

The Peru Trade Promotion Agreement

How successful has the Peruvian government been in balancing domestic interests and U.S. demands?

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Abstract

By employing Latin –American strands of dependency theory – complemented by World Systems Theory and a neoliberal view on trade policies – the minutes of the PTPA negotiations are analysed. The negotiations were held in 2004 and 2005 between the U.S. and the Andean countries. This research focuses on Peru and an attempt is made to assess whether and to what extent the Peruvian government succeeded in balancing the demands of the U.S. government with those of Peruvian civil society and the Peruvian government’s desire to enter into a trade agreement with the U.S..

From examining Peruvian government reports on the agriculture, labour matters and textiles tables it was found that the government at times found its Andean partners to be delaying the negotiations and rather continued bilaterally. Furthermore, evidence was found that the Peruvian government, at least on paper, attempted to represent the interests of the large majority of the Peruvians. To what extent it has succeeded in doing so has been difficult to assess given that the present research is largely based on official government documents.

Further research, employing non-governmental Peruvian sources and (official) U.S. documentation on the negotiations, is needed to come to a fuller understanding of the starting positions of both governments and how much each party had given in to the demands of the other.

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Introduction

Since the early 1990s trade promotion and the establishment of free trade agreements have been commonly employed instruments in international trade policies. As of 7 April 2015 the World Trade Organisation (WTO) had received 612 notifications of Regional Trade Agreements (RTA) – the WTO defines an RTA as a reciprocal trade agreement between two or more partners and include customs unions and free trade agreements (FTAs)¹ – of which 262 are currently in force². An FTA is a bilateral arrangement in which two countries agree to reduce or eliminate trade barriers such as quotas, tariffs and subsidies in order to stimulate trade between both parties to the agreement.

In the Americas regional trade agreements have gained ground since the early 1990s as a result of US efforts to re-establish economic relations in its own hemisphere (Grugel 2004). The policy of ‘open regionalism’³ was appealing to newly liberalised Latin American countries as it “appeared to signify the possibility of winning stable access to a vital market in compensation for the adoption of programmes of free market liberalisation and the undertaking of unpopular programmes of reform” (Grugel 2004, 606). At present, Latin American nations are among the most active participants in the international trade arena and have signed over 20 intraregional FTAs (Perales 2012).

One such FTA is the Peru Trade Promotion Agreement (PTPA) or *Acuerdo de Promoción Comercial Perú (APCP)*, which was established between the United States and Peru in April 2006 after thirteen rounds of negotiations⁴. As of the entry into force in February 2009, trade barriers on industrial and consumer goods were removed or greatly reduced. The U.S. immediately benefited as “eighty percent of U.S. exports of consumer and industrial goods and more than two-thirds of U.S. farm exports were duty-free immediately upon entry into force of the Agreement.”⁵

Peru, which mainly exports textiles, agricultural products such as fish and eggs, minerals and petrol, would benefit from this agreement through increased access to an important market to which it did not have full access to previously. According to the Peruvian Ministry of Tourism and Trade this would allow Peru to “experience economic development that had never been experienced before.”⁶

In the present research an attempt is made to develop a better understanding of the trade negotiation tactics the national government of Peru employed during the negotiations with the

United States on the establishment of a Trade Promotion Agreement and to what extent domestic interests had been effectively balanced with U.S. demands. It covers the period from the start of the negotiations in May 2004 to the moment when an agreement had been reached in December 2005/ January 2006 and seeks to test a number of hypotheses.

An in depth analysis on the Peruvian government's ability to represent its national interests during the negotiations leading up to the trade agreement is performed with respect to market access for textiles, agriculture and labour rights, its steadfastness and ability to maintain a firm stance in relation to items on its own agenda such as policy space⁷ and trade diversion. To complement the principle research, an attempt is made to assess whether and to what extent a discrepancy could be discerned between the government's representation of the benefits of the PTPA and the perceptions thereof in parts of civil society, such as rural farmers and peasantry.

Minutes on all thirteen negotiation rounds from the Ministry of Foreign Trade and Tourism, or *Ministerio de Comercio Exterior y Turismo* (Mincetur), and government information booklets for the Peruvians form the basis of these analyses. Additionally, reports of the US Congressional Research Service and Peruvian newspapers are consulted. The theoretical framework, based on Latin-American strands of dependency theory, World Systems Theory and neoliberal perspectives on international trade policies, is employed to execute the above-mentioned research and is described in chapter one. Chapter two lays out the socio-historic context and details U.S. involvement in Latin America as of the 1990s and how U.S. policy has evolved over time; Peru's stance vis-à-vis developed countries is described by referring to the negotiations between the EU and Bolivia, Ecuador, Colombia and Peru. Chapter three details an analysis of the PTPA negotiations and its outcomes in relation to the representation of national interests by the Peruvian government, and it ends with a brief conclusion on the research findings.

Chapter 1. Setting the stage – an introduction to dependencia and world systems theory

In the present research dependencia is used as the primary theory in analysing Peruvian government's negotiation strategies. World Systems Theory and neoliberalism are employed to complement it. This chapter provides a brief description of these theories.

1.1 Fundamentals of dependency theory

This research will be conducted by employing a dependency framework which is complemented by World Systems Theory in areas such as economic development and regional collaboration and the neoliberalist view on international trade. As Kay (2010, 126) states "surveying the dependency literature is like being confronted with a Tower of Babel. Any attempt to give a fair account is fraught with difficulties as one is forced to be selective with respect to both issues and authors". Hence, despite the choice to employ dependency as the primary theoretical framework, an exhaustive definition of dependency cannot be presented here.

It is generally agreed upon that the roots of dependency theory lie in the late 1950s and early 1960s and that it developed from two economic schools of thought, Marxism and Latin-American structuralism (Love 1990). Fagen (1977, 9) stated that "the dependency framework shares with Marxism the assumption that economic arrangements are, in the long run, the primary determinants of political, social and cultural forms". Descriptions resembling those of 'centre-periphery' relationships were made by Werner Sombart and Ecuadorian Ricardo Paredes as early as 1928 (Love 1990), but its development was given an impulse in the 1950s and 1960s by factors such as increased U.S. intervention in Latin America and a call for political, economic and social change which was supported by scholars in the social sciences (Tickner 2008, 736).

Dependency theory studies the economic and political relationship between developed and developing countries, and examines the internal (national) and external (international) linkages at the level of the nation-state (Grosfuegel 2000, Fagen 1977, Baren 1951).

Central to dependency theory are the analytical distinctions proposed by Cardoso and Faletto (1977, 24-25) in which a country's relationships are laid along the autonomy-dependency, centre-periphery and development-underdevelopment continua. The dependent-autonomous

continuum is primarily concerned with explaining a nation-state's political system and the centre-periphery continuum describes the place a country takes up in the international market, the term 'periphery' is used to describe the role underdeveloped economies play internationally, without taking the socio-political factors implied in dependency into account. Lastly, underdevelopment "refers to a developmental stage of the productive system (forces of production) rather than to the external (e.g., colonialism, periphery of the world market) or internal (e.g., socialism, capitalism) control of the economic decision making" (Grosfoguel 2000, 363). Each of these relationships describe aspects of a state's domestic institutions and of the international relations developing and developed states held, from the perspective of the developing state.

Dependency theory however, like any other school of thought, is featured by the presence of several 'ideological currents' within the school. For one, distinctions can be identified between the interpretations of radical theorists such as Gordon Frank, Ruy Mauro Marini and Theotonio Dos Santos – who sought to "not only uncover the 'laws' of dependent capitalism but also posited an ineluctable choice between barbarism and socialism" (Munck 1999, 59-60) – and reformist scholars like economists Celso Furtado and Osvaldo Sunkel, who emphasised a state's economic development in relation to its national policies which were influenced by external cultural, political and economic influences (Sunkel 1969, Munck 1999).

A second distinction can be observed between the North-American and Latin-American definitions of dependency where the North-American scholars focus on the ability of the periphery to develop successfully and address how it is affected by global capitalism, while the economic and political (under)development of Latin-American nations is of concern to Latin American dependency theorists (Tickner 2008). Latin American theorists furthermore believe that both colonial and imperial history, the structure of the international system, rather than internal – economic – characteristics of specific countries, and political alliances and struggles among distinct social classes are crucial to understanding those developmental processes (Smith 1979, Tickner 2008).

Following Marini (1973, 111) dependency, or *dependencia*, is understood to be "a subordinate relationship between formally independent [and autonomous] nation states, in which the production relations of the subordinate nations are modified or recreated to ensure continued reproduction of dependence [on the developed counterparts]"

1.2 *Underdevelopment*

It can thus be argued that (under)development is an important variable in describing dependency relations. Three interrelated factors, pivotal to understanding the concept of underdevelopment – the international context, class and nation and unequal relationships (Fagen 1977, 8) – can be identified. Reference to the international context is made because underdevelopment is not a purely national affair and can only be understood by examining the interaction between countries in the core and periphery and investigating how a peripheral country fits into the international system. It has been argued that the creation of peripheral states was in large part driven by the activities of the developed American and European nations (Cardoso and Faletto 1977).

Class and nation is concerned with the impact distinct classes within a nation's society have on the development trajectories countries follow and the developmental progress they are likely to make, specific attention is paid to their attitudes towards production, consumption, politics and processes of change and the relationships they maintain with institutions outside the national boundaries. Lastly, unequal relationships are defined as those in which the “long-run, macro consequences...are the pyramiding and intensifying of the existing inequalities, leading to widening gaps, the fragmentation of communities and decreased relative autonomy for the weak” (Fagen 1977, 8).

Dos Santos (1970, 232) makes a distinction between colonial dependence, where the economic relations between the colonies and Europe were dominated by commercial and financial capital “in alliance with the colonialist state”, and financial-industrial dependence. Foundations of the latter dependency relationship were laid at the end of the 19th century, and is characterised by “the domination of big capital in the hegemonic centres and its expansion abroad through investment in the production of raw materials and agricultural products for consumption in the hegemonic centres” (232). This process gained momentum as Latin American countries, instead of seeking regional collaboration, engaged with their British counterparts on an individual basis and agreed to export raw materials instead of finished goods. The resulting division of labour between the Latin American and European countries greatly impacted the development opportunities of the former (Marini 1973, 110).

Classical neo-Marxist theorist Baran (1968, 163) puts forward an argument similar to Dos Santos (1970) and Marini (1973) by drawing attention to the ‘classical conditions for [economic] growth’, including a country's output or utilisation of human and material

resources, the generation of economic surplus⁸, and the mode of utilisation of economic surplus. He argued that those countries that were reliant upon the agricultural sector required more than capital accumulation and agrarian reforms to successfully transition into a developed capitalist nation as these attempts lacked the required rapid shift to industrial capitalism.

To conclude, the inability of underdeveloped nations to reform their economies in such a way as to transition into an industrialised capitalist society can be partly attributed to the capitalist development of the imperialist countries and their accumulation of resources at the expense of less-developed nations. Stated differently, developed or First World nations in effect achieved great wealth at the expense of Third World countries by extracting its surplus labour and resources (Hein 1992, 495).

Redefining the dependency relationship

Cardoso and Faletto (1977) stressed the need of dependent, periphery, countries to break away from the imbalanced relationship(s) in order to grow and develop as they believed that the Western countries grew at the expense of the Latin American countries. It was argued to be in the best interest of the Latin American countries to return to more closed market policies and focus on their own autonomy, growth and development. Prerequisites for further development were diversified economies, relatively small surplus outputs to ensure financial sector reinvestments, specialised blue collar workers and a well-developed tertiary sector and lastly, a relatively more equitable distribution of income in the urban industrial sector. Once the native producers were able to renegotiate their political and economic relationships both nationally and internationally, the 'dependent developing economies', consisting of the local and regional economies, could be integrated into the world economy.

Wallerstein (1992, 1992b) however, disputed this stance as he believed that a nation-state would not be able to transform the whole system and at best would be able to become a semi-peripheral instead of a peripheral player.

1.3 World Systems Theory in Latin America

As leading scholar and founder of the World Systems Theory (WST), Wallerstein (1974, 1976) believed the presence of a third category, the semi-periphery, to be crucial as without such a 'middle-ground' the capitalist system could not function. The semi-periphery takes up a position in between core and periphery in terms of economic power and is instrumental in

providing opportunities for capitalist investments when “well-organised labour forces in core economies cause wages to rise too fast” (Chirot & Hall 1982, 85).

In this respect WST differs from *dependencia*, where a distinction is only made between core and periphery. A further dissimilarity can be found in the fact that dependency theory uses the nation state as the main unit of analysis, whereas WST scholars look beyond the state at an entity within which there is ongoing division of labour and seeks to determine whether or not such an entity is culturally or politically unified (Wallerstein 1976).

Overall it can be argued however that dependency and WST share many understandings, for one, the division of labour among core and periphery is central to both theories. Other shared beliefs include underdevelopment, unequal dependency relations between core and periphery and implicit in both dependency and WST is the notion of hegemony, which can generally be defined as dominance based on the economic and military capabilities of states (Bieler & Morton 2004). The “spatial hierarchy of economic specialisation, core versus periphery, in which there was an appropriation of surplus from the producers of low-wage (but high supervision), low-profit, low-capital intensive goods by the producers of high-wage (but low-supervision), high-profit, high-capital intensive [goods]” (Wallerstein 1976, 350-351) or ‘unequal exchange’ between states has fuelled the disparities between developed and developing nations. In the words of Chirot and Hall (1982, 83) “the existence of strong manufacturing powers with the ability to extend their markets and their political strength throughout the world redirects the evolution of feebler societies”. As a result of these shared notions the present research will employ a Latin-American dependency framework supported by notions from WST.

1.4 A neoliberal perspective on international trade policies

In addition to adopting the insights of dependency and WST, following Higginbottom (2013), a neoliberal view on international trade and investment policies is introduced. Such inclusion is important as Latin America has witnessed a surge in neoliberal governmental policies since the 1980s and 1990s. This increase can be explained by the fact that the transition from being inwardly oriented, as predicated by the dependency school, towards becoming more fully integrated into the globalising world economy was facilitated by neoliberal policies aimed at strengthening trade and investment relations with other world regions (Gwynne and Kay 2000).

In general, neoliberalists hold that the state should favour free market mechanisms over state-controlled economies and should promote private property rights and the rule of law. Overall neoliberal theory holds that “elimination of poverty can be best secured through free markets and free trade” (Harvey 2005, Ch.3).

In Latin America neoliberal governments employ strong ideological frameworks to emphasise the desirability of free trade and investment agreements and design policies in which all objectives are subordinated to the investment-led, export-oriented growth (Higginbottom 2013). In defining such international trade policies the interests of national and supranational organisations trump the needs of social sectors that are not agreeing to the overarching line of reasoning, which are determined to be “illegitimate political actors [whose] political expression [is] delegitimised, isolated and criminalised” (Higginbottom 2013, 188). Neoliberalists believe individual rights and constitutional liberties could become subordinate to national interests (Harvey 2005). Furthermore, if certain concerns and interests of specific societal actors are ignored when national policies are designed and implemented, it is likely that a similar approach is employed in relation to negotiations on international trade agreements.

Chapter 2. U.S. relations with Latin-American counterparts and Peru's approach to regional trade negotiations

Before detailing how the negotiations between the U.S. and Peru were shaped, a brief overview of Peru's stance during the FTA negotiations between the *Comunidad Andina de Naciones* (Andean Community of Nations – CAN) and prior U.S. involvement in Latin America is provided. As the PTPA negotiations were held between the U.S. on the one hand and the Andean countries – Colombia, Ecuador and Peru – on the other this chapter details Peru's behaviour during previous, but similar, negotiations in the late twentieth and early twenty-first century. It does not focus solely on Peru as its prior behaviour vis-à-vis its Andean partners provides valuable insights into the reasons behind Peru's international trade policies and can help in explaining its behaviour during the PTPA negotiations.

2.1 EU – CAN negotiations

The Peruvian government attaches great value to entering into trade agreements with developed states and in obtaining such agreement is willing to go beyond the region's interests and focus on what it believes is in the best interest of Peru. Evidence of this attitude can be found in the negotiations that took place between the European Union and the *Comunidad Andina de Naciones* – consisting of Colombia, Peru, Bolivia and Ecuador – in 2007. While the EU primarily sought to advance a purely free trade and investment related agenda the Andean countries, Bolivia and Ecuador in particular, intended to move beyond this aggressive agenda to find ways to address the asymmetries between the EU and the Andean bloc and among the Andean countries without reverting back to 'typical neoliberal trade agreements' where the assumption is made that "all sectors will be eventually fully opened to trade and tempering mechanisms can be applied to address asymmetries" (Latimer 2012, 92). As the EU did not want to honour Bolivia's suggestions, Bolivia formally withdrew in June 2007.

After this clear break between members of the CAN further negotiations between the EU and CAN were cancelled. Despite the formal Bolivian withdrawal both Colombia and Peru were willing to continue negotiations on a bilateral basis. In June 2012 the EU signed an "ambitious and comprehensive trade agreement" with both Peru and Colombia. Unsurprisingly, this agreement was a free trade agreement '*pur sang*', some of the aims laid out in the introductory paragraphs of the agreement included "progressive and gradual

liberalisation of trade in goods; (...) progressive *liberalisation* of trade in services; (...) development of an environment conducive to *an increase in investment flows*; (...) and conduct of economic activities, in particular those regarding the relations between the Parties, in conformity with the *principle of free competition* (emphases added).⁹

Peru's eagerness to continue the negotiations is understandable given that the EU is Peru's third largest source of imports and primary market for its exports such as fuels and mining products.¹⁰ It is however indicative of Peru's stance vis-à-vis powerful (trading) blocs in the West and since the PTPA negotiations preceded the CAN-EU talks it is possible that Peru had employed the same line of reasoning as it did here.

2.2 US cooperation with Latin-American countries prior to the PTPA

2.2.1 Enterprise for the Americas Initiative and Free Trade Area of the Americas

In 1990 president George Bush introduced the Enterprise for the Americas Initiative (EAI) to increase investment in Latin American and Caribbean countries and provide a form of debt relief. It further sought to develop free trade agreements among North-, Central- and South-America, and provided a US\$1.5bn fund, managed by the InterAmerican Development Bank, to support the implementation of investment reform programmes¹¹. Despite the fact that these initiatives appear to be informed by the interests of the Central- and South-American countries, Grugel (2004) and Phillips (2005) believe that the ultimate goal of the United States government was to establish a Free Trade Area of the Americas (FTAA) to re-establish economic relations in its own hemisphere, embed a range of trade-disciplines that are central to contemporary U.S. trade policy in the region and compensate for the deficiencies of multilateral liberalisation processes.

FTAA negotiations started at the Miami Summit of the Americas in 1994, involved all 34 countries of the Western hemisphere and sought to remove the trade barriers among all countries of the Americas, with the exception of Cuba (Saguier 2007). It is the most ambitious trade integration scheme ever attempted and also the most widely disputed one in areas such as labour rights and employment – the fear existed that American investors seeking inexpensive labour could exploit and impose harsher conditions on the Latin American workers – and child labour (Stump, 158).

The aim was for the FTAA to be established by January 2005, at the Fourth Summit of the Americas in Mar del Plata, Argentina (Ellner 2012). As negotiations leading up to the creation

of the FTAA came to a halt in 2002 and 2003, the US redirected its attention towards bilateral trade agreements as “the leverage afforded by the bilateral negotiation of trade agreements acts to situate primary influence in shaping the rules that constitute the regional economic regime (...) firmly within the agencies of the U.S. state” (Phillips 2005, 1). Critics argue that the main reason to enter into these negotiations was to establish the FTAA on a piece by piece basis¹². The negotiations related to the Andean Free Trade Agreement made up one of these initiatives. Before providing details on the negotiation process two other collaborative initiatives are discussed.

2.2.2 *The Andean Trade Preference Act and the Andean Trade Promotion and Drug Eradication Act*

An important anchor in the bilateral relations between the U.S. and the Andean countries is the attempt to halt the flow of illegal drugs, most importantly cocaine (Taft-Morales 2013). The Andean Trade Preference Act (ATPA), or *Ley de Preferencias Arancelarias Andinas*, was the first of such attempts and was designed to help Bolivia, Colombia, Ecuador and Peru in their fight against drug production and drug trafficking by facilitating export diversification and encouraging alternative means of economic diversification to replace the revenue that narcotics production formerly generated (Sheppard 2003). The agreement constituted a non-reciprocal trade relation between the U.S. and the four Andean countries. It entered into force on December 4, 1991; in 2002 the ATPA was extended until December 31, 2006 and renamed the Andean Trade Promotion and Drug Eradication Act (ATPDEA) or *Ley de Promoción Comercial Andina y Erradicación de la Droga*. It expired on February 12, 2011, after having been extended by the U.S. Congress several times for short consecutive periods (Villareal 2011a). Peru was designated a beneficiary country in 1993¹³ and ceased to be a beneficiary of the ATPA on December 31, 2010 as a result of the bilateral trade agreement PTPA (Angeles Villareal 2011b).

Before U.S. President George Bush Sr. could appoint beneficiaries eight eligibility criteria would have to be met, including the requirements that the country concerned was non-communist and that the country provides, or is taking steps to provide, internationally recognised worker-rights to its workers (Sheppard 2003, Smith 1993).

Interestingly, these clauses also include the prohibition to “afford preferential treatment to the products of a *developed country* (emphasis added by author) [when] such preferential treatment is likely to have a significant adverse effect on United States commerce” (Smith

1993, 153). On top of those eligibility criteria other demands had to be taken into account, among others “the extent to which [the country] has assured the U.S. it will provide equitable and reasonable market access” and “the extent to which the country provides adequate and effective means for foreign nationals to secure, exercise, and enforce intellectual property rights” (Smith 153). This indicates that the U.S. was not only keen on maintaining its position of hegemon¹⁴ in the region, by essentially limiting the access other Western countries could have to these markets, but also sought to directly promote the interests of U.S. citizens and corporations, which is contradictory to the notion of a non-reciprocal relation¹⁵.

Articles eligible to be exported duty-free included all locally produced products, exported directly from the originating countries to the U.S., with the exception of textile and apparel articles, footwear, canned tuna, watches, leather, luggage and handbags, certain sugars and molasses and rum (Smith 1993, 154-155). Since the primary export products in 1992 were raw materials and intermediate goods – including minerals such as silver, copper, zinc and gold, (unroasted) coffee beans, bananas and petrol – which accounted for approximately 70 percent in Bolivia and Colombia, 85 percent of total exports in Peru and 90 percent in Ecuador¹⁶ and consisted only to a limited extent of consumer goods and capital goods¹⁷ they had little chance of diversifying their exports.

Furthermore, it is important to note that products that could potentially compete directly with items produced in the U.S. would not be granted the status of ‘eligible article’ (Sheppard 2003). In this regard, one could agree with Grugel (2004, 611) who argues that “U.S. activism in the Latin American region is driven by U.S.’ role of global hegemon and its global preferences”.

Unequal exposure and dependence

According to the official reading, the primary objective of and potential benefit to the U.S. was the reduction of the production and trade of illicit drugs, such as cocaine and heroin, which were primarily consumed in the U.S. (Taft-Morales 2013). One important aspect is omitted however as the establishment of the Act could aid in reaching one major goal of the U.S. government, the establishment of the Free Trade Area of the Americas by 2005 (Sheppard 2003). Moreover, U.S. risk exposure as a result of this unilateral agreement was minimal as U.S. imports of produce from the Andean countries had been low prior to the ATPA, in 1991 for example it jointly amounted to US\$ 5.5 million or 1.08 percent of total imports¹⁸, and exports were US\$3.9 million (0.93 percent) of total U.S. exports¹⁹. In 2010 the

value of duty-free U.S. imports under ATPA accounts for about 0.8 percent of total U.S. imports or 0.1 percent of Gross Domestic Product (GDP) (Angeles Villareal 2011b). Hence, the overall impact was, and continues to be, marginal at best.

Looking at the import- and export relations from the Latin-American side however one finds that in 1992²⁰ the U.S. was both the most important export and import partner of all four countries, accounting for on average 32 and 30.5 percent of total exports and imports respectively. Individual export dependence ranged from 20 percent in Bolivia to 47 percent in Ecuador and import dependence similarly ranged from 24 percent in Bolivia to 36 percent in Colombia²¹.

1 The negotiations 2004-2006

2.3 Andean Free Trade Agreement

In November 2003 the Office of the United States Trade Representative (USTR), on behalf of President Bush, informed Congress of its intention to initiate negotiations with Colombia, Ecuador, Peru and Bolivia (the 'Andean countries') on the establishment of the Andean Free Trade Agreement (AFTA)²². The benefits to the U.S. were described as fostering economic growth and creating better paid jobs in the U.S. by "reducing and eliminating barriers to trade and investment"²³.

AFTA negotiations between Colombia, Ecuador, Peru and the U.S. commenced on 18 May 2004, Bolivia participated as an observer and the first round was held in Cartagena, Colombia. In September 2005 the U.S. laid down an ultimatum that an agreement had to be signed by 20 November 2005²⁴. The ultimatum did not have the desired effect, multilateral negotiations were stalled and instead talks were continued bilaterally between the U.S. and all three Andean countries individually. Peru decided to continue its negotiations after the twelfth round of negotiations, that is, after September 23, 2005 and the thirteenth and last round of negotiations between the U.S. and Peru took place from 14-22 November and 5-7 December 2005 in Washington D.C. (XIII-1). On December 7, 2005 Peru and the U.S. completed the negotiation trajectory.

Negotiations were held at different tables, ranging from intellectual property rights to agriculture and telecommunications to labour rights. The present research will focus on three tables which are of principle importance to the Peruvian population at large, being market access for textiles, agriculture and labour rights. During the period 2001-2004 on average 33.8 percent was employed in agriculture, mining and fishing, the large majority of which in the (poorer) rural areas, and 10.7 percent of the total workforce were employed as craftsman or operator²⁵²⁶. Most detailed analysis is performed in the area of agriculture as these talks, in contrast to those at other tables, were mostly held bilaterally.

2.4 Peruvian government rhetoric on the negotiations and associated FTA

Alfredo Ferrero Diez Canseco, Minister of Tourism and Trade from 2004 to July 2006, in March 2005 stated that the government sought to contribute to a 'healthily constructed and informed public opinion' and aimed to establish agreements between the different sectors and agents within the national economy on the one hand and the different social classes ('*estratos*

sociales'), organisations and institutions on the other (n.a. 2005). He further stressed the importance of FTA's in general by stating that "free trade agreements have become powerful tools to face the challenge of battling for a spot on the economic world stage, and preventing being marginalised and hampering our own development. Due care must be taken to protect the most vulnerable sectors, products and services and prudent strategies are designed and implemented to liberalise these sectors in the future" (n.a. 2005, 3).

In its publications prior to reaching an agreement on the terms and conditions of the PTPA, the Peruvian government consistently employed a neoliberal rhetoric by emphasising the importance of the agreement and the necessity thereof for Peru. For one, the Ministry of Foreign Trade and Tourism or *Ministerio de Comercio Exterior y Turismo* (Mincetur) argued that as U.S. purchases made up about twenty percent of total global purchases it was obvious Peru would want to enter into an arrangement with them, in their words this was 'the most powerful and irrefutable argument of all' (n.a. 2005, 9). By openly referring to U.S. global presence the (superior) power of the U.S. was thereby made explicit. This statement spells out the reality of the U.S.-Peru relationship as one in which a clear division of power exists between both parties. It could further pave the way to explain why some (unfavourable) agreements would have to be made to satisfy the U.S. government.

Reference was furthermore made to the benefits retrieved from the ATPA and ATPDEA. According to government data exports had grown by 10.5 percent per annum during the period 1993-2001 when the ATPA was in force and 26.8 percent from 2002-2004 under the ATPDEA. Over the full period 1993-2004 exports to the U.S. were said to have increased by 412 percent from US\$696 million to US\$3,569 million (n.a. 2005). However as both the ATPA and ATPDEA were temporary arrangements, there was a clear need to enter into a long-term, permanent, agreement with the U.S.

By entering into a trade agreement with the U.S. Peru could strengthen its presence on the world stage, increase its levels of domestic and foreign investments and lastly, allocate productive capacities in such a way to improve economic efficiencies. This would all lead to improved quality of life of the Peruvians, who would benefit from lower prices on consumables, greater variety of products and most importantly enhanced employment opportunities and higher quality jobs (Rosas del Portal 2005).

The government acknowledged that some people might lose from the introduction of the FTA, and estimated that this would concern about two percent of the Peruvian population, namely

those employed in cotton and wheat production, the large majority of the population, eighty percent would benefit while the remaining eighteen percent was likely to benefit from the agreement (Rosas del Portal 2005, 11). From this it would seem that the government made an effort to provide objective information, the sincerity of this attempt can be questioned however as information is only presented on a generic level.

Lastly, from the tone of the questions and answers (Q&A) documents provided by Mincetur on the necessity of the agreement and the benefits thereof to Peru and the U.S. it becomes clear that Peru is not only a strong proponent of the agreement but also is very 'U.S.-minded'. It emphasises that other Central- and Latin-American countries have signed or are in the process of signing an agreement with the U.S. and that if Peru would not do so it would have a competitive disadvantage relative to the other countries and would risk being left behind 'paralysed'²⁷. This U.S. focus on closing bilateral agreements has been identified by Phillips (2005, 21) to be a thoughtfully employed strategy "to increase the incentives for other countries to negotiate similar deals, which has acted frequently to undermine the cohesion of sub-regional groupings"; Peru clearly is receptive to such narratives.

Moreover, Mincetur states that the U.S. is interested in closing the agreement as "it seeks to spur negotiations with Latin-American countries (...) and put pressure on those countries or block of countries that are most protectionist and move towards conclusion on the negotiations of the FTAA"²⁸. By referring to this statement Mincetur indirectly signals its understanding of U.S. policy to pressurise countries, legitimises it and warns the Peruvians for the potential negative effects of not listening to U.S. requests. It thereby places the U.S. at another level – at the core – above its own.

2.5 *Peruvian and U.S. principal players*

The Peruvian team of negotiators consisted of 131 government officials from 28 public institutions. The full delegation was led by Vice-Minister of Foreign Trade and Tourism Pablo de la Flor Belaunde and the largest delegation of 25 persons was provided by Mincetur (Rosas del Portal 2005). Other important institutions were the Ministry of Foreign Affairs (*Ministerio de Relaciones Exteriores* (RREE)) and the Ministry of Agriculture (MinAG).

Negotiations were held on 21 topics, including market access for industrial goods and textiles, customs procedures, rules of origin, technical barriers to trade, agriculture, financial services,

labour policies and environmental considerations. Of those 21 tables 15 were headed by Mincetur officials (Rosas del Portal 2005).

On the American side negotiations were led by the Office of the United States Trade Representative, which is responsible for developing and coordinating international trade, commodity and direct investment policy and overseeing negotiations with other countries, Regina Vargo, Assistant U.S. Trade Representative for the Americas, was the leader of the delegation (V-1).

2.6 The negotiations

The first three rounds were introductory rounds where the primary objective of the Andean countries was to coordinate efforts and reach agreements on the interests at stake at the different tables, align their negotiation tactics and present first drafts of elements of the FTA. In response to the reciprocity principle brought forward by the U.S. – concerning the ATPDEA and the fight against drug production (V-6) – they indicated that they expected their position to improve as a result of the FTA and not deteriorate. During the sixth round the Andean countries continued on this path by suggesting a gradual reduction of benefits provided under ATPDEA over a five year period in exchange for the Andean countries' fight against drugs. The U.S. maintained that this was not a unilateral agreement, implicit in their statement was the notion that sacrifices had to be made by the Andean countries too.

Moreover, the U.S. tried to coax the three countries into splitting up and defining specific projects that could be discussed during subsequent meetings. This attempt initially failed as they opposed the suggestion and instead insisted on working on the joint projects (I-49). The first cracks in the countries' unity appeared quickly however as disagreements in relation to how the countries should position themselves on the subjects of agriculture and labour rights arose. While Colombia wanted to present a unified 'Andean proposition' and occasionally asked for more time to prepare (II-33)²⁹, Peru was more interested in joining forces only in those areas where common national interests had been identified and move ahead individually in other areas (I-17, II-33). Although no clear explanation was provided for its stance it is likely that the Peruvian government did not want to be held back by the strict demands of its Andean partners.

From the ninth round onwards consensus was found on some topics and Mincetur commented that "this round has been among the most productive rounds so far, advancing the process

substantially” (IX-1), the negotiations had been finalised in three areas. Textiles, labour rights and agriculture remained among the most difficult and sensitive topics. (X-1).

2.6.1 Agriculture

Negotiations relating to agriculture, along with the discussions on intellectual property rights, were the most difficult ones (IV-18). In general, the negotiations were concerned with liberalising the agricultural markets and granting full(er) access to the counterpart’s products. Early on in the process the U.S. indicated that agricultural products would have to be reviewed individually and should be included in the Annex Elimination of Tariffs (III-26).

The U.S. furthermore proposed to create a list (*‘Lista cero por cero’*) with products on which import tariffs would gradually be reduced, with the aim of reciprocally eliminating trade barriers between Andean countries and the U.S.; Colombia included 388 items, Ecuador 210 and Peru 103 (VII-19).

Starting preference for bilateral negotiations

From the start of the bilateral negotiations Peruvian and Ecuadorian developments diverged. While negotiations on the Peruvian side progressed quickly the Ecuadorian negotiations came to a halt and this lack of progress started to frustrate Peru (VI-19). In contrast to its Andean partner, the Peruvian government sought to rapidly reach an agreement with the U.S. and was therefore very susceptible to U.S. demands; more so than its partners who appeared to believe that giving in to U.S. demands did not necessarily serve its domestic interests.

For one, during the fifth round, before the stalemate between Ecuador and the U.S., the first signs of a Peruvian preference for holding negotiations bilaterally instead of multilaterally could be discerned as, in the minutes under the heading ‘goals for the next round’, Mincetur stated that it would ‘provide the Peruvian proposal to the U.S. to ensure its inclusion in the negotiation packages’ (V-21).

What is more, during bilateral negotiations in the fifth and sixth rounds Peru made a proposal to spur the developments that could lead to a consensus, where certain U.S. products, such as soy beans, apples and pears would be granted immediate access to the Peruvian market in exchange Peruvian products, such as avocados, citrus fruits, tuna and asparagus would be granted immediate access to the U.S. market (VI-14).

Final draft of the agreement

In the final draft of the agreement it reads that all products that had liberal access to the U.S. market under ATPDEA were granted permanent duty-free access and that further access had been granted to asparagus, bell peppers, grapes, mangos, mandarins, conserved carrots and olives. Together those products made up 90 percent of total products offered and represented 99 percent of total agricultural exports to the U.S. (XIII-28). Peru had beforehand emphasised that any restriction on the sale of products that faced favourable export terms under ATPA/ATPDEA would be considered a step back and therefore unacceptable (VII-22). As the U.S. too had previously indicated that it could by no means be guaranteed that the preferences under ATPDEA would be continued under the FTA (VIII-12), this could be interpreted as an important Peruvian accomplishment.

At the start of the fourth round Peru had requested 400 additional items be placed on list A – immediate relief of import tariffs – and the asparagus was one of these items. Avocados and tuna on the other hand had not been included, even though Peru had requested their inclusion too. As no full list of requested items is available it is difficult to assess what the success rate of Peru's negotiations had been. From the information that is available it would seem that Peru had gained a lot and had advanced the interests of the farmers and people working in agriculture (reasonably) well. It should be noted however that this tells us little about which part of the people employed in the agricultural sector were to benefit directly.

In return Peru had promised the U.S. full access to the Peruvian market for dairy, corn, rice, wheat, meat and poultry and other products such as cotton, barley and sugar. The inclusion of rice in the agreement is interesting as Peru is self-sufficient in this respect and only imported rice in case of droughts (IX-15). The U.S. sought duty-free exports 132,770 of tonnes per annum at a ten percent growth rate. In the final draft the U.S. was allowed to export 730,000 tonnes, or five percent of total annual national consumption, at an import tariff of fifty-two percent (XIII-30). Whether this constitutes an improvement to the Peruvians is difficult to assess as it depends on to what extent U.S. rice and rice-products will compete directly with Peruvian rice, effects thereof can only be assessed by analysing production and trade statistics in the years following the entry into force of the FTA. At first glance however, it would appear to pose a threat to local producers.

In relation to imports of barley, of which Peru had previously indicated it to be a sensitive product especially for the producers in the southern highlands (XIII-9), it seemed to have

protected the interests of its population. In the minutes on the final round it states that “the fact that barley is included in the FTA won’t affect national production as malting barley (*‘cebada maltera’*) would be imported while barley fodder or grass (*‘cebada forrajera’*) was produced locally” (XIII-34). Peru had called for the need to protect that part of the agricultural sector that produced strictly for the domestic market (IV-19). From government accounts however it can neither be deduced what measures had been taken to protect domestic production nor whether and to what extent potential future development of the domestic barley sector was hampered.

Lastly, instant access of wheat to the Peruvian market was considered advantageous to both Peru and the U.S. as Peru not only was a net importer of wheat (VIII-11), but the wheat produced domestically was regular wheat (*‘trigo blando’*) while durum wheat (*‘trigo duro’*) was imported. This would be used by the Peruvian milling industry (XIII-34)³⁰.

2.6.2 *Labour matters*

Negotiations on labour matters were featured by a relaxed and open attitude of all parties involved; during the second round for example in response to presentations by the U.S. it was noted that sufficient opportunity was provided to the Andean countries to formulate their concerns, questions and comments in a frank, dynamic and constructive way (II-32). Peru’s goals included exchanging information and experience between the labour administrations and strengthening its own labour administration (IV-46). The U.S. also indicated that it was willing to provide funds to civil servants at the Peruvian Ministry of Employment for courses on how to process labour statistics.

Upon further inquiry however on finds that negotiations at this table clearly demonstrate the power inequalities among the parties and more specifically portray U.S. ability to refute proposals it felt were undesirable.

Prohibition of discrimination in the workplace and the protection of migrants’ labour rights was important to the Andean countries, but its proposed inclusion in the FTA was given a lukewarm reception by the U.S. government, which stated that concerning the Labour Cooperation Mechanism they ‘might be able to make some textual improvements but that inclusion of such rights would be difficult’ (VI-41, IX-38). As the U.S. was reluctant to give in to the Andean requests progress was only made as a result of the unilateral Andean proposals aimed at getting closer to the U.S. text.

No mention was made of labour matters in the minutes of the final round, this could be because no paragraph had been included on the protection of human rights of Peruvians outside of Peru (Maldonado Mujica 2007, 13 & 16). Peru had managed to obtain part of its requests; the right to equal treatment and non-discrimination was included in article 17.8.

2.6.3 Textiles

The position of the United States in respect of market access for textiles was straightforward, it sought to gain access to the Andean markets and was willing to remove all import tariffs on textiles, provided that the Andean countries did the same (III-6). The principle of reciprocity was thus of primary importance. If such immediate elimination was considered undesirable the U.S. was willing to reevaluate its proposal and reinvigorate a liberalisation programme (III-11).

Up to the sixth and seventh round little progress was made as a result of the 'rigidity and inflexibility' of the U.S. negotiators (VII-6). The Andean countries stuck to their opinion that the principle of reciprocity could be interpreted more leniently and that allowances should be made with respect to the size and development of the Andean economies (VII-8).

In the final round consensus was reached rapidly and the parties agreed that tariffs were no longer charged on exports of yarn, fabric and new linen such as towels and tablecloths; this had the effect of strengthening and expanding the benefits under ATPDEA (XIII-14). Peru further committed itself to cooperate to prevent customs offenses and perform verification processes regarding rules of origin.

What the effects would be on domestic production and consumption were not specified. As with agriculture, production and trade statistics in the years following the entry into force of the FTA could help in assessing the true impact of this agreement.

2.7 Domestic perceptions on PTPA establishment

In contrast to what one might deduce from these results, popular support of the FTA among Peruvian civil society was limited, some sectors, such as peasants and people employed in the agricultural sector, strongly opposed its implementation and protested accordingly.

Upon the ratification of the PTPA by the U.S. Congress Peruvian (agricultural) trade unions organised large scale protests across the country and in July 2006 the trade unions 'paralysed' eight regions in response to the FTA³¹. They argued that only the exporters and large

agribusinesses stood to gain from it and that the large majority of the Peruvians would become worse off³². This stands in sharp contrast to Peru's claim that during the negotiations specific attention was paid to the private sector, and small- and medium sized enterprises (SMEs) in particular. During both the third, eighth and ninth round, Peru had explicitly referred to the micro-, small- and medium-sized enterprises and commented that they would be among the primary beneficiaries of the expected economic growth resulting from the FTA included (III-1, XIII-1, IX-1).

In addition, the claims of president Alejandro Toledo were questioned, while he stated that "Peru came out the winner" as "practically all our products would enter the U.S. market duty-free"³³, it has been argued that the PTPA would have the opposite effect in that Peru would lose its sovereignty and the rights of Peruvian corporations would become subordinate to the demands of supranational organisations, for example through the dispute settlement system³⁴.

Lastly, people felt deceived by the newly elected president Alan García who before being elected promised to do everything possible to alter its content; as soon as he had been inaugurated he had made a 180 degree turn³⁵ and appeared to find the implementation of the PTPA more important than the concerns of the Peruvian population.

Conclusions

This research has focused on assessing to what extent domestic interests had been effectively balanced with U.S. demands. In analysing official Peruvian government records on the trade negotiations preceding the PTPA, it has been found that during both multilateral and bilateral rounds Peru has brought forward and defended the Peruvian interests and has succeeded in gaining access to a significant market for the large majority of its export products. This relative success however does not imply that domestic interests have been guarded in the best possible way.

Dependency and WST posit that disequilibria exist between developed (core) and developing (periphery) countries and that the developed world experienced such rapid growth at the expense of developing nations. For developing nations to develop they should seek to transition from agricultural based economies to industrial economies, disengage from their stronger counterparts and focus on those aspects that will propel domestic growth and development. If the Peruvian government would have wanted to spur domestic development it should have placed greater emphasis on other non-agriculture related instruments and measures. By continuing to depend on the agricultural sector for economic growth instead of seeking to industrialise its economy its dependency relationship with the U.S. stays intact.

Moreover, even in agriculture it had to concede to U.S. demands. Although it has shielded the vulnerable domestic wheat and barley sectors from U.S. competition the agreement of rice imports stands in stark contrast as this seems to compete directly with domestic production.

It has also been shown that Peru willingly accepts the U.S. as the dominant power in the region and is strongly U.S. oriented. It could thus be that it has given in to U.S. demands too quickly, thereby foregoing valuable domestic growth opportunities.

Further research and analyses of U.S. reports on these negotiations would be needed to gain a fuller understanding of the U.S. starting positions and how much they had to give in to Peruvian demands. In addition, interviews in Peru conducted with those who were directly affected by the implementation of the PTPA could help in examining what the effects of the PTPA have been and how this differed from government representations.

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3 The term ‘open regionalism’ was created in an effort to resolve a problem central to contemporary trade policy, how to reconcile the sharp increase in regional trade agreements worldwide with the aim of the World Trade Organisation to support a global trading system. It seeks to provide assurance that the founding of regional trade agreements contributes to further global liberalisation instead of deterring its progress. [Bergsten, F. (1997) Open Regionalism. *The World Economy* 20(5), 545-565]

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7 Policy space is defined as “the extent to which trade rules provide nation-states with an optimal degree of openness that allows them to be integrated with the world economy as well as pursue domestic development policy (Gallagher 2008, 37)

8 Economic surplus can be defined as the aggregate of the mutually exclusive producer surplus and consumer surplus. Consumer surplus is created when the price of a product is lower than the maximum price the consumer is willing to pay for it. Producer surplus occurs when the price of a product exceeds the product’s minimum sales price. [Retrieved from Investopedia.com on December 2, 2015]

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14 Arguably, the U.S. has sought to increase its influence and presence in the Western Hemisphere since the articulation of President James Monroe’s policy on the development of political order in the Western Hemisphere and the call for separate sphere of influence for the Americas and Europe in 1823.

15 The Cambridge English Dictionary defines reciprocity as “behaviour in which two people or groups of people give each other help and advantages”. In the case at hand the U.S. receives benefits in exchange for the support it provides to Bolivia, Colombia, Ecuador and Peru; as such, it can be argued that the U.S. has established reciprocal rather than non-reciprocal relations.

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17 Consumer goods can be defined as goods ready for consumption in fulfilling human needs and wants, they include such items as dairy and tea as well as games, furniture and cameras. This stands in contrast to capital goods which are employed to produce other goods. Retrieved from <http://wits.worldbank.org/referencedata.html> on December 3, 2015

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20 As data prior to 1992 was not available for Bolivia and Peru, 1992 data, which was available for all four countries was employed in relation to import- and export dependency of the Andean countries.

21 Trade Summary Data 1992, Peru, Ecuador, Bolivia and Colombia. Retrieved from <http://wits.worldbank.org/CountryProfile/en/Country/BOL/Year/1992/Summary> on December 3, 2015.

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23 *Ibid*, p.1

24 U.S. – Andean countries. Retrieved from <http://www.bilaterals.org/?-US-Andean-countries-&lang=en> on December 5, 2015.

25 The Peruvian Ministry of Labour and Employment Promotion includes one occupational group named ‘*artesano y operario*’. Although no definition of this classification was provided, Mincetur’s definition of ‘*actividades artesanales*’ is followed in which textiles make up the primary component, and items such as items of vegetable and fibreglass are also included. All of these items are part of the negotiations at the textiles table (I-XIII).[http://www.mincetur.gob.pe/newweb/portals/0/ACTIVIDADES%20_ARTESANALES_Analisis.pdf](http://www.mincetur.gob.pe/newweb/portals/0/ACTIVIDADES%20ARTESANALES_Analisis.pdf)

26 Empleo – Grupo Ocupacional según departamento 2001-2014. Ministerio de Trabajo y Promoción del Empleo. Retrieved from <http://www.mintra.gob.pe/mostrarContenido.php?id=151&tip=548> on December 5, 2015.

27 TLC y Agro. Todo lo que el productor y el trabajador agrario deben saber sobre el TLC. Mayo de 2005. p.6. Retrieved from: http://www.acuerdoscomerciales.gob.pe/images/stories/eeuu/docs/estudios/TLC_AGRO.pdf on

December 5, 2015.

28 Mincetur, Preguntas y Respuestas sobre el TLC Perú-Estados Unidos, Febrero del 2005. Retrieved from [http://www2.congreso.gob.pe/sicr/cendocbib/con2_uibd.nsf/3580EC418A967957052575CA0058629F/\\$FILE/2respuesta.pdf](http://www2.congreso.gob.pe/sicr/cendocbib/con2_uibd.nsf/3580EC418A967957052575CA0058629F/$FILE/2respuesta.pdf) on December 5, 2015.

29 During the second round in Atlanta the U.S. proposed to invite the Cooperation table to join the negotiations of the Labour rights table during the third round. Colombia preferred to postpone such event, in response to which Peru writes that “during the bilateral visit of the U.S. [on 26 and 27 July 2004] we will have plenty of time to lay out our propositions for increasing collaboration in certain areas, as has previously been discussed with the U.S. negotiator” (II-34).

30 How the milling industry would benefit exactly from the influx of durum wheat or what would be done with it after it had been milled has not been specified.

31 N.a. (2009) Cronología: El Camino del TLC entre Perú y EE.UU. Retrieved from <http://elcomercio.pe/economia/negocios/cronologia-camino-tlc-entre-peru-eeuu-noticia-233611> December 3, 2015.

32 Noriega, C. (2007). Masiva protesta en contra del TLC en Perú. Retrieved from <http://www.pagina12.com.ar/diario/elmundo/4-94381-2007-11-09.html> on December 3, 2015.

33 Blustein, P. (2005). U.S., Peru Strike Free Trade Agreement. Retrieved from <http://www.washingtonpost.com/wp-dyn/content/article/2005/12/07/AR2005120702791.html> on December 6, 2015.

34 García, C. (2006). Perú: el TLC y el medio ambiente. Retrieved from <http://www.voltairenet.org/article134541.html> on December 6, 2015.

35 *Ibid*