives in poverty, living on less than \$58 per month, and 24% in extreme poverty, living on less than \$32 per month.<sup>6</sup> Poverty is concentrated in rural and jungle areas, and among the indigenous population. The wealthiest 20% of the population receive 53% of the country's income, while the poorest 20% receive only 3%.<sup>7</sup>

## The Presidential Candidates

**Ollanta Humala.**<sup>8</sup> Humala is a retired army officer who led a failed coup attempt in 2000 against then-President Fujimori and who espouses nationalist, anti-globalization policies. His statements are often contradictory. While campaigning, his rhetoric is polarizing, and extreme-leftist, saying he will veto the free trade agreement recently negotiated with the United States, nationalize key industries, and renegotiate international commercial contracts. Venezuela's leftist President Hugo Chavez publicly endorses his campaign.

<sup>5</sup> Ibid, p. 20.

<sup>6</sup> U.S. Dept. Of State, *Background Note: Peru*, March 2006.

<sup>7</sup> World Bank, *2005 World Development Indicators*, p. 73, March 2005, Washington, DC.

<sup>8</sup> Sources include Tyler Bridges, "Presidential Favorite Inspires Devotion, Fear," *Miami Herald*, April 9, 2006; Monte Hayes, "Peruvian Front-Runner's Family an Issue," *Associated Press*, April 5, 2006; Esther Rebollo, "Populist 'Man on Horseback' has Peru's Establishment Worried," *EFE News Service*, April 7, 2006; Union for Peru and Peruvian Nationalist Party platform available at [<http://www.partidonacionalistaperuano.com>].

Yet in meetings with business groups and the press, Humala takes a more moderate tone. He states that nationalization “doesn’t mean state takeovers.... [or] expropriations.” He instead defines it as “giving the state a larger role through tax collection, royalties, income taxes, even through an increase in state stock ownership, if the state is able to invest.”<sup>9</sup> He also says that he does not want to get involved in an “ideological conflict with the United States,” and that the “new confrontation isn’t left versus right, but the harmful effects of globalization being combated by nationalism.”<sup>10</sup> He appears to be trying to soften his image as an extremist by naming two moderates as his vice-presidential candidates. Humalas’ populist rhetoric is designed to appeal to Peru’s poor indigenous population, although he comes from a comfortable background and attended a select private school in Lima. Humalas’ father claims he is of royal Incan descent.

Many observers are concerned that Humala has authoritarian tendencies. In addition to his 24 years of military service and orchestration of a coup attempt, he has praised the leftist military dictator Juan Velasco (1968-1975). Although his “Great Transformation” platform calls for respect for human rights, it also calls for a greater role for the armed forces in “reinforcing” democracy. Human rights groups voice concern about Humala’s past. The Attorney General’s office is investigating charges that Humala committed human rights violations, including torture and disappearances, while commander of a counter-insurgency base in the early 1990s. After he voted on election day, about a hundred protesters blocked his exit, calling him an assassin and murderer. Police in riot gear and international election observers had to help him leave the building.

Recent statements by his family, from whom he has been careful to distance himself during the campaign period, have also caused concern. His father founded an ultra-nationalistic movement advocating violence against the non-Indian population, both parents said homosexuals should be shot, and his brother Antauro said that President Toledo and members of Congress should be executed. This same brother, who joined Ollanta in the 2000 uprising, was jailed after another failed coup attempt, this one against President Toledo in January 2005, in which four police officers were killed. Antauro said that Ollanta Humala had helped plan the coup attempt. Ollanta denies the charges.

**Alan Garcia.**<sup>11</sup> Garcia’s presidency (1985-1990) was marked by hyper-inflation (an annual rate above 7,600%) and a violent guerrilla insurgency. He says he has changed, and would no longer govern as a leftist but as a moderate. His party, APRA, is Peru’s oldest and most organized. A charismatic, skilled orator, Garcia has strived to attract young voters, many of whom do not remember his term as president, and to draw female voters away from Flores by promising to appoint equal numbers of men and women to his cabinet and implement equal pay for women. Garcia was elected to Congress in 1980, and was elected president in 1985, at the age of 36. At his term’s end,

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<sup>9</sup> Andres Oppenheimer, “Peru’s Front-runner Shifts to Center, But How Much?,” *Miami Herald*, April 16, 2006.

<sup>10</sup> Lucien Chauvin, “Peru’s Puzzling Populist,” *Time*, April 7, 2006.

<sup>11</sup> Sources include Robert Kozak and Matt Moffett, “Politics and Economics: Populist has Lead in Peru Election, Runoff is Likely,” *Wall Street Journal*, April 10, 2006; “Peru Politics: Garcia’s Comeback?,” *Economist Intelligence Unit - Viewswire*, April 13, 2006; “Peru’s Controversial Ex-President Garcia Seeks Comeback,” *Agence France Presse*, April 9, 2006; “Profiles: Peru Presidential Hopefuls,” *BBC News Online*, April 10, 2006.

Peru was characterized as being in economic chaos, and Garcia was accused of corruption. Garcia went into nine years of self-imposed exile in 1992.

Since his political comeback in 2001, he has softened his populist rhetoric. Hoping to regain credibility with Peru's business sector, he has pledged to maintain orthodox macro-economic policies, slash government spending, and promote small and medium sized businesses. In April a Peruvian newspaper published a declassified U.S. government document stating that during Garcia's tenure as President, his party ran at least one, and perhaps several, secret paramilitary organizations, and that his Deputy Interior Minister supervised a secret police force. The document said the minister believed that APRA needed to be able to "eliminate" terrorists, but does not say whether the APRA-run forces carried out executions.<sup>12</sup> Human rights groups reported widespread human rights abuses during the guerrilla war, attributing most government abuses to security forces over which the Garcia administration exerted little control.

**Lourdes Flores Nano.**<sup>13</sup> Flores, a popular former member of Congress, represents the center-right coalition National Unity. A trade law attorney by training, she has spent most of her career in politics. A practicing Roman Catholic, she rose through the ranks of the Christian Popular Party to become its secretary general. In 1990 she was elected to Congress; in 1999 *Time* magazine recognized her work as a legislator by naming her one of the 100 most promising leaders in Latin America. She was a leading opponent of Fujimori's autocratic rule.

A conservative and free market advocate, she has the support of the business sector. She disputes the charge that she is the candidate of the wealthy, however, stating that she advocates changes to the neoliberal economic model, including giving emphasis to social development through investment in education and health, and promoting micro-credits and training for small businesses rather than large-scale investment. She has a reputation for honesty, and says that strong, but efficient and non-corrupt government would spread the benefits of economic growth to Peru's poorest sector. A defender of equal rights, she has strong support among women.

**Significance of Other Candidates.** Twenty-four candidates originally registered to run for president, although some dropped out before election day. Although candidates such as Martha Chavez and Valentin Paniagua did not win, their parties will have a presence in the legislature. Chavez, who represents Fujimori's alliance, placed fourth with about 6.17% of the vote. Fujimori, despite being barred from holding office until 2010 and being charged with ordering murder and torture, tried to return to Peru to run for president. The Chilean government arrested him in November 2005 and is

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<sup>12</sup> Lucy Komisar, "Garcia May Have Had Paramilitary Links: A Declassified Document Asserted that the Political Party of Former President Alan Garcia, in second place following Sunday's Presidential Election, ran a Paramilitary Organization," *Miami Herald*, April 15, 2006.

<sup>13</sup> Sources include Michael Voss, "Peru Candidates Court the Poor," *BBC News*, Lima, March 13, 2006; "Bucking Leftward Tide, Woman Lawyer Seeks to Lead Peru," *EFE News Service*, April 7, 2006; "Flores: Conservative Hopes to become Peru's First Female President," *Agence France Presse*, April 9, 2006; "Peruvian candidate Lourdes Flores Criticizes Venezuela's Chavez," *BBC Monitoring Americas*, April 8, 2006.

processing Peru's request for his extradition. Peru's courts and elections board barred him from running for office. Many observers believe his party will try to pardon him.

Paniagua, who as interim president (2000-2001) steered the country out of a political crisis, stabilizing the economy and organizing fair elections, won about 6.17% of the vote. He represents the well-established Popular Action party that has moved toward the political center.

## **Issues for Congress**

Congressional concern regarding the elections will likely focus on the impact the winning candidate would have on U.S. relations with Peru. Humala's candidacy causes the most concern. His rhetoric is the most nationalist and leftist, although he often softens his stance when pressed for clarification. Although he has major differences with U.S. policy, he also says he wants to strengthen ties with the United States. Some analysts worry that if elected he would join Venezuela's President Hugo Chavez and Bolivia's President Evo Morales in a left-wing alliance hostile to U.S. policies. Others point out that he also praises Brazil's President Lula da Silva and Chile's President Michelle Bachelet, both of whom have friendly relations with the United States. The question is whether his actions will match his rhetoric.

Humala campaigned on an anti-globalization platform; both Flores and Garcia generally favor free market policies. Humala says he would renegotiate international contracts, especially in the extraction of natural resources. Some economic analysts believe that while Garcia might renegotiate some international contracts, he probably would not re-nationalize key industries, as Humala has threatened to do. Flores says she will respect existing agreements, but would also press for better terms in future contracts.

Issues in U.S.-Peruvian relations include trade, drugs, democracy and human rights. Trade will be the most pressing issue between the two nations because of the free trade agreement they signed in December 2005. Both governments are expected to push for legislative ratification in summer 2006, before Toledo steps down. Both Humala and Garcia oppose the pact. The most controversial issue is labor rights, with some Members urging inclusion of International Labor Organization (ILO) standards. Not doing so, they argue, could exacerbate inequitable distribution of wealth in Peru and engender further hostility toward U.S. policy. The Bush Administration is reluctant to set a precedent of including ILO standards in its trade agreements.

Peru is a major illicit drug-producing and transit country. The United States and Peru signed a five-year cooperative agreement for 2002-2007 that links alternative development to coca eradication more directly than past programs have. Humala has said he would end U.S. coca eradication programs.

The United States supports democracy and human rights programs in Peru. Both Garcia and Flores have been effective opposition leaders, working within the democratic system for change. Humala has no previous governing experience, and tried to effect change through a coup. His platform calls for a constitutional convention to draft a new constitution. Many observers worry that Humala has authoritarian tendencies. Observers express concern about the human rights records of both Humala and Garcia.