



RED ALC-CHINA

**2do Seminario internacional “América Latina y el Caribe y China:
condiciones y retos para el siglo XXI”**

***ECONOMIC RELATIONS BETWEEN PERU
AND CHINA
CHALLENGES FOR ECONOMIC
DEVELOPMENT***

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- Introduction: natural resources and economic development
- Peru-China economic relations: background
- The impact of China's growth on Peru's foreign trade and economic performance
- Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA
- The Peru-China FTA: first results

Introduction: natural resources and economic development

- China's impact on LA revived an old discussion about the specific challenges faced by resource-rich countries on their path of development,
 - the volatility of the international prices of their exports,
 - the “Dutch disease” or the “resource curse”
 - the policies that should be introduced to optimize the use of this wealth and attain higher levels of income: how to diversify the economic structure, how to protect the economy –through finance, accumulation in sovereign-wealth funds, or changing the way the economy inserts in the world economy – what should be the role of the state?

Introduction: natural resources and economic development


- Why Peru is interesting?
 - A case study of a rich-resource country, a diversified natural endowment – mining, oil, gas, fish and agricultural resources
 - After an unsuccessful effort to industrialize, back to very liberal economic policies, unilateral opening of the economy (1990s); failure of developmental policies so deep that it seems that any intervention from the government is unwelcome for a great part of the population
 - Historical relationships with China which became its first trade partner in 2012

Peru-China economic relations: background

- A privileged relationship?
 - An early relationship: Peru was 1st in LA to establish diplomatic relations with the Chinese Empire (1874, Treaty of Friendship, Trade and Navigation), 2nd after Chile to establish diplomatic relations with the PRC (1971).
 - Importance of the Chinese-peruvian community in the country

Peru-China economic relations: background

- Upgrading of bilateral economic relations between Peru and China: “Look East” policy of the 1st Fujimori government (1990-1995) giving a high priority level to East Asia.
 - East Asia as a market
 - East Asia as a model of successful economic development
 - Peru as a gateway, for Asian products in Latin America, “the hub of East Asia and South America” : Peru member of PBEC in 1990, of PECC in 1991, and finally of the Asia-Pacific Economic Cooperation (APEC) in 1998, key in promoting Peru's closer relationships with several Asian nations, including China



Peru-China economic relations: background

- Policy endorsed by successive Peruvian governments of A. Toledo (2001-2006), A. García (2006-2011) and the actual President, O. Humala since 2011
- The new trade policy adopted by Peru in 2001 favored bilateral trade agreements to improve access to the main export markets, and gave high priority to transpacific agreements:
 - Peru signed Framework with Thailand (2005), FTA with Singapore (2008) and FTA with China (2009), after the US (2006) but before Korea, Japan and the UE (2011)
 - with China: Bilateral Agreement of Promotion and Protection of Investments (1994),

China's growth, Peru's foreign trade and economic performance

- Peru:
 - diversified natural resources
 - To-day specialization: metals (copper, iron, gold ...), energy (gas, oil), fishmeal, trying to diversify in “non-traditional” goods –mainly agriculture, fishing, textiles and garment
 - Complementarity with China in trade, except for low and medium value-added manufactures

China's growth, Peru's foreign trade and economic performance

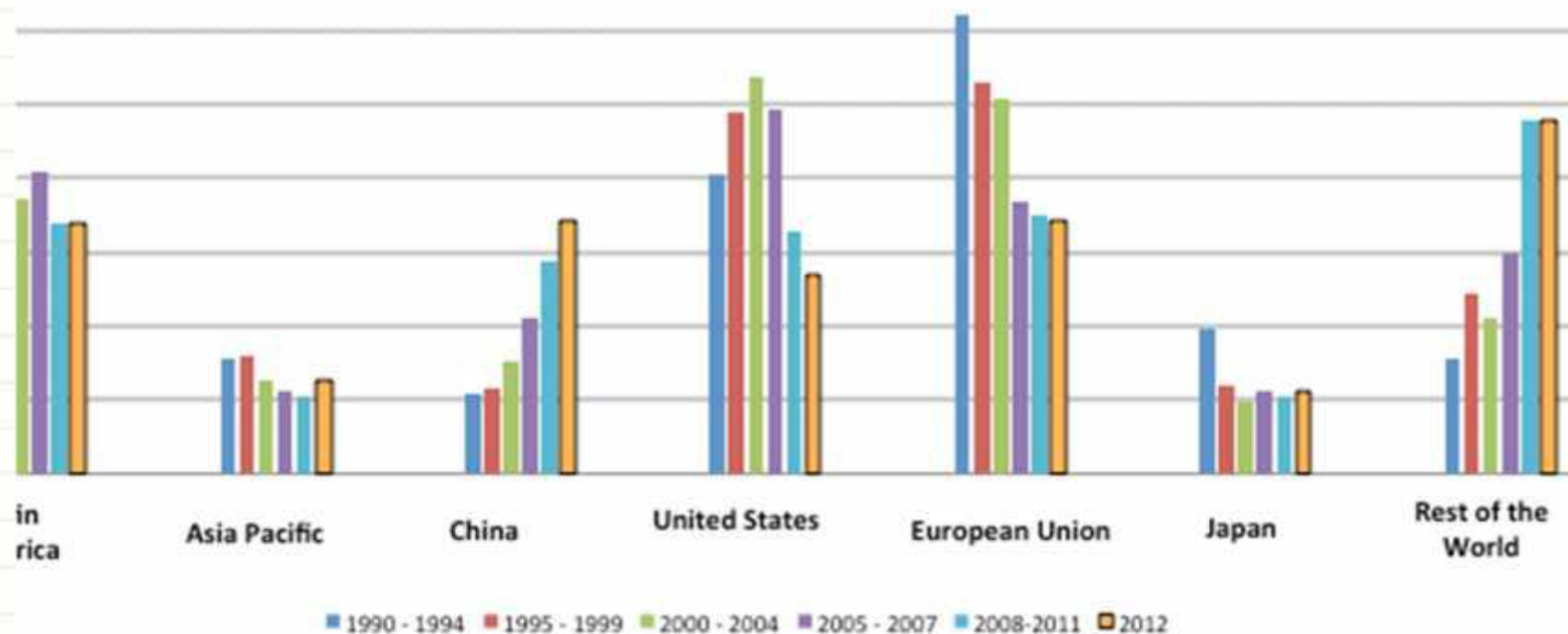
- The impact of China's growth:
 - Mainly through trade with direct and indirect effects
 - China's FDI: still small but growing in mining, oil, fishing, number of big projects
 - We will concentrate on trade effects

Direct trade effects

- Between its trade liberalization in 1992 and 2012,
 - Peru's exports of goods multiplied twelve times in value
 - Trade balance moved from a chronic trade deficit to trade surplus
 - These development have been related to China's rise
 - Main partners changed: China is now 1st destination of exports and 1st source of imports

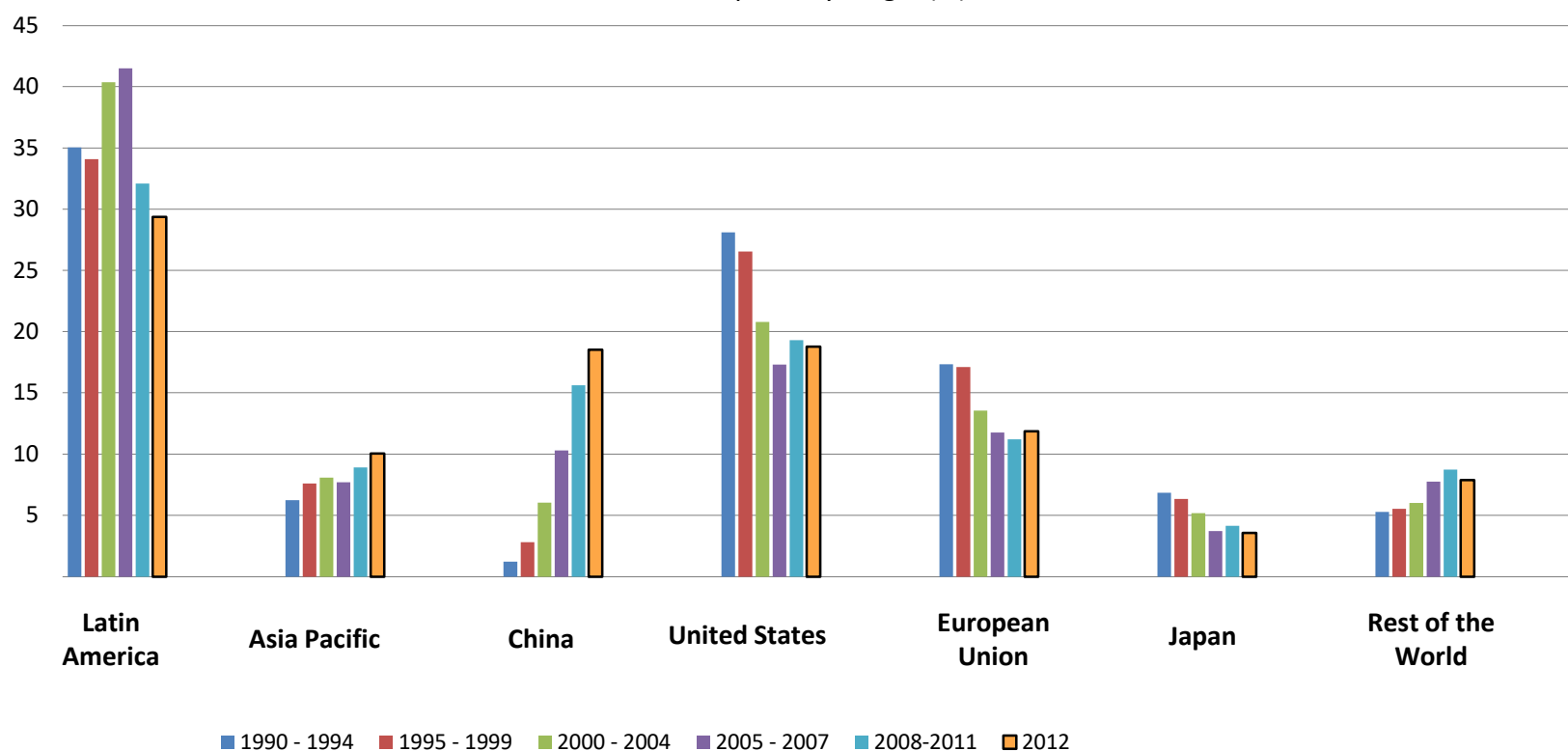
Direct trade effects

Chart 1
Peru: Exports by Destination (%)



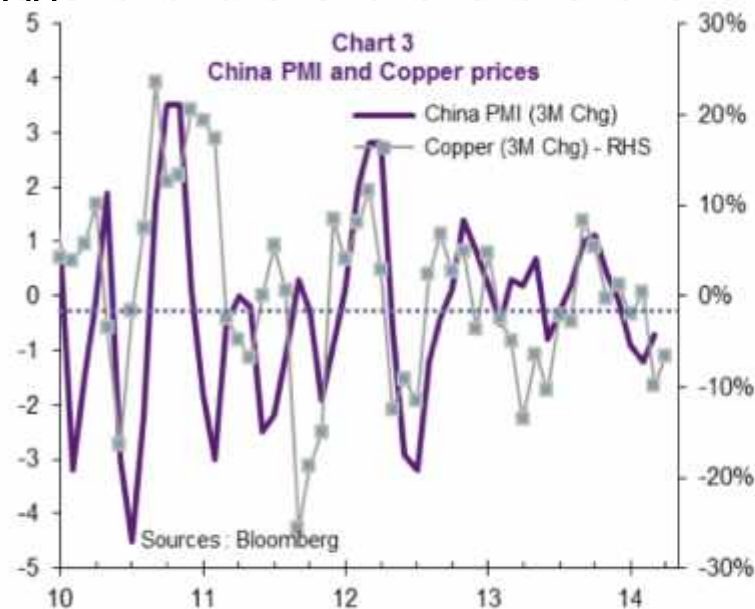
Direct trade effects

Chart 2
Peru: Imports by Origin (%)

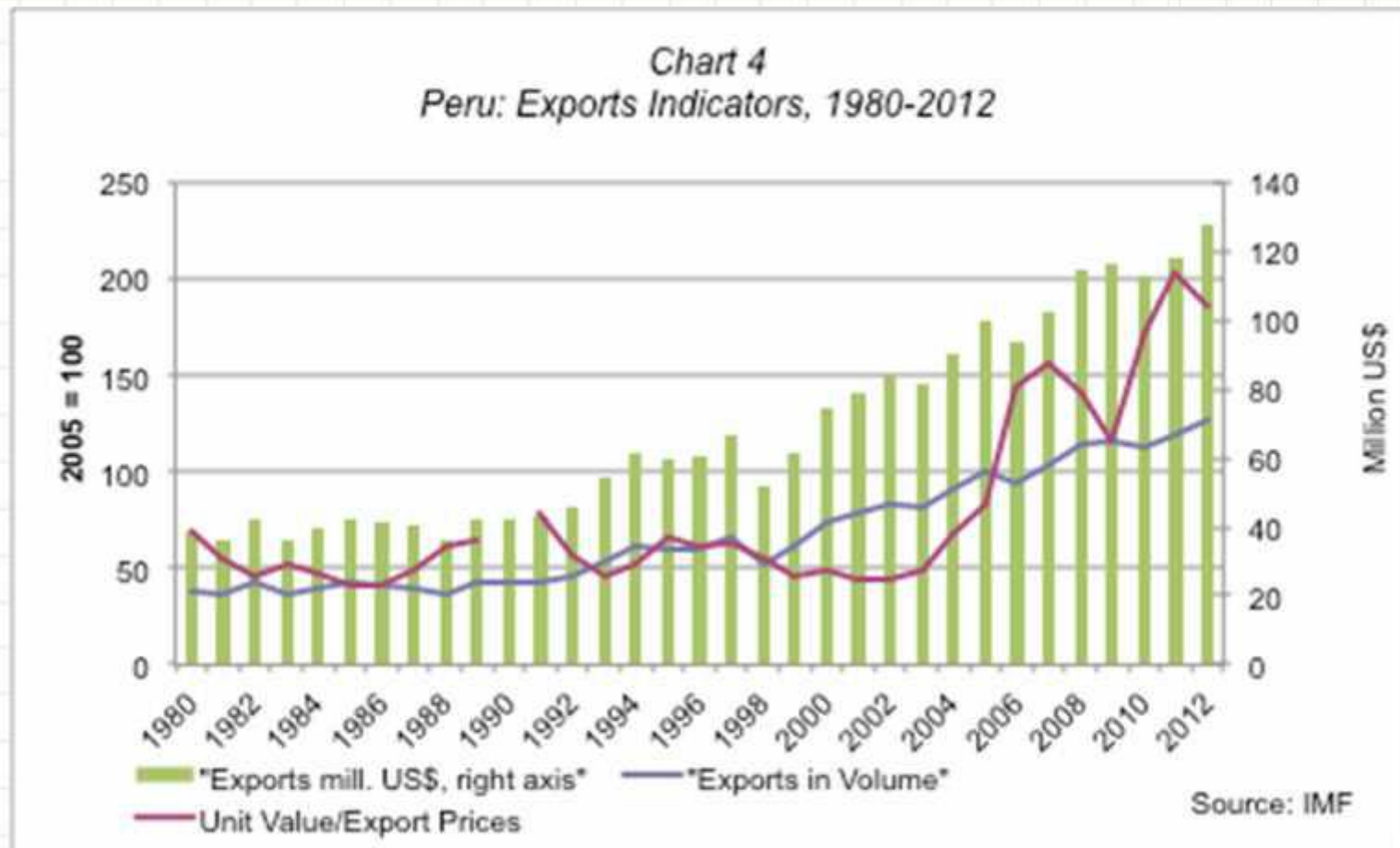


Indirect trade effects

- Chinese demand has grown to represent between a quarter and a half of world consumption of copper, iron ore, zinc and fishmeal, among other commodities and it has increasingly been satisfied by imports (more than 70% of iron ore consumption or 80% of copper consumption)
- Effects of higher Chinese demand on prices, illustrated through the relations between copper prices and China's Purchasing Managers Index (Natixis, 2014)



Macro impact on Peru's economy



Macro impact on Peru's economy

- Higher exports and imports, better trade balance
- How did Peru use this bonanza?
 - Bonanza used to reduce public debt and specially public external debt -> better risk indicators
 - Launched a “virtuous cycle” of higher investment and consumer demand and growth
 - Better macro management -> steady growth with low inflation
 - Growth and development path mainly left to “market forces”

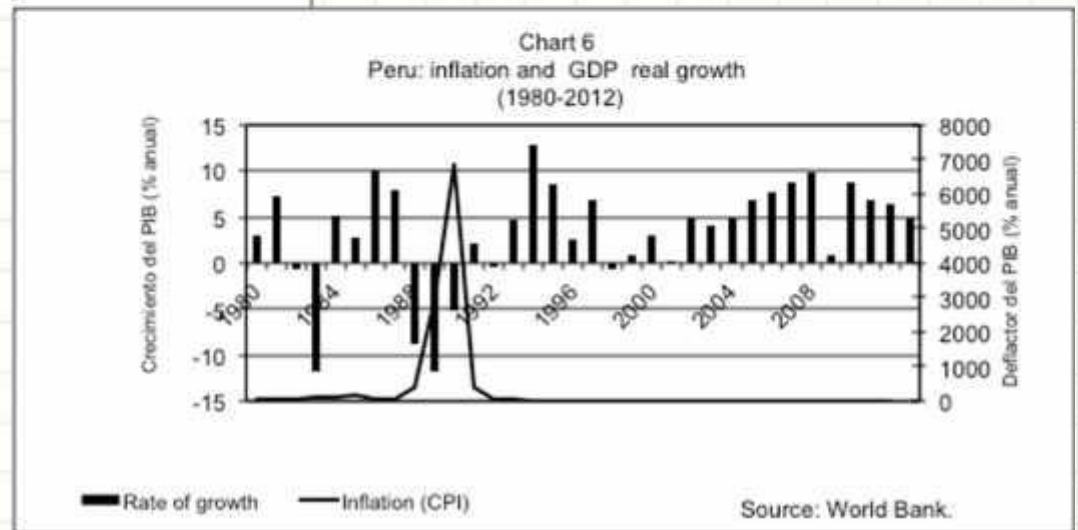
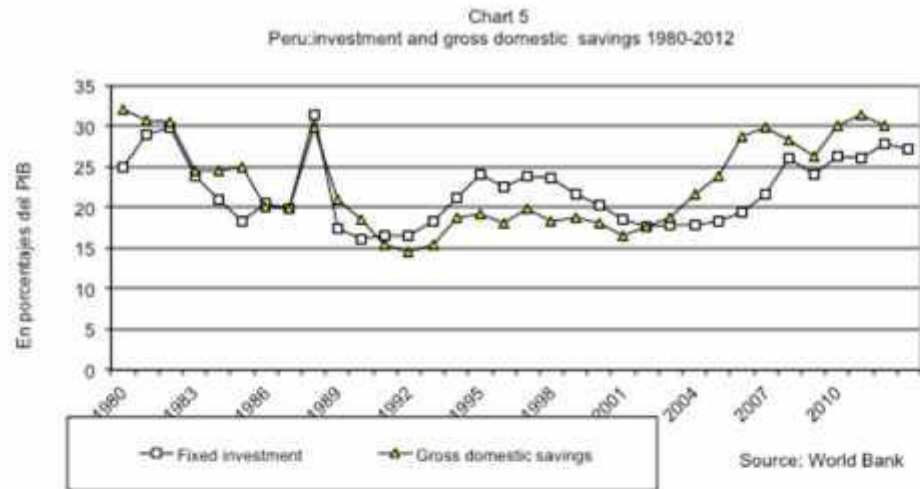
Macro impact on Peru's economy

Table 1 Peru: Lifting the External Constraint (% of GDP)

	1990-1994	1995-1999	2000-2004	2005-2009	2010-2013	2013
Exports	13.1	13.7	17.4	26.6	23.1	20.2
Imports	15.1	18.2	17.8	21.5	19.9	20.4
Balance on Goods and Services	-2.3	-4.5	-0.4	5.2	1.8	-1.0
Current Account Balance	-4.1	-1.8	-2.1	1.0	-3.2	-4.9
Fiscal Balance	-4.1	-1.8	-2.1	1.0	1.1	0.7
Central government Debt	94.9	n.a.	46.1	31.0	20.0	18.2
Public External Debt/GDP	44.6	35.3	36.4	20.5	11.5	10.0

Sources: IMF, WB and Central Reserve Bank of Peru

Macro impact on Peru's economy



Risks

- Re-primarization:

- Peruvian exports to China are heavily concentrated on raw materials (95%). In 2013, five metal and fish products explain 93% of the value of total exports: copper, fishmeal, iron ore, lead and zinc.

- In contrast, exports to the US, the former main partner, are much more diversified and comprise higher levels of value-added products

Perú	2011
Productos principales	
97101 Oro no monetario	21.7
28311 Mineral y concentrados de cobre	17.4
3320 Productos derivados del petróleo	6.4
2834 Mineral de plomo y sus concentrados	4.0
68212 Cobre refinado	6.0
0814 Harina de carne y harina de pescado	3.9
3411 Gas natural	3.2
2835 Mineral de zinc y sus concentrados	2.6
0711 Café verde o tostado y sucedáneos	3.4
2813 Mineral de hierro y sus concentrados	2.3
Total de los productos principales (porcentaje)	70.9

Risks

- Re-primerization means higher sensibility to a few commodities' prices and to Chinese demand
- “dutch disease” symptoms: appreciation of the exchange rate. + higher portfolio inflows due to optimism and higher domestic rates of return. Higher risk in Peru due to persistent dollarization of the financial system

Macro impact on Peru's economy

- Questions:
- For how long?
- What consequences when the “super-cycle” really comes to its end? How growth will be sustained? Will it be different from previous historical experiences of commodities booms ending very badly for Peru?
- Trade balance already negative in 2013
- New government initiative. “Plan de diversificación productiva”. A symptom of an ending boom or a real initiative?

Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Initial conditions:
 - Chinese tariffs higher than Peruvian but Peru still protected with higher tariffs some “sensitive” sectors
 - Between 1995 and 2009 Peru introduced 13 antidumping and safeguards measures against Chinese exports which were damaging these sectors (on a total of 30 measures)
- Two broad motivations:
 - 1. To position the country as a hub for the East Asia- Latin America relations, through a closer relation with the biggest economy of the region.
 - 2. To gain a better access to China's market and to reduce the trade deviation produced by the Chile-China FTA.

Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Specific objectives:
 - “Defensive” side, protection for “sensitive” domestic productive sectors, labor-intensive sectors like textiles and footwear, metal-mechanics
 - expecting that the rise of costs in China would reduce progressively the competitiveness of low-tech industries
 - Expecting that these sectors may find markets through other FTAs (US, EU)
 - “Offensive” side.
 - To expand both traditional exports (commodities) and agricultural and fish value added products, in view of the increasing demand of the new Chinese middle-class
 - To attract Chinese DI (natural resources, infrastructure, industrial clusters,
 - To stimulate cooperation with China -already the second contributor-, particularly in innovation and customs,
 - To develop enterprise networks and joint businesses with the Chinese-Peruvian community. (González Vigil, 2009).

Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Peru accepted to recognize China the status of “market economy”, and resigned to resort to the protection of certain instruments that the WTO establishes for economies in transition, a requirement that China has been imposing in all its negotiations.
- 2007: Joint Feasibility Study.
- The negotiations were carried out very fast (in six rounds between January and October 2008) -> in order to announce the agreement and sign it during the visit of President Hu Jintao during APEC Presidential Meeting in Peru.



Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Comprehensive agreement that includes:
 - Trade in goods
 - Trade in services (positive list),
 - Investment chapter,
 - Bilateral cooperation and
 - an associated Customs Cooperation Agreement required by the Peruvian authorities

Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Market access: Negotiations around 4 “Baskets” of customs sub-headings
- A - Immediate elimination: no less than 60%
- B – Tariff reduction in 5 years: 10% to 20%
- C – Tariff reduction in 10 years 10% to 20%
- D – excluded less than 10%



Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Finally. Peru had to accept limiting Basket “D” to 8.05% of sub-headings = 10% of value of imports from China. It includes more sensitive items from textile and garment, footwear, metal mechanic products
- New Basket “E” including other sensitive items (3.89% of value) with long term tariffs reductions

Peru's major initiative to deepen trade and investment ties with China: the Peru-China FTA

- Results: 83 % of Peruvian exports to China will enter immediately without tariff. Fishmeal. 1.2%, to 0% in 2015.
- Fresh grapes. 7.8% to 0% in 2015,
- 62.7% of Chinese exports gain immediate access without tariff
- Both countries retain capacity to introduce WTO antidumping and safeguards measures + gain access to bilateral safeguard measures
- Customs cooperation deemed essential by Peru to reduce subvaluation and fraud in imports

The Peru-China FTA: first results

- What was really expected?
 - Peru competitiveness in commodities and natural resources -> more exports in traditional exports due to lower tariffs, and access of more value-added agricultural, fish products, maybe some low tech manufactures
 - Higher manufactured imports from China
 - A trade deficit for Peru
 - The first results are in line with these expectations, question is: Are the benefits in line with the costs?

The Peru-China FTA: an initial appreciation of its first results

- How have done the new value-added exports to China? How have done the “sensitive” sectors in Peru, which represent a significant part of value-added and employment in manufacturing?
 - Textiles and garment: 10% of Manufacturing GDP, 1,5% of GDP, 27% of Manufacturing employment. Micro, SMEs.

The Peru-China FTA: an initial appreciation of its first results

- Exports: Still concentrated on 5 products, but copper has accentuated its participation: from 43% of total exports in 2008-2010 to more than 60% in 2013. Also a higher percentage of copper exports is now going to China (30% of total exports in 2008-2010, 45% in 2013). Same trend for fishmeal, opposite for lead and zinc.
- Non-traditional exports: growth has not been sustained for all products: reductions in 2011, 2012.

The Peru-China FTA: an initial appreciation of its first results

- Imports: high and sustained rate of growth.
- Also in consumer goods.
- Trade deficit since 2012: lower prices of commodities and high growth of imports accentuated
- Results negatively impacted by downward trend in commodities prices, but also by difficulties to export

The Peru-China FTA: an initial appreciation of its first results

Tabla 2 Comercio exterior Peru China

	2008	2009	2010	2011	2012	2013
EXPORTACION	3567.2	4078.8	5425.9	6958.9	7692.5	7331.2
> TRADICIONAL	99.8%	95.5%	95.3%	95.2%	95.8%	95.1%
> AGRÍCOLAS	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
> MINERO	71.9%	73.6%	77.4%	78.4%	83.8%	89.9%
COBRE	43.5%	42.2%	43.4%	45.4%	56.7%	60.9%
ESTAÑO	0.0%	0.8%	0.0%	0.7%	0.0%	0.0%
HIERRO	7.4%	6.1%	8.9%	14.3%	11.1%	11.7%
MINERALES MI	0.2%	0.4%	0.0%	0.0%	0.0%	0.1%
ORO	0.8%	0.7%	0.2%	1.0%	0.4%	0.2%
PLATA	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
PLOMO	13.2%	12.2%	14.7%	11.5%	12.7%	5.2%
ZINC	6.6%	11.3%	10.2%	5.5%	3.0%	4.2%
> PESQUERO	20.6%	17.3%	16.1%	15.4%	11.8%	12.1%
ACEITE DE PESI	0.2%	0.7%	0.5%	0.4%	0.3%	0.4%
HARINA DE PES	20.4%	16.6%	15.6%	15.0%	11.5%	11.7%
> PETRÓLEO Y	1.6%	4.6%	1.8%	1.4%	0.0%	0.8%
> NO TRADICIC	5.8%	4.5%	4.7%	4.8%	4.2%	4.9%
IMPORTACION	4065.30	3267.40	5119.80	6365.40	7794.60	8380.40
> BIENES DE CC	31.6%	23.6%	26.4%	27.4%	29.4%	35.0%
> MATERIAS PF	34.5%	18.5%	24.6%	22.1%	25.6%	26.5%
> BIENES DE CF	47.9%	37.9%	43.3%	42.0%	46.3%	52.8%
> DIVERSOS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SALDO COMER	3566.2	4077.99893	5424.95641	593.5	-102.2	7330.05689
INTERCAMBIO	3568.2	4079.60107	5426.84359	13324.3	15487.1	7332.34311

The Peru-China FTA: an initial appreciation of its first results

Tabla 3 Exportaciones no tradicionales

	2008	2009	2010	2011	2012	2013
En valor						
> NO TRADICIC	208.40	182.50	253.90	336.50	326.30	362.50
AGROPECUARI	24.40	20.00	32.70	33.30	41.40	59.70
MADERAS Y PA	62.30	71.20	79.40	57.90	51.00	55.40
METAL-MECÁN	1.70	0.30	1.10	3.00	0.60	4.50
MINERÍA NO M	0.08	0.04	0.23	1.60	0.70	0.20
PESQUERO	91.10	47.30	74.40	168.10	171.20	162.40
PIELES Y CUERC	0.50	0.10	0.20	2.60	2.60	4.10
QUÍMICOS	12.30	23.20	35.90	40.00	30.90	32.20
SIDERO-METAL	4.10	3.30	5.40	9.20	8.00	20.40
TEXTIL	11.70	17.00	24.60	20.60	19.80	23.30
VARIOS (INCL. .	0.10	0.10	0.10	0.20	0.10	0.30
En porcentajes del total exportado						
AGROPECUARI	0.7%	0.5%	0.6%	0.5%	0.5%	0.8%
MADERAS Y PA	1.7%	1.7%	1.5%	0.8%	0.7%	0.8%
METAL-MECÁN	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
MINERÍA NO M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PESQUERO	2.6%	1.2%	1.4%	2.4%	2.2%	2.2%
PIELES Y CUERC	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
QUÍMICOS	0.3%	0.6%	0.7%	0.6%	0.4%	0.4%
SIDERO-METAL	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%
TEXTIL	0.3%	0.4%	0.5%	0.3%	0.3%	0.3%
VARIOS (INCL. .	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: MINCETUR

The Peru-China FTA: an initial appreciation of its first results- A comparison with the US

Table 6

Peru: Trade with China and the USA, 2013

	PERU-CHINA		PERU-USA	
	Mill. US\$	%	Mill. US\$	%
EXPORTS FOB	7331.2		6030.8	
> TRADITIONA	6968.6	95.1%	3476.6	57.6%
> AGRICULTUR	4.4	0.1%	216	3.6%
> MINING	6592.1	89.9%	1745.7	28.9%
> FISHERIES	883.9	12.1%	37	0.6%
> OIL AND NAT	58.1	0.8%	1477.9	24.5%
> NON TRADIT	362.5	4.9%	2554.2	42.4%
AGRICULTURAL	59.7	0.8%	895.9	14.9%
CRAFTS		0.0%	0.4	0.0%
WOOD AND PA	55.4	0.8%	37	0.6%
METAL-MECHA	4.5	0.1%	81.1	1.3%
NON-METALIC	0.2	0.0%	201.4	3.3%
FISH	162.4	2.2%	178.9	3.0%
LEATHER AND	4.1	0.1%	3.6	0.1%
CHEMICALS	32.2	0.4%	54	0.9%
METALLURGIC	20.4	0.3%	265.1	4.4%
TEXTILE	23.3	0.3%	642	10.6%
MISCELLANEO	0.3	0.0%	194.7	3.2%
IMPORTS (CIF)	8380.4	100.0%	7918	100.0%
> CONSUMER (2563.5	30.6%	641.5	8.1%
> RAW MATER	1945.6	23.2%	4663.9	58.9%
> CAPITAL GOC	3870.8	46.2%	2609.7	33.0%
> VARIOUS	0.5	0.0%	2.9	0.0%
TRADE BALANC	-1049.2		-1887.2	
TRADE VOLUM	15711.6		13948.8	

The Peru-China FTA: an initial appreciation of its first results- A comparison with the US

CHINA	2001	2006	2010	2011	2012	2013
EXPORTS (Nº of Tariff Subheadings)	103	238	336	359	311	324
COMPANIES (units)	138	375	461	506	483	493
Exports < US\$ 100 000	46	157	193	231	209	210
Exports between US\$ 100 000 and 1 million	45	120	150	144	149	159
Exports > US\$ 1 million	47	98	118	131	125	124
Value of Exports (FOB) by Annual Sales Range	425031	2260593	5435965	6958897	7692453	7331166
Exports < US\$ 100 000	1301	4645	5276	6990	5716	6728
Exports between US\$ 100 000 and 1 million	16582	41831	56613	51471	55612	58660
Exports > US\$ 1 million	407149	2214118	5374300	6900436	7631125	7265779
USA	2001	2006	2010	2011	2012	2013
EXPORTS (Nº of Tariff Subheadings)	2012	2061	2130	2311	2343	2337
COMPANIES (units)	1865	2537	2572	2662	2643	2600
Exports < US\$ 100 000	1301	1663	1594	1597	1500	1388
Exports between US\$ 100 000 and 1 million	393	560	630	666	710	724
Exports > US\$ 1 million	171	314	348	399	433	488
Value of Exports (FOB) by Annual Sales Range	1749706	5767950	6087015	6026461	6030831	7306538
Exports < US\$ 100 000	22701	31298	33951	36004	34863	35176
Exports between US\$ 100 000 and 1 million	129233	192303	218980	234679	263519	261242

Results

- Exports very concentrated on small number of products, small numbers of exporters: change very slow
- Some new exporters (small) have not sustained their exports (2011- 2012)
- Imports have grown at very high levels, not only in sectors which were opened to China's imports but also in "protected" sectors: ex. of textiles and garment: two-digits growth although there are antidumping measures in several lines
- Share market of domestic producers and Indicators of activity in these "sensitive" manufacturing sectors are shrinking.

Conclusions

- With China, Peru has chosen to use its comparative advantages to develop commodities and value added exports from the agriculture and fishing activities. Domestic manufacturing?
- Peru doesn't seem to have reaped all the benefits expected from the FTA. -> probably slow to gain access, also the very high volume of commodities exports means that diversification is at the margins
- Exporting new value-added products needs higher level of support to producers –smaller than mining exporters-
- Impact on “sensitive” manufacturing sectors higher than expected?