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THE FTA BETWEEN PERU AND THE USA: WHAT ABOUT ANDEAN PEASANTS?

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Opinion Paper

COPLA

The Free Trade Agreement between Perú and the USA is being promoted by the current APRA government as a win-win situation for all. However serious concerns about how it will impact peasants and small farmers in the Andean and the Amazonian regions of Perú (and in all Andean countries for that matter) need to be voiced. Over 70% of extremely poor households (defined as those with expenditures of less than 1 US dollar per person/per day) are located in the rural highlands and rural Amazonia)[1]. The vast majority of these rural farmers lack the means and skills to benefit from an open market and compete with heavily subsidized and high tech agricultural and dairy products that will penetrate our markets with low or no import rates.

Who are these poor peasants and what needs to be done to both protect them from unfair competition in the short run and make them more competitive in the long run? Let's examine briefly who they are and what they lack. Of over 1.6 million rural households in Peru; 78% are headed by men and 22% by women, their average age is 47 years; 73% have only basic education (21% of heads of these households cannot read or write), less than 5% have any technical or college education; 44% speak native languages; 70% of their homes lack electricity; 78% lack any kind of health insurance; 69% are independent farmers and over 90% work in small farms with 5 or less workers, mostly relying on unpaid family labour.[2]

Under these conditions it is questionable that economic growth, market expansion, and specially competition from competitive imports will benefit these peasants. Recent evidence shows a low elasticity between growth in GDP and poverty: 0.5 for rural households in the Amazon and 0.4 for rural households in the Andes[3]. This same author claims that income growth is related to diversification, not specialization. There is scant evidence on changes in productivity among poor peasants; increased household income seems to depend more on paid temporary jobs outside agriculture, and to a lesser degree, on securing part time wages in agriculture during harvest periods.

It is almost certain that Perú's economic performance over the past 5 years, with growth rates of GDP of over 6% p.a., will be difficult to sustain. Not only is economic growth slowing down among our main buyers (over 20% of our exports go to the USA), but increase oil and energy prices, and a strong local currency are making our exports less competitive. The question is then; how will cheaper imports impact our economy given

1 World Bank; ¿Qué nos dicen los cambios en la pobreza del Perú entre 2004 y 2007? July 2008.
2 Source; Data based on the 2007 Population Census by INEI, our own calculations.
3 Escobal, Javier; Estrategias de generación en áreas rurales: la evidencia de las ENAHO 2002 a 2006. Working Paper, GRADE, Lima 2008.

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a slower growth rate? (some economists predict a growth rate of GDP as low as 3% for 2009[4]). The probable outcome is not good news for peasants and small farmers, who face low productivity levels and obstacles to market integration.

This scenario is further complicated by the fact that public policies, past and present, have failed to design and apply an effective program for the economic development of the rural sector in these regions.

What seems to be needed is an integrated set of rural development policies, programs and projects that aim at:

1) Improving adult education in basic reading and mathematics, linking it to productive and managerial skills geared to increased performance of human capital. A gender approach is crucial since many of the decisions and tasks pertaining to fertilization, seed selection, field preparation, animal husbandry, crafts etc. are handled by women whose partners migrate seasonally in search of jobs outside agriculture.

2) Providing incentives for a generational shift from older heads of households to their younger sons and daughters who have higher levels of formal education and are open to technological innovations and can deal better with market requirements. No official programs for on the job training exist currently for the rural youth.

3) Taking into account the highly diversified nature of rural activities and income, assess the economic potential of different lines of production. A case in point is the great potential value of tourism to archaeological and natural sites that are located within Andean and Amazonian communities but lack services, access and promotion.

4) Increasing investment in public services such as secondary roads, electricity, water and sewage and connectivity to decrease the isolation that many of these rural towns and settlements suffer, specialy in the Amazonian region.

5) Linking small farmers to production chains with higher value added and transformation capacities including access to regional and international markets.

6) Promoting partnerships between private capital and small farmers and peasants in a sharing scheme by which land and labour is provided by the local peasants and technology, capital and market access is furnished by private firms in long term agreements that will not alienate peasants from their land.

7) Shifting social investment towards training and supporting economic opportunities for rural households to take advantage of a growing internal market and increases in the price of food, as well as a growing tourist industry. A clear opportunity is a more strategic use of decentralized taxes from the mining sector (Canon Minero) which go directly to local and regional governments located in the Andean region.

All of the above requires political will, financial and technical resources and an integrated rural development authority, since currently rural development program are fragmented between 6 different sectors and 13 independent public programs. Unless such a major shift in development priorities and public investment occurs, the FTA will probably have a negative impact in these, the poorest of the poor, increasing disparities and social and economic exclusion.

4 Personal communication, Dr. Waldo Mendoza, Head of the Economics Department, Catholic University of Peru on 4.10.08.

Este documento ha sido elaborado en el marco del proyecto "Comercio y Pobreza en Latinoamérica" (COPLA), implementado en el Perú por el Consorcio de Investigación Económica y Social (CIES). COPLA es financiado por el Departamento para el Desarrollo Internacional del Reino Unido (DFID) a través del Overseas Development Institute (ODI) y es también implementado en Bolivia y Nicaragua. COPLA busca fortalecer el diálogo sobre políticas comerciales, pobreza y exclusión social a partir de evidencia basada en investigación. Para mayor información favor visitar: www.cop-la.net