

CRS Report for Congress

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Peru: 2006 Elections and Issues for Congress

-name redacted-
Specialist in Latin American Affairs
Foreign Affairs, Defense, and Trade Division

Summary

Former President Alan Garcia continued his political comeback by being elected President on June 4, 2006, defeating populist Ollanta Humala. Not only the winning candidate will have an impact on U.S. relations with Peru: lacking a majority in the newly-elected Congress, Garcia will have to negotiate with the other parties to pass his program. Garcia generally favors free market policies. Humala campaigned on an anti-globalization platform; his alliance won the largest bloc in the legislature but is splintering before the legislators are even sworn in. Municipal and regional elections will be held on November 19. Other issues in U.S.-Peruvian relations include trade, drugs, democracy, and human rights. The two countries signed a free trade agreement. The Peruvian legislature ratified it in June; the U.S. Congress has held hearings and may vote on the agreement before fall elections. This report will be updated as warranted. See also CRS Report RS22391, *U.S.-Peru Trade Promotion Agreement*, by (name redacted), and CRS Report RL30918, *Peru: Recovery from Crisis*, by (name redacted).

Presidential and Legislative Election Results

Presidential Race. Former President Alan Garcia continued his comeback by being elected President on June 4, 2006, narrowly defeating populist Ollanta Humala 52.6% to 47.3%. Peru held the first round of national presidential and parliamentary elections on April 9, 2006; the presidential race was so close that officials did not release the results for almost a month. Because no candidate won more than 50%, a run-off election was held between the left-of-center Garcia and Humala, the top two candidates. Garcia will be inaugurated on July 28 to a five-year term.

Garcia's earlier presidency (1985-1990), characterized by many observers as disastrous, was marked by hyper-inflation and a violent guerrilla insurgency, but his party, APRA, is the most organized in the country. With conservative candidate Lourdes Flores edged out of the race in the first round, many observers cast Garcia as "the lesser of two evils" in the second round. Humala, a retired army officer who led an uprising against then-President Fujimori, espoused nationalist, anti-globalization policies. Garcia took advantage of a backlash of sentiment against Venezuela's President Hugo Chávez, who supported Humala, and, along with Bolivian President Evo Morales, raised fears among

middle- and upper-class Peruvians of expropriations such as those that occurred during the military dictatorship of Gen. Juan Velasco, whom both Chávez and Humala have praised. Many observers were concerned that Humala had authoritarian tendencies.

Legislative Race. There is no run-off for legislative seats. Humala's alliance won 45 of the 120 seats in the unicameral legislature; Garcia's 36, and Flores's 17 seats. The Alliance for the Future, the party of ex-President Alberto Fujimori (1990-2000) who is now in Chile awaiting the outcome of his extradition process, won 13 seats, making 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.¹ The Center Front, led by Valentin Paniagua, won five seats.² Peru Posible, President Toledo's party, won only two seats, as did the National Restoration party. With no party having a majority in the legislature, coalitions will likely have to be formed to pass legislation. Observers expect Fujimori's party to use its bloc as leverage to secure impunity for the ex-president. Humala's alliance has already begun to splinter.

The Outgoing Toledo Administration's Legacy

Current President Alejandro Toledo's term will end on July 28. Peru under his administration 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 2006,³ in contrast to four years of stagnation under his predecessors. Economic growth has been driven by the mining sector. Despite his low level of support, Toledo has pushed through reforms that have increased tax collection, reduced the pension system's deficit, and reduced expenditures and the budget deficit. He negotiated a free trade agreement with the United States and pushed for its passage before the new congress, with Humala's anti-free trade bloc, came into office. The congress passed it 79 to 14 (with 6 abstentions) on June 28. Toledo visited the United States July 9-12 to promote U.S. ratification of the trade agreement.

In spite of high growth rates, a substantial portion 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. He started a welfare program in May 2005 that provides 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

¹ 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.

² 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.

³ "Country Report: Peru," *Economist Intelligence Unit*, Jan. 2006, pp. 5, 10.

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.⁴

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 complete 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.

As Toledo's successor, Garcia 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.⁵ 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%.⁶

The President-Elect⁷

Alan 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. Considered to be a charismatic, skilled orator, Garcia 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, Peru was characterized as being in economic chaos, and Garcia was accused of corruption. When Fujimori threatened to arrest him in 1992, Garcia went into nine years of self-imposed exile.

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. His party voted for the free trade agreement in June, but Garcia recently said he would renegotiate elements detrimental to Peruvian interests.

⁴ Ibid, p. 20.

⁵ U.S. Dept. Of State, *Background Note: Peru*, March 2006.

⁶ World Bank, *2005 World Development Indicators*, p. 73, March 2005, Washington, DC.

⁷ 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; "President-elect says Peru to renegotiate US free trade accord," *BBC Monitoring Americas*, July 4, 2006.

Human rights groups reported widespread human rights abuses during the guerrilla war waged during Garcia's first term, attributing most government abuses to security forces over which the Garcia administration exerted little control. In April 2006 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.⁸

Opposition Party Leaders. Twenty-four candidates originally registered to run for president, although some dropped out before election day. Although candidates Ollanta Humala, Lourdes Flores, Martha Chavez, and Valentin Paniagua did not win, their parties will have a presence in the incoming legislature. Without a majority, Garcia's Aprista party will need to negotiate with these parties to pass legislation. These parties and their leaders may also gain influence nation-wide, depending on the outcome of November 19th's regional and municipal elections.

Ollanta Humala.⁹ Although he lost the presidential election, Humala may still be able to exert influence through his party's presence in the legislature and possibly nation-wide in regional offices. 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. His campaign rhetoric was polarizing and extreme-leftist, saying he would veto the free trade agreement with the United States, nationalize key industries, and renegotiate international commercial contracts. Venezuela's leftist President Hugo Chavez publicly endorsed his campaign.

Yet in meetings with business groups and the press, Humala took a more moderate tone. He defined nationalization not as "expropriations" but 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."¹⁰ He also said 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."¹¹ Humalas' populist rhetoric is designed to appeal to Peru's poor indigenous population, although he comes from a comfortable background and

⁸ 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.

⁹ 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>]; "Ex-Spy Chief in Peru Says Candidate Aided Escape," *Washington Post*, May 21, 2006.

¹⁰ Andres Oppenheimer, "Peru's Front-runner Shifts to Center, But How Much?," *Miami Herald*, April 16, 2006.

¹¹ Lucien Chauvin, "Peru's Puzzling Populist," *Time*, April 7, 2006.

attended a select private school in Lima. His support among the poor in rural areas could help his party in regional elections.

Many observers are concerned that Humala has authoritarian tendencies. 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. Statements by his family, from whom he was careful to distance himself during the campaign period, also caused concern. His father founded an ultra-nationalistic movement advocating violence against the non-Indian population. His brother Antauro, 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.

Vladimiro Montesinos, Fujimori's former intelligence chief, testified that Humala staged the 2000 rebellion to facilitate Montesino's escape from Peru the same day. Montesinos made the claim during a corruption trial on May 19; he is already serving a 15-year sentence for several corruption convictions and faces dozens more charges. Humala denies the allegation. Montesinos controlled the military during much of his tenure, and investigators have evidence that he may have had a role in the 2000 rebellion.

Lourdes Flores. Flores, a popular former member of Congress, represents the center-right coalition National Unity. She lost the second-place slot in the run-off vote by only 0.5% to Alan Garcia. A conservative and free market advocate, she had the support of the business sector but advocated changes to the neoliberal economic model, including emphasizing social development through investment in education and health and promoting micro-credits and training for small businesses rather than large-scale investment. She also said that a strong, but non-corrupt government would spread the benefits of economic growth to Peru's poorest sector.¹²

Martha Chavez, Alberto Fujimori. Chavez, who represents Fujimori's alliance, placed a distant 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. Peru's courts and elections board reaffirmed the restriction against him from running for office. The Chilean government arrested him in November 2005, released him on bail in May 2006, and is processing Peru's request for his extradition. Many observers believe his party will try to get him pardoned.

Valentin Paniagua. 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, and is part of the Center Front coalition.

¹² 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.

Issues for Congress

Issues in U.S.-Peruvian relations include trade, drugs, democracy and human rights. Trade is the most pressing issue between the two nations because of the free trade agreement (FTA) they signed in December 2005. The Peruvian legislature ratified the agreement in June. Toledo pushed for passage before the end of his term in part because of concern that Humala's bloc would oppose the pact in the next legislature and Garcia's stance was unreliable. Although Garcia now generally favors free market policies, he avoided taking a position on the FTA during a national debate in May. His party supported ratification of the trade agreement in June, but since then Garcia said he would renegotiate elements of the agreement detrimental to Peruvian interests.

The most controversial elements of the FTA for the U.S. Congress are labor rights and environmental protection issues. Some Members, concerned that Peruvian labor laws are inadequate, urge 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 and says Peru should be rewarded for seeking closer ties with the United States, especially in the face of Venezuelan President Chavez' efforts to promote more populist policies.¹³ The Administration says this is the first FTA to include a commitment to protect and conserve biological diversity. The Senate Finance Committee held a hearing on the agreement June 29; the House Ways and Means Committee did so on July 12.

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. Garcia supported Ecuador's request that the U.S.-Andean Trade Promotion and Drug Eradication Act (ATPDEA) be extended. The act, due to expire at the end of 2006, allows duty-free imports for many goods from Peru and the other Andean nations as a reward for counter-narcotics cooperation. U.S. officials say an extension of the act is unlikely.¹⁴ A U.S.-Peru FTA would supplant many of the ATPDEA's benefits for Peru.

The United States supports democracy and human rights programs in Peru. Garcia Flores, and Paniagua have been effective opposition leaders, working within the democratic system for change. Humala has no previous governing experience and organized at least one coup. Observers express concern about the human rights records of both Garcia and Humala. Some human rights observers express concern that Garcia will use the presidency to further embed impunity for human rights violations that occurred during his earlier administration.

¹³ "USTR to Press Congress on Oman, Peru, Vietnam Trade Deals," *Dow Jones International News*, July 11, 2006.

¹⁴ "Peru's Garcia Supports Ecuador's Drug Eradication Request," *BBC Monitoring America*, July 8, 2006, and Jeanneth Valdivieso, "OAS Chief Backs Andean Nations' Push for US to Extend Trade Benefits," *Associated Press*, July 11, 2006.

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