The US – Peru FTA: Impact and Perspectives

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DTB Associates, LLP
Peru at a Glance (2007)

- Population: 29.2 million.
- GNP: $82 billion.
- Annual GNI per Capita (PPP): $7,240
- Inflation Rate (Consumer Prices): 3.5%
- Total Exports: $27.5 billion.
- Total Imports: $20.4 billion.
- Exports to US: $5.2 billion.
- Imports from US: $4.1 billion.
- US-Peru TPA: 80% of US exports of consumer and industrial products and 67% of US farm exports will become duty-free immediately.

Source: CIA (The World Factbook) and The World Bank

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The US – Peru FTA: Impact and Perspectives

- Historic events leading to US-Peru FTA
- Overall US-Peru Trade
- Case Studies on Future Impacts of FTA--
  - Asparagus Industry
  - Textile and Apparel Industry
“Negative” Events Leading to FTA

- 70s and 80s experimentation with leftist, statist, and populist growth strategies, which largely failed in spurring growth and reducing poverty:
  - 1985-1990 1st Garcia govt → confrontation with financial lending institutions over debt payments, policies leading to hyperinflation, effort at nationalization of banks.

- Concurrently, Peru dealt with extremist Shining Path and Tupac Amaru guerrillas which were at their peak in late 80’s and early 90’s.

- Globally: fall of the Berlin Wall and collapse of the Soviet Union.

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“Positive” Events Leading to FTA

- Passage of NAFTA in 1993 and the success of the Chilean export-led growth model.
- In the 90s economic liberalization and privatizations under Fujimori regime.
- Success of the ATPA program in creating export dependent industries and generating jobs starting in 1991.
- Need of Peruvian industries to secure access to key markets in an increasingly competitive global marketplace.

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Main Trade Partners, 2007 (US$Millions)
Relationships Drive Pursuit of FTAs

**Imports**
- US: 3,603 (18%)
- EU: 2,310 (11%)
- China: 2,474 (12%)
- Chile: 884 (4%)
- Col.: 989 (5%)
- Argentina: 1,126 (6%)
- Ecuador: 1,511 (7%)
- Japan: 790 (4%)
- Brazil: 1,884 (9%)
- Others: 4,893 (24%)

**Exports**
- US: 4,939 (19%)
- China: 3,042 (12%)
- S. Korea: 883 (3%)
- Others: 4,541 (16%)
- Japan: 2,184 (8%)
- Brazil: 938 (3%)
- Canada: 1,785 (6%)
- Ecuador: 1,511 (7%)
- Switzerland: 2,335 (8%)
- Argentine: 1,126 (6%)
- Chile: 1,693 (6%)
- EU: 5,250 (20%)

Source: Ministry of Commerce of Peru

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Peru’s Growing Web of Trade Relationships

- Multilateral: WTO Doha Round.
- Regional: APEC, LAIA (ALADI), Andean Community.
- Bilateral:
  - FTAs with USA, Singapore, and Canada.
  - Economic complementation agreements (ACE) with Chile, Mexico, and Mercosur.
  - Pending: E.U., EFTA, China, Thailand, Chile, and Mexico (the latter two ACEs are being expanded).
  - Peruvian proposal for APEC FTA?

Objectives → 1) diversification of markets; 2) become a hub for Asian economies in South America; 3) a window for Brazilian trade with Asia-Pacific region.

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Peru’s Exports to World, 2006
Traditional Exports = 78%. A Need to Diversify.

Source: SUNAT and Central Bank of Peru
DTB Associates, LLP
US Exports to Peru, 2007 (US $Thousands)

Source: US Department of Commerce

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Total US Exports to and Imports from Peru (US$ Thousands) Since 2002

Source: US Department of Commerce

DTB Associates, LLP
Total US Imports from ATPDEA Countries (US$ Millions)

Source: US Department of Commerce
Total US Exports to ATPDEA Countries (US$ Millions)

Source: US Department of Commerce
The Case of the Peruvian Asparagus Industry

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Peru’s Asparagus Industry Overview

- Peru is the world’s top exporter of asparagus.
- Asparagus is Peru’s first agricultural export.
- In 2007 asparagus exports to US totaled $194 million.
- US-Peru FTA, will grant permanent duty free status to Peruvian asparagus and to 99% of total exports.
Development of the Asparagus Industry in Peru

50’s to 80’s:
- Industry began in northern Peru with white asparagus cultivated for canned products.
- In the late 80’s, green fresh asparagus was developed in the south with USAID support.
- Concurrently, the frozen asparagus industry developed and Spanish investment in the south led to the development of canned/jarred asparagus.

90’s:
- Heavy investment from U.S. and E.U.
- Approx. 24,000 hectares cultivated.
Competitiveness: Peru has the World’s Second Highest Productivity (2007)

Source: FAOSTAT

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Benefits for Peru

• 60,000 jobs (60% are held by women).
• From 2000-04 investments of $100 million.
• Industry is driving infrastructure development and adoption of global business practices.
• Multiplier Effect: model for new industries--mangoes, paprika, peppers, onions.
• Total of 600,000 jobs in agroexport sector.

DTB Associates, LLP
U.S. Fresh Asparagus Imports by Major Country (US$ Thousands) * HTS 0709201, 0709209

Source: USDA

Source: USDA
U.S. Canned Asparagus Imports from the World (US $Thousands)  
* HTS 200560

Source: USDA

DTB Associates, LLP
US Frozen Asparagus Imports by Country (US $ Thousands) *
* HTS 0710809510, 0710809710

Source: USDA
Top World Producers of Asparagus (Hectares)
The FTA will help secure the US market.

Source: FAOSTAT

DTB Associates, LLP
Benefits for the US

“Rising tide lifts all boats” – increased availability has led to increased consumer demand year-round for asparagus including that produced in the US.

More than 5,000 jobs created in the US: air, sea, land transportation; warehousing; distribution; port inspections; importers; wholesalers; retailers.

70% of every asparagus dollar exported to US stays in US.

Imports of fresh asparagus from Peru are largely counter-seasonal to US crops.

War on Drugs: asparagus industry has helped Peru to create alternative, legal, employment opportunities and to reduce illegal coca cultivation.

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Fresh Asparagus Distribution
Chain → Job Creation

- Miami Airport Clearance Cold Storage USDA Insp. fumigation
- Cold Storage Air Pallet Clearance Peru to Miami
- Packing House Processing/Quality Control Inspection
- Growers

- Importers/Distributors Pre-cooling Quality Inspection
- Logistics
- Warehousing
- Sales

- Brokers
- Retailer
- Wholesalers
- Consumers
- Importers/Distributors Pre-cooling Quality Inspection

Retailer → Wholesalers → Consumers
Increased Exports and Declining Coca Leaf Production in Peru 1995-2006 (Has)

Sources: US Department of State and United Nations
*Agroexports such as asparagus create legal employment opportunities for impoverished highland agricultural workers.

*Geographic correlation between agroexport producing areas on the coast of Peru and coca-leaf cultivation areas in the Ceja de Selva region.
The Case of Peruvian Textile & Apparel Industry

DTB Associates, LLP
US Imports of Apparel from Peru (US $ Thousands)
Total projected exports to world: $1.8 billion in 2008.

Source: US Department of Commerce
DTB Associates, LLP
Competitiveness: Apparel Manufacturing Labor Costs 2008 (US $/Hour, including social charges)

USA Regional Import Supply Base

Costa Rica: 3.35
Brazil: 2.57
Mexico: 2.54
Honduras: 1.79
El Salvador: 1.78
Peru: 1.55 - 1.95
Dominican Republic: 1.65
Guatemala: 1.65
Colombia: 1.42
Nicaragua: 1.03
Haiti: 0.49 - 0.55

Courtesy: Pro-Nicaragua
DTB Associates, LLP

FTAA / 5 YR. ?
FTA/TPA
FTA Completed
ANDEAN / S. AMERICA
NAFTA/CAFTA
Benefits to Peru’s Textile and Apparel Industry and Overall Economy

- Competitive advantage due to unique raw materials such as pima and tanguis cottons and llama/alpaca fibers as well as ancient cultural tradition.
- Today, T&A make up close to 10% of Peru’s total exports.
- Direct/indirect employment of over 500,000 Peruvians, nearly 20% of Peru’s manufacturing jobs.
- Peru’s T&A industry is high in value-added and is creating a skilled workforce necessary for new industries.

DTB Associates, LLP
U.S. Exports to Peru of Cotton, Yarns, Threads and Woven Fabrics (US$ Thousands)

Source: US Department of Commerce

DTB Associates, LLP
Benefits to US Cotton, Yarn and Fabric Industry

- 95% of Peru’s T&A exports are manufactured from cotton fiber. 70% of Peru’s cotton imports are from US.

- Imports of cotton fiber from the US increased 80% in ten years, from $48 million in 1998 to $85 million in 2007.

- US yarn and fabric exports to Peru grew from $4.5 to $12 million from 2002 and 2007. FTA is designed to foster use of US yarn and fabric inputs.

- As a result, US cotton industry and various US textile industry sectors supported FTA.

DTB Associates, LLP
Benefits to the US Apparel Value Chain and Other Considerations

- Under the ATPDEA, apparel imports from Peru have generated benefits for US distribution networks and retailers, supporting thousands of US jobs along the chain. FTA-led growth will increase this benefit.

- Most of value-added activities remain in US hands: article of clothing FOB Callao = $6.00, sold in US for $40-50.

- War on Drugs: Peru’s growing apparel industry is an indispensable tool in US and Peruvian efforts to reduce illegal coca-leaf cultivation and combat narcotrafficking.

DTB Associates, LLP
US Total Imports of Apparel (US$ Thousands)

- $1,226,869 2%
- $7,854,936 11%
- $1,226,869 2%
- $18,963,749 26%
- $15,053,113 20%
- $2,237,470 3%
- $5,441,478 7%
- $203,525 0%
- $23,375,603 31%

Source: US Department of Commerce

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Displacement of Ag Workers? The Key is to Assist in Conversion

<table>
<thead>
<tr>
<th>Low Job Generation</th>
<th>High Job Generation</th>
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<tbody>
<tr>
<td>Annual Jobs/100 Has</td>
<td>Annual Jobs/100 Has</td>
</tr>
<tr>
<td>Yellow Corn</td>
<td>Asparagus</td>
</tr>
<tr>
<td>26</td>
<td>65</td>
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<tr>
<td>Barley</td>
<td>Onions</td>
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<td>Artichokes</td>
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<td>20</td>
<td>66</td>
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Agricultural export products generate two to three times more jobs than traditional agricultural products (non-sensitive and sensitive)

Source: Peru Ministry of Agriculture

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Concluding Observations

- Global financial crisis has raised concern about stability of the US market for niche, high value, products such as those that Peru and other L.A. countries export. A prolonged drop in demand will impact exports and job creation and potentially erode support for FTA, especially if sensitive agricultural sectors are not assisted.
- However, in longer term, FTA should consolidate and spur further investment and growth of key, labor intensive, export sectors. The growth spurt that took place after expansion of the ATPA in 2002 is perfect example.
- The FTA by itself is not a silver bullet. The FTA must be accompanied by internal reforms such as the proposed ‘TLC Hacia Adentro’ (Internal FTA) and infrastructure development such as the ‘Sierra Exportadora’ (Exporting Highlands) program to ensure that the FTA has a positive impact on poverty reduction and economic growth.
Questions?

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