

Peru and the search for gateways into the EU

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Right before taking office on July 2011, newly elected President Ollanta Humala was faced with a considerable challenge. Wary of Humala's past ideological affiliations and his fiery nationalistic rhetoric, international markets and investors abroad quickly expressed a deep skepticism and mild suspicions over the chances of Peru maintaining the ascending economic path that the country had tread for the past few years under such a new administration. Although Humala had toned down his discourse and presented a more conciliatory tone during the electoral campaign, there were still concerns that some sort of rollback in terms of economic policy could potentially unfold within this new context.

This has hardly been the case, though. Humala ran on a platform that advocated a more equitable framework for the distribution of the nation's wealth, but the major tenets of the economic system were never really brought into question. Naturally, that included the country's multiple connections with the world's international trading system, carefully sowed and nurtured in recent years through an elaborate web of trade agreements with the US, China, Singapore, Canada and South Korea, among others.¹

The latest deal of this sort involves the European Union (EU) and can provide some clues as for the likely course of Peruvian-European relations. For all purposes, the Free Trade Agreement (FTA) that Peru, together with

Colombia, signed with the EU just a few months prior to the elections, on 12 April 2011, comprised a landmark in itself as it contrasted with the EU's previous preference in negotiating such agreements 'bloc-to-bloc' – in this case, with the Andean Community of Nations (CAN). On the other hand, much like any other similar negotiations, this one was also not exempt of its fair share of controversy and opponents.² But after a lengthy debating process, the FTA is now only awaiting ratification by the European Parliament and by all EU member-states, with the hopes of finally entering into force in the second half of 2012.

In loose terms, the agreement envisages the elimination of tariffs on all industrial and fisheries products, increased market access for agricultural products and improved access to public procurement, services, and investment markets. In addition, the pact seeks to reduce technical barriers to trade and to common regimes on intellectual property rights, transparency, and competition. Specific clauses on human rights, rule of law, respect for international conventions on labor rights and environmental protection were also included.³ As for the actual economic effects, independent estimates

1 "Seven trade deals signed by Peru to come into force in 2012" (*Andina*, 18 December 2012).

2 See for example, Thomas Fritz, "The Second Conquest: The EU Free Trade Agreement with Colombia and Peru" (*Center for Research and Documentation Chile-Latin America/Transnational Institute*, October 2010).

3 For more details, see "Trade agreement between Colombia, Peru and the European Union – highlights" (*EU Business*, 13 April 2011).



point out that this agreement could add an extra 0.7% to the Peruvian GDP while attracting further European foreign direct investment (FDI). As EU Commissioner for Trade Karel De Gucht stated, "with this agreement, [Peru and Colombia] will be able to fully benefit from their competitive advantages, and generate the conditions for increased foreign and domestic investment into their growing markets".⁴ Considering that the EU already represented 51% of the total FDI in Peru from 2007 to 2010 – reaching nearly €10 billion – it is safe to say that such an arrangement will thus likely confirm EU delegation chief in Peru Hans Allden's predictions and comprise "a boost to European investment in Peru" since "it will create a predictable scenario for a period of 20 to 30 years, which is the stability that investors need".⁵ Meanwhile, it is interesting to observe how the mere signing of the FTA has produced almost immediate effects on transatlantic flows. In 2010 the EU had exported €2.3 billion to Peru and imported €5.1 billion in goods, but as if proving the potential that such a deal withholds for the coming years, recent trade data indicates that in the first ten months of 2011, between January and October, the EU had already imported from Peru over €5.42 billion and exported nearly €2.68 billion, thus hitting new highs and allowing for considerably optimistic projections of the year's end balance.⁶ With these developments in mind, it is no wonder that the Humala government promptly recognized the significance and the economic potential associated with this deal. Following the meeting between Peruvian Foreign Minister Rafael Roncagliolo with EU high officials in October 2011, it was announced that President Humala himself would travel to Brussels in early February 2012 to promote the speedy ratification by the European Parliament and meet with European leaders.

One particular detail regarding this visit, however, is worth of further attention. As it so happens, before heading off to Belgium and afterwards Davos, in Switzerland, Humala will travel first to Spain where he will meet with Prime Minister Mariano Rajoy, as well as with several Spanish entrepreneurs and companies that might be interested in investing in Peru. Such a carefully selected order of destination was pointed out by Roncagliolo: "this is the first time a Latin American president pays an official visit to the new Spanish government. (...) It is no coincidence that the president will be starting his trip to Europe in Spain".⁷

Indeed, it is no coincidence that Peru seeks to take advantage of Rajoy's recently proclaimed intention to reinstate Latin America as a priority for Spain's foreign

policy.⁸ The re-institutionalization of the office of Secretary of State for Latin America is only the latest token of example of such new drive. Coupled with the common historical-cultural background, as well as with the fact that Spain has remained the largest European investor in Peru over the years, the reasons behind Humala's travel choices are easily surmised.

But while Spain will most certainly continue to retain its predominance on Peru's European agenda, one could suggest a slight adjustment of focus and present a possible alternative into the EU that, although on a completely different scale, can perhaps be already in development. Such is the case with Portugal. In truth, one year ago, this hypothesis would probably not have been seriously considered given the lack of meaningful political and economic relations and the scarcity of ties between both countries. However, the past few months have undoubtedly helped to dispel such perceptions.

The starting point can be unmistakably traced back to Foreign Minister Paulo Portas's attendance of Humala's inauguration in July during his first tour abroad. As commented before, "the underlying deference [of this courtesy] did not go unnoticed"⁹ and in that sense, effectively contributed to elevate Portugal's profile in Lima. The confirmation of this rising trend would then come soon afterwards when President Aníbal Cavaco Silva and Portas took the opportunity of the XXI Ibero-American Summit in Asunción on 28-29 October 2011 to hold a separate bilateral meeting with Humala.¹⁰

But two other examples can also attest to the mutual official interest in advancing greater relations. One concerns the appointment of the new Peruvian ambassador to Portugal, Néstor Francisco Papolizio Bardales, a career diplomat who served as the country's Vice-Foreign Minister until August 2011. The choice of such a high-ranking official to represent Peruvian interests in Portugal speaks by itself and is perfectly illustrative of the Peruvian Foreign Ministry's intentions of attaching a sizeable level of internal gravitas to its diplomatic mission in Lisbon.

The other case lies with Portugal's recently announced reorganization of its diplomatic network abroad. While at first, indications pointed to Lima being among the embassies to close, the final list exempted it from such a fate. Possible explanations for this 'change of heart' include significant Peruvian lobbying in favor of its continuing maintenance, as well as Portuguese acknowledgement that, at the end of the day, its interests are better served through direct representation in the country.

4 Karel De Gucht, "On the EU Trade Agreement with Peru and Colombia" (Speaking points before the International Trade Committee of the European Parliament (INTA), Brussels, 16 March 2010).

5 "Peru – EU Free Trade Agreement to further increase European investment" (*Andina*, 24 October 2011).

6 "Peru's exports to the EU reach \$6.9b" (*Xinhua*, 30 December 2011).

7 "Peru's Humala to promote trade during first tour of Europe" (*Andina*, 5 January 2012).

8 "Rajoy quiere estrechar lazos con América Latina" (*ANSA*, 26 December 2011); "La UE e Iberoamérica, prioridades del nuevo ministro de Exteriores de España" (*EFE*, 22 December 2011).

9 Pedro Seabra, "Is Portugal rediscovering Latin America?" (*IPRIS Lusophone Countries Bulletin*, No. 24, October 2011), p. 4.

10 "Cavaco e Portas reuniram-se com Presidentes do Peru e Chile" (*Lusa*, 28 October 2011).



It is thus safe to assume that the level of mutual trust and political rapprochement has grown considerably in these past few months. Which, in turn, makes the omission of Lisbon among Humala's itinerary for his upcoming visit to Europe publicly hard to justify. Given the geographical proximity to Humala's disclosed destinations and the self-evident interest in deepening ties, one would have expected the Peruvian President to schedule a timely stop in the Portuguese capital.

However, the reasons behind such an apparent snub are somewhat more intricate as they primarily involve the recent internal feuds in Peru that implied a cabinet shuffle and ended up forcing Humala to cut short his trip to Europe – including an initially planned visit to Portugal – in order to return home sooner and deal with local developments.

Nevertheless, it should be noted that even though Humala won't be coming to Portugal this time around, Foreign Minister Roncagliolo is expected in Lisbon in early February with the aim of engaging in political consultations with Portuguese officials, thus signaling a will to maintain the recent pattern of high-level contacts. On top of this, there are already unofficial indications that Humala could in fact pay a state visit to Portugal later this year, taking advantage of his anticipated attendance of the XXII Ibero-American Summit at Cádiz, Spain.

Unsurprisingly, the motivation behind these increased consultations follows in line with the latest developments surrounding the FTA. Business and trading opportunities are rapidly growing and, as in every race, the first to reach the finish line wins the prize. Trade between the two countries is still negligible on all accounts – in 2010 Peru ranked at 71st and 70th among Portuguese export and import destinations, respectively – but Portuguese companies have already begun to make their way into the Peruvian market. Portuguese industrial conglomerate Mota-Engil is probably the best example as it currently holds nearly €380 million in public contracts in Peru, from the Paíta port concession to extensive road pavement

work.¹¹ Meanwhile, local mining and construction sectors have also been identified as possible targets for further Portuguese investments.¹²

Overall, Portugal is clearly keen on upgrading its relations with Peru to help even out its foreign trade balance and open new markets for its companies. The problem with such an approach is that it faces similar interest from other European countries, most notably Spain, who have also recognized or are starting to recognize what an enhanced relationship between Peru and the EU could imply in the near future. Naturally, Portugal and Spain's foreign appeal are not even comparable. In other words, Spain is in a different league and Portugal cannot really be expected to compete with its neighbor for influence or political clout in Peru. That, however, does not mean that there aren't opportunities for other countries to presently develop their relations with Peru and reap some of the fruits that will certainly arise following the ratification of the FTA. By quickly positioning itself as a valid European interlocutor while heavily investing in extensive and intensive political contacts, Portugal is seeking to demonstrate that it too can serve as a possible gateway into the EU and that it too can gather investors to look into untapped markets.

As Peru sets its eyes more and more on Europe, it will surely find an eager group of potential partners waiting to get on board, including Portugal. Supported by the favorable business context fomented by the FTA, both countries thus appear poised to head on towards new and increased stages of economic and trade exchanges.

11 "Mota-Engil garante obra de 125 milhões no Peru" (*Dinheiro Vivo*, 31 August 2011).

12 "Peru é tentador para empresas portuguesas. Porquê?" (*Agência Financeira*, 20 March 2011).

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