US - Peru FTA: Impact and Perspectives

The George Washington University
Elliott School of International Affairs

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October 2008
Peru-US FTA is the result of a long and complex process

- 2004: Negotiations began
- 2005: Negotiation rounds and finished
- 2006: Signed by both countries
  Approved by Peruvian Congress

Political Transition Peru: Alan Garcia took office

Political Transition USA: Democrats gained power in Congress

- 2007: “New Trade Deal” between Democrats and Republicans
  Favorable votes in House (285 – 132) and Senate (77 – 18)
  Signed by President George W. Bush

- 2008: Implementation process

<table>
<thead>
<tr>
<th>Negotiation and signed by governments</th>
<th>Sent and ratified by Congresses</th>
<th>Implementation by Peru and certification by US</th>
<th>Enter into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 months</td>
<td>19 months</td>
<td>¿11 months ?</td>
<td>¿Jan 2009?</td>
</tr>
</tbody>
</table>
In December 2007, the PTPA was finally approved by US Congress and also promulgated by President Bush.
Why the process was so long?

Change in the congressional forces: democrat leaders and freshmen

Bipartisan work was obstructed and has other priorities

Beginning of presidential electoral campaign, with anti trade positions

Perception that free trade is damaging the American economy

Between 2000 – 2005, the real income has increased for only 4% of US workers

The level of inequality is higher since 1920

Source: Foreign Affairs, July 2007
The last formal step: implementation

Powers by Peruvian Congress end

Peru decreed almost **100 laws** to implement and take advantage of the FTA

Garcia-Bush Meeting in Lima

Now, Peru is working on the **regulations and action plans** to fulfill the FTA requirements

Goodwill Goal: Announcement of the FTA entering into force in 2009

New year and US Administration

JUNE

NOVEMBER

JANUARY
7 FTA effects

- **Access effect:**
  trade exchange should increase

- **Platform effect:**
  stability for investment and partnerships

- **Social effect:**
  Uncertain and conditioned

- **Psychological effect:**
  future vision, expectations and attitudes

- **Policy Making Process effect:**
  learning curve for deeper relationship and other agreements

- **Institutional effect:**
  concerted efforts and multi agency actions

- **Catalyst Reform effect:**
  possibility and momentum for reforms
PTPA levels the playing field. With the PTPA, 80% of U.S. exports of consumer and industrial products will become duty-free immediately, with remaining tariffs phased out over 10 years.

PTPA will boost and open new opportunities for US exports. Peru may be the fastest-growing market in South America for US products such as machinery, plastics, technology, cereals and services.
When a FTA enters into force, trade figures leap significantly...

**Trade Exchange Growth**
*Trianual average*
FTA Chile - EE.UU.

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre FTA</th>
<th>Post FTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2003</td>
<td>-1%</td>
<td></td>
</tr>
<tr>
<td>2004-2006</td>
<td>36%</td>
<td></td>
</tr>
</tbody>
</table>

**Non-copper Exports**
FTA Chile - EE.UU.

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>3,310</td>
</tr>
<tr>
<td>2006</td>
<td>5,405</td>
</tr>
</tbody>
</table>
In the case of Mexico, NAFTA was an opportunity more than a threat for the agriculture sector....

The vegetables and fruits exports soared 80% and 90%, respectively.

From the total US consumption, 9 out of 10 mangos, 1 out of 2 eggplants and 1 out of 3 tomatoes are from the Mexican farms.

Currently, more than 20 agro products from Mexico rank 1st in US imports.

Currently, 40% of the agro Mexican supply is traded internationally. Before NAFTA, it was only 19%.
United States is losing participation in Peru’s total trade

**Peruvian Imports:**
In 2007, while Peru’s imports from **China** increased almost 60%, imports from **United States** increased by 40%.

**Peruvian Exports:**

1998: US$5.7B

2007: US$28B
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PTPA provides an ideal framework for investing in a dynamic and secure economy

- **Investment**: Lima Stock Exchange was, in average, one of the most profitable in the world during 2006 and 2007.

- **US companies and funds have investments** in Peru for more than **US$10,000 million**.

- PTPA will provide for a **stable, secure, predictable framework** for investments in both countries.

- Recently, Peruvian economic performance have permitted us to join an “exclusive club” by obtaining the **investment grade status** for international debt (Fitch Ratings and Standard & Poor’s)
When a FTA enters into force, investment figures leap significantly...

Investment Stock
(Promedio 5 años - US$ MM)
TLC Mexico - EE.UU. (NAFTA)
Currently, US is not taking enough advantage of Peruvian economy dynamism

Neither the main investor country... Nor the most dynamic one...

<table>
<thead>
<tr>
<th>FDI STOCK BY COUNTRIES</th>
<th>2006 (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>4.7</td>
</tr>
<tr>
<td>United Kindom</td>
<td>2.7</td>
</tr>
<tr>
<td>US</td>
<td>2.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.8</td>
</tr>
<tr>
<td>Panama</td>
<td>0.8</td>
</tr>
<tr>
<td>Chile</td>
<td>0.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.5</td>
</tr>
<tr>
<td>Brasil</td>
<td>0.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DYNAMICS FDI STOCK IN PERU</th>
<th>% Growth rate 2000/1994</th>
<th>% Growth rate 2006/2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>7716%</td>
<td>1215%</td>
</tr>
<tr>
<td>Brasil</td>
<td>810%</td>
<td>469%</td>
</tr>
<tr>
<td>Colombia</td>
<td>1834%</td>
<td>368%</td>
</tr>
<tr>
<td>Japon</td>
<td>197%</td>
<td>128%</td>
</tr>
<tr>
<td>Panama</td>
<td>176%</td>
<td>48%</td>
</tr>
<tr>
<td>US</td>
<td>174%</td>
<td>33%</td>
</tr>
<tr>
<td>United Kindom</td>
<td>473%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Proinversion
Early this month, a US law firm and the Embassy launched the first “US-Peru Investment Forum”

**PERU-U.S.**

2008 INVESTMENT FORUM
WASHINGTON, DC, OCTOBER 2ND

**Attendees**
- 2 Peruvian Ministers
- **40** top Peruvian executives
- **100** US executives and potential investors

**Sectorial Roundtables - Business Sessions**
- Energy & Mining
- Finance & Services
- Agribusiness and manufacturing
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In the case of Peru, trade can be associated to job creation...

- According to a report issued by “Crecer”, a USAID program in Peru, the ATPDEA (Andean Trade Promotion and Drug Eradication Act) fostered **750 thousand new direct and indirect jobs** related to trade.

- Also, the study stated that in the long term, the **PTPA (US-Peru FTA) will generate almost 1 million** of new jobs related to exports activities.

- In 2006, **extreme poverty in Ica was down to only 3%**. Ica is an agribusiness-exporting community with a labor intensive job in the countryside.
“The social impact of regional integration on rural areas in Latin America”
17 countries - IADB
“Why NAFTA didn’t reach the South?”
IADB, World Bank, others

Because:

- Lack of infrastructure and telecom,
- Low level of human capital,
- Lack of social cohesion and
- Quality failures in institutions and governance
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In the first semester 2008, Peru has been one of the most outstanding and dynamic market worldwide as a destination of American exports.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gibraltar</td>
<td>663%</td>
</tr>
<tr>
<td>Chile</td>
<td>73%</td>
</tr>
<tr>
<td>Peru</td>
<td>73%</td>
</tr>
<tr>
<td>Turkey</td>
<td>70%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>48%</td>
</tr>
<tr>
<td>Colombia</td>
<td>47%</td>
</tr>
<tr>
<td>Russia</td>
<td>47%</td>
</tr>
<tr>
<td>Argentina</td>
<td>45%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>41%</td>
</tr>
<tr>
<td>Spain</td>
<td>39%</td>
</tr>
</tbody>
</table>

Peruvians approve the FTA and they project in it high expectations...

Why did you approve Alan Garcia’s administration?

January 2008
1. FTA ratification 50%
2. He isn’t making the same errors from the past 43%
2. Economic growth 38%

September 2008
1. Improvement of Peru’s image abroad 47%
2. Investment promotion 41%
3. He isn’t making the same errors from the past 32%
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Why Peru has a FTA ratified?

- Developed trust relationship with both US parties, administration (USTR) and Congress (Rangel and Levin)
- Worked with Democrat-influential lobby firm
- Understanding of the New Trade Deal: clarification of Peruvian labor laws and improvements of environmental standards at the international level
- A matter of chance and opportunity

“Peru is a small country and that labor and environmental standards such as the ones Democrats had been fighting for, were included in the PTPA”, Senator Obama

At the end of 2008, President Garcia and President Bush will have had 4 meeting.
Peru has been upgrading its relationship with US in an comprehensive manner

**MILITARY:**
2008: Transfer of naval equipment

**TRADE & INVESTMENT:**
2007 Free Trade Agreement signed

**DRUGS:**
1992: ATPDEA & USAID

**ENERGY:**
2008 MOU: Clean and Renewals Energies

**COOPERATION:**
2007 Millennium Challenge Account
In few years, Peru will have the main and more dynamic economies from the world as free-trade partners ...
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For Peru, the FTA process represent an unprecedented experience of a concerted action of multiple institutions working towards a single development policy.

Political continuity
2 Presidents
3 Ministers of Trade
4 Vice Ministers of Trade
2 Ambassadors to US

Private representation
Ever biggest and broadest private representation: CENI

Diamond Collaboration:
State – Private Sector – Civil Society – Academia
The FTA implementation process is a multi agency effort

Almost 20 public agencies

<table>
<thead>
<tr>
<th>Institución</th>
<th>Nro. Tareas</th>
<th>Institución</th>
<th>Nro. Tareas</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDECOPI</td>
<td>60</td>
<td>RREE</td>
<td>8</td>
</tr>
<tr>
<td>MTC</td>
<td>24</td>
<td>MINAG</td>
<td>6</td>
</tr>
<tr>
<td>OSIPTEL</td>
<td>24</td>
<td>PRODUCE</td>
<td>6</td>
</tr>
<tr>
<td>MEF</td>
<td>23</td>
<td>SBS</td>
<td>4</td>
</tr>
<tr>
<td>CAN</td>
<td>22</td>
<td>MINSA</td>
<td>2</td>
</tr>
<tr>
<td>MINCETUR</td>
<td>10</td>
<td>DIGEMID</td>
<td>2</td>
</tr>
<tr>
<td>MINJUS</td>
<td>10</td>
<td>SENASA</td>
<td>2</td>
</tr>
<tr>
<td>SUNAT</td>
<td>10</td>
<td>PCM</td>
<td>2</td>
</tr>
<tr>
<td>CONSUCODE</td>
<td>9</td>
<td>CONAM</td>
<td>2</td>
</tr>
</tbody>
</table>

Almost 100 actions

<table>
<thead>
<tr>
<th>Acción</th>
<th>Nro. Tareas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adherir Tratado Internacional</td>
<td>3</td>
</tr>
<tr>
<td>Crear sistema - proceso</td>
<td>7</td>
</tr>
<tr>
<td>Incorporar en norma vigente</td>
<td>14</td>
</tr>
<tr>
<td>Modificar norma vigente</td>
<td>47</td>
</tr>
<tr>
<td>Promulgar nueva norma</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
</tr>
</tbody>
</table>
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In a way, the FTA triggers structural and competitiveness reforms that otherwise will be maybe never executed or in a slower way

One example:

“provide for the release of goods within a period no greater than that required to ensure compliance with its customs laws, and to the extent possible release the goods within 48 hours of arrival

When this custom procedure will be enforced, companies may save around US $ 250 per container (average cost applied by storage private companies)

This amount represent an important part of the total logistic cost for the release of goods at Callao Port that represent more than 70% of the total cost
In the context of the FTA implementation process, Peruvian government approved almost 100 laws in order to improve our competitiveness.

Some examples:

- Foster public-private partnerships for private investments
- Create the new Ministry of Environment
- Centralize and create an electronic system of Government Procurement
- Training for “CEO public officials”
- Create the custom single window
- Promotion of SMEs formalization
- Create technological incentives for agricultural associations
“A crucial bet for 21\textsuperscript{st} century”: Editorial of President Garcia regarding the 100-law package

1. Transformation of the State
2. Increase growth and foster investment
3. Quality of education and technical competitiveness
4. Generate decent jobs and formalize work
5. Speed up public action
We need to disseminate the globalization benefits into the Andes and the Jungle

- More than 40 exporters: 5 regions
- Between 16 and 39 exporters: 6 regions
- Less than 15 exporters: 13 regions

Promperu registers more than 1,700 exporters in Lima, while Apurimac and Huancavelica don’t report any.
Change paradigms: from the traditional one of “pais-ombligo” to a modern one as “pais-looking for-benchmarks”

We are growing…

...but we still are small

Source: Latin Trade, 2006
* Empresas que más crecieron con ventas por debajo de $100 millones.

Source: Latin Trade, 2007
* Empresas que más crecieron con ventas por debajo de $100 millones.

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td>Peru</td>
<td>8</td>
<td>16%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>120</td>
<td>24%</td>
</tr>
<tr>
<td>Chile</td>
<td>67</td>
<td>13%</td>
</tr>
<tr>
<td>Peru</td>
<td>13</td>
<td>3%</td>
</tr>
</tbody>
</table>
Change paradigms: from the traditional one of “pais-ombligo” to a modern one as “pais-looking for-benchmarks” (II)

<table>
<thead>
<tr>
<th>Category</th>
<th>Peru</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INNOVATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment on R&amp;D % GDP</td>
<td>0.11%</td>
<td>Brasil 10 times more</td>
</tr>
<tr>
<td><strong>ENERGY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment on Natural Gas to 2010 Capacity (mt/year) per person (million)</td>
<td>0.35</td>
<td>Australia 4 times more</td>
</tr>
<tr>
<td><strong>INVESTMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI Forecast Inflows 2006-10 % total world, adjusted by GDP</td>
<td>0.16%</td>
<td>Chile 3.5 times more</td>
</tr>
<tr>
<td><strong>TECHNOLOGY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCs per 100 persons</td>
<td>10</td>
<td>Costa Rica 2.5 times more</td>
</tr>
</tbody>
</table>
The tariffs tend to zero, but the “logistic tariffs” still are a hard trade barrier

The time to transport a 20-feet container from Iquitos to Callao is almost the same that from Callao to China; and its cost is almost 2.5 higher.

<table>
<thead>
<tr>
<th>Infrastructure Quality Ranking</th>
<th>Overall</th>
<th>Roads</th>
<th>Ports</th>
<th>Airports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>30</td>
<td>22</td>
<td>34</td>
<td>31</td>
</tr>
<tr>
<td>South Africa</td>
<td>43</td>
<td>38</td>
<td>48</td>
<td>22</td>
</tr>
<tr>
<td>China</td>
<td>65</td>
<td>53</td>
<td>66</td>
<td>86</td>
</tr>
<tr>
<td>Colombia</td>
<td>89</td>
<td>94</td>
<td>108</td>
<td>62</td>
</tr>
<tr>
<td>Peru</td>
<td>104</td>
<td>95</td>
<td>122</td>
<td>98</td>
</tr>
</tbody>
</table>
Our mega-diversity needs more value added and branding

3,000 sort of potatoes ...

... only one, the freezed yellow, enters to US...

When Peru will export potato chips?

... a US$9 billion US market!
US - Peru FTA: Impact and Perspectives

Txs!! ahenzler@embassyofperu.us