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TRADE POLICY REVIEW

Report by

PERU

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Peru is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Peru.

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I. EXECUTIVE SUMMARY

1. Since the last Trade Policy Review concerning Peru, the Peruvian economy has achieved sustained growth, recording an average rate of 4.6 per cent for the period 2000-2006; moreover, for the period 2002-2006 the rate rose to 5.8 per cent. During the same period Peru's volume of trade increased by 172.5 per cent, from US\$14,324 to US\$39,036 million. This good performance is the result of responsible management of monetary and fiscal policies which have made it possible to strengthen the Peruvian economy and make Peru an attractive country for investment. Similarly, the favourable international climate has had a positive impact in particular on exports, leading to a record trade surplus (US\$8,934 million) and a current account surplus equivalent to 2.8 per cent of GDP (US\$2,589 million).

2. Over the next five-year period similar growth rates are expected, driven by the process of opening up trade on which Peru has embarked during the present decade, together with unilateral opening up and internal reforms aimed at improving competitiveness, strengthening institutions and increasing both public and private investment in infrastructure. This opening up is also aimed at boosting the volume of trade and integrating Peru more fully into the global economy. Peru hopes in the short term to achieve the degree of investment necessary for it to acquire observer status with the OECD (Organization for Economic Cooperation and Development).

3. In this context, the purpose of trade policy is to contribute to the country's growth and development, helping to improve the well-being of the population through a higher level of quality employment. More specifically, Peru's trade policy seeks to make the country more competitive by expanding markets for Peruvian-produced goods and services, improving the possibilities for the provision of capital goods and inputs for producers, access to a basket of higher-quality and less expensive consumer goods for consumers, and through the better conditions created for investment in the country.

4. This approach and this objective were jointly agreed by the Government, civil society and the main political parties in 2001 in the National Agreement. In order to have strong, clear leadership on trade policy and its implementation, the Ministry of Foreign Trade and Tourism (MINCETUR) was created in 2002. From the time of its creation MINCETUR defined a medium-term strategy in relation to the Trade Negotiations Agenda and the Internal Agenda on Competitiveness and Development of Foreign Trade.

5. With regard to international trade negotiations, Peru firmly supports the ambitious conclusion of the Doha Development Round. In the framework of the Asia-Pacific Economic Cooperation Forum (APEC), Peru has participated more fully in recent years with a view to increasing its trade with the Asian countries, and will host the APEC's 2008 meetings. In the context of regional and bilateral negotiations, after the stalling of the Free Trade Area of the Americas (FTAA) negotiations in 2003, Peru embarked on a relaunch of bilateral negotiations. Agreements have been signed with the Common Market of the South (MERCOSUR) and the United States of America, the Economic Complementarity Agreement (ECA) with Chile has been extended, and an Early Harvest Protocol has been agreed on with Thailand. At the present time Peru is negotiating agreements with Singapore, Mexico, Canada, the European Free Trade Association (EFTA) and the European Union (EU), and conducting joint studies on the feasibility of starting negotiations with China and South Korea.

6. With regard to domestic action to promote the competitiveness and development of foreign trade, in 2003 MINCETUR laid the foundations of the Strategic National Export Plan (PENX), in full consultation with the public and private sectors. The Operational Action Plans for sectors, regions and markets and the trade facilitation and export culture master plans, which have a ten-year horizon,

were drawn up within this framework and were grouped together in the National Competitiveness Plan of 2005 laid down by the National Competitiveness Council (CNC).

7. This mix of coordinated policies has set the country on the path to growth, which will have a long-term positive impact on the well-being of the population. It has made it possible to achieve a sustained increase in productivity, which recorded a cumulative growth rate of around 20 per cent during the period 2001-2006. This favourable economic growth situation is expected to continue, given the sound foundations of economic, trade and investment policy.

II. MACROECONOMIC ENVIRONMENT: CURRENT SITUATION AND OUTLOOK

8. In 2006, economic activity recorded 8 per cent growth in real terms, the highest in the last 11 years. The strong growth observed took place in a climate of high confidence on the part of businesses and consumers, fostered by a macroeconomic environment in which prices were stable, the tax position was in surplus, credit was more dynamic and the international scene was one of high growth rates and favourable terms of trade.

9. This growth was also associated with improved productivity in the factors of production, which together with higher levels of investment impacted positively on potential GDP growth. Higher productivity was linked to an increase in formal employment, access to new export markets and a better business climate.

10. In this situation, per capita income rose in 2006 by 6.7 per cent over the previous year and if present per capita GDP growth rates (in the region of 6 per cent) are maintained, the projections of US\$3,600 for 2007 are expected to rise to US\$5,700 by the year 2015. With such a figure, and with domestic social policies aimed at alleviating poverty, it is hoped that total poverty and extreme poverty will decrease at a faster rate than that observed between 2001 and 2005.

11. In December 2006, economic activity recorded its 66th month of continuous growth. This growth was led by private investment and consumption.

12. During 2006 private investment grew by 20.2 per cent, becoming the most dynamic component of domestic demand for the fourth consecutive year. It is hoped that similar rates can be maintained over future years, given the good prospects for global demand and the substantial increase in investor and consumer confidence in the country. It is therefore expected that the annual flow of private investment into Peru will exceed US\$20,000 million and represent 20 per cent of GDP. Furthermore, public investment will benefit from high levels of tax recovery (tax revenues rose by 28 per cent during 2006), which will enable the public investment/GDP ratio to increase to 4 per cent or 5 per cent of GDP over a period no longer than ten years.

13. Private consumption rose by 6.5 per cent during 2006, sustained by the increase in national disposable income (11.9 per cent) and in employment (7.3 per cent). In particular, the increase in employment applied in a general way throughout the separate sectors of the economy and in varying forms from one geographical region to another. It was greater in the provinces (8.3 per cent) than in metropolitan Lima (7.1 per cent) and was most evident in labour-intensive sectors such as agribusiness and in activities that were more dynamic such as construction, non-primary manufacturing and other services.

14. Other factors which also contributed to sustainable economic growth were price stability and exchange rate stability; and in 2006, for the first time in history, Peru simultaneously achieved fiscal and current account surpluses in the balance of payments. In that year, cumulative inflation was 1.4 per cent, a rate below the lower limit (1.5 per cent) of the Central Bank's target range (2.5 per cent

plus or minus one percentage point), while the exchange rate recorded a slight appreciation relative to the United States dollar (0.7 per cent), this being offset by the appreciation in the currencies of Peru's principal trading partners relative to the United States dollar (the real multilateral exchange rate rose by 1.3 per cent).

15. In the fiscal sphere, Peru managed to reduce its tax deficit rapidly: from an average of -2.4 per cent of GDP in the first three years of the present decade, it achieved a surplus of 0.6 per cent of GDP in 2006. This is the result of responsible economic management and the increase in tax revenues, which have been boosted by the growth of the economy and high international prices.

16. As regards the balance of payments, a positive balance of US\$708 million was achieved; this is explained by surpluses both on current account and on financial account. In particular, the trade balance showed a surplus for the fifth consecutive year, with a figure of US\$8,934 million. Over and beyond all the experts' predictions, f.o.b. exports reached a level of US\$23,800 million in 2006, with an increase in each of the last three years of above 35 per cent annually. This result is due to the 41.9 per cent increase in traditional exports (mainly accounted for by price increases) and to the 23 per cent rise in non-traditional exports (due to both prices and volume).

17. In 2006, Peru continued to show a sound international liquidity position, due to the high level of net international reserves amounting to US\$17,275 million, a figure equivalent to one full year's imports. Moreover, the high level of reserves ensures that Peru fulfils its international obligations towards its domestic and foreign creditors, which in turn serves to generate a climate of confidence conducive to inward investment.

18. Consequently, good macroeconomic results and their ongoing positive trend have made it possible for the country's debt risk to be upgraded. The EMBI+ country risk indicator calculated by the JP Morgan Chase investment bank at the end of 2006 verged on 120 basis points (the lowest level ever). Similarly, two of the main international classifications have placed the principal instruments of Peru's public debt at just one step away from investment grade.

19. Macroeconomic prospects for the Peruvian economy are favourable for the coming years. The ultimate goal of Peru's economic policy will remain the improvement of the population's standard of living, and so it will continue to promote the sustained growth of GDP (between 6 and 7 per cent) and of employment, both in terms of quality (decent employment) and in terms of quantity (job numbers).

20. Peru therefore considers it vital to maintain compliance with fiscal rules, to continue applying a prudent monetary policy, to open up markets further and to embark on a second series of structural reforms (in education, health and the judiciary, among other fields).

21. Together with determined policies to reduce poverty, this will make it possible to bring down the levels of irregular and precarious employment, which affect over 30 per cent of the active population, and at the same time to reduce present levels of total and extreme poverty, which affect 44.5 and 16.1 per cent of the population, respectively.

III. CONCEPTUAL FRAMEWORK OF TRADE POLICY

22. Peru's policy of opening up and liberalizing trade seeks to integrate the country into the global economy, in order to enjoy the advantages of international market specialization with the ultimate aim of improving the well-being of the population. To that end, Peru is paying particular attention to the strengthening of a system of predictable international trade based on fair competition, the development of comparative advantages and the reduction of trade barriers. This was demonstrated

between 2001 and 2006 by the fact that the simple average tariff fell from 11.9 per cent to 8.2 per cent, and the level of commercial openness expressed as the share of exports and imports in GDP rose from 26.9 per cent to 41.5 per cent over the same period.

23. The general objective of trade policy is to help lay the foundations for sustained growth and modernization of the Peruvian economy, seeking to improve its efficiency and productivity in order to ensure its internal and external competitiveness and greater participation in global production systems.

24. Peru's trade policy pursues two goals in particular. The first is to develop and increase exports of goods and services, as well as trade, basically in non-traditional sectors, by implementing a comprehensive strategy to develop foreign trade and improve conditions for the access of goods, services and investments to external markets; and the second is to bring about conditions that will contribute to Peru's economic leadership in the South American Pacific.

25. Peru regards its effective integration into international markets as an opportunity to improve the well-being of its population in a sustainable way, by creating quality jobs and accumulating savings surpluses that will make higher levels of investment possible. Fluid interaction with external markets enables more goods and services to be produced more efficiently in Peru, by achieving access to more markets and reducing production costs through the importation, transfer and distribution of new technologies. Similarly, international integration offers an opportunity for consumers, who are able to take advantage of a broader range of choices, with better quality/price ratios beneficial to their standard of living.

26. Given the approach outlined in the preceding paragraphs, the need to establish long-term policies that will guide each government's decisions or particular areas of concern was reflected in July 2001 by the signing of a National Agreement setting out the State's objectives, specific undertakings and policies, endorsed by representative sectors within the country. Among these is the State's approach to the Foreign Trade Policy to Expand Markets with Reciprocity, which establishes the commitment to "develop a foreign trade policy based on a joint effort by the State and the private sector to achieve the competitive integration of the country into international markets" and to "establish a tariff policy that will encourage the reduction of tariff levels and dispersion, in conformity with our integration agreements and multilateral undertakings".

27. In this connection, the Ministry of Foreign Trade and Tourism (MINCETUR) was created in July 2002 with responsibility for defining, directing, implementing, coordinating and supervising policy on foreign trade and tourism. It is also responsible for promoting exports and international trade negotiations, in conjunction with the Ministries of Foreign Affairs and of Economy and Finance and other sectors of government within their respective areas of competence. However, it must be pointed out that aspects relating to tariff policy are planned, directed and controlled by the Ministry of Economy and Finance (MEF) in conjunction with the Ministry of Foreign Trade and Tourism and with the ministry for the sector concerned, where appropriate.

28. In order to implement the Trade Policy and achieve its goals, Peru uses three instruments: international trade negotiations, unilateral liberalization of tariffs and domestic trade-related competition and development policies. In this way a comprehensive agenda is defined for the purpose of increasing opportunities for selling Peruvian products and at the same time boosting the country's production capacity, within a framework of international competition which contributes to market efficiency.

29. In the case of the International Trade Negotiations (ITN), Peru's agenda operates on three complementary fronts: multilateral, regional and bilateral. While Peru is counting on a

comprehensive multilateral agenda, the possibility of obtaining concrete results in the short and medium term is limited by the slow pace of this process. For this reason, Peru has embarked in addition, during the present decade, on an intensive process of bilateral trade negotiations, so as to obviate the negative impact of agreements entered into by third parties. At the same time, Peru recognises the particular importance of regional markets for exports and imports, of both goods and services, and of investment.

30. With regard to the unilateral liberalization of tariffs, in view of the small size of the country and in order to enhance efficiency in the allocation of production resources and promote competitiveness, Peru has continued with the policy of tariff reduction, at the same time as enabling trade distortion to be offset through commercial agreements.

31. In order for the ITN to make an effective contribution to integrating Peru into the world economy, the opportunities they offer must be seized. It is therefore necessary to implement in parallel a prioritized domestic agenda which fosters competitiveness and the development of foreign trade. That agenda may involve all aspects of the economy, but those that are directly linked to it relate to the development of a new competitive exportable supply that utilizes the country's resources, to the facilitation of trade and to investment (infrastructure, procedures, finance) and promotion of trade.

32. Strategies and activities linked to the development of foreign trade are set out in the Strategic National Export Plan (PENX). This is the basis of the Regional Export Plans (PERX), the Trade Facilitation Master Plan and the Operational Sector Plans (POS) covering Peru's supply sector, and also the Operational Destination Markets Plans (POM) covering external demand.

IV. INTERNATIONAL TRADE NEGOTIATIONS

33. Peru plays an active part in multilateral negotiations within the World Trade Organization (WTO), with the aim of consolidating the gains achieved through the rules-based system and the real opening up of markets to the exportable supply of goods and services in the developed and developing countries. It accordingly looks forward to the speedy completion of the ambitious, balanced Doha Development Round.

34. Similarly, as part of Peru's trade policy, the strategy of negotiating bilateral and regional trade agreements, together with the strategy of multilateral trade negotiations, aims to speed up the beneficial effects of greater trade liberalization and facilitation.

35. As regards bilateral and regional agreements, Peru has been participating actively in the following negotiations and integration processes:

Trade agreement/Integration initiative	Status
• Andean Community (CAN)	
• Asia-Pacific Economic Cooperation Forum (APEC)	In force
• Latin American Integration Association (LAIA)	
• Economic Complementarity Agreement (ECA) 58 between Peru and MERCOSUR	
• Economic Complementarity Agreement (ECA) 38 with Chile /Extension of ECA 38	In force/Extension signed
• ECA 8 with Mexico/Extension of ECA 8	In force/Extension under negotiation
• Trade Promotion Agreement between Peru and the United States	Signed
• Early Harvest Protocol between Peru and Thailand	
• FTA between Peru and Singapore	

Trade agreement/Integration initiative	Status
<ul style="list-style-type: none"> • FTA between Peru and EFTA (Switzerland, Liechtenstein, Norway and Iceland) • FTA between Peru and Canada • Association Agreement between CAN and the European Union • Joint Feasibility Study with the People's Republic of China 	Under negotiation
<ul style="list-style-type: none"> • Joint Feasibility Study with the Republic of Korea 	Under evaluation
<ul style="list-style-type: none"> • Free Trade Area of the Americas (FTAA) 	Suspended

(1) MULTILATERAL SPHERE

36. Peru firmly believes in the advantages and the positive impact afforded by the Multilateral Trading System. It has therefore taken part in the GATT since 1951 and was a founder member of the WTO. This firm commitment to the Multilateral System is reflected in its active participation both in the technical committees responsible for overseeing and supervising the implementation of the Uruguay Round agreements and in the Doha Development Round negotiations.

37. With regard to the implementation of WTO agreements, Peru's active participation in the WTO Committee on Sanitary and Phytosanitary Measures is especially important, because it regards that committee as an important technical body that contributes to dialogue for the purpose of clarifying and explaining the provisions adopted by Members in the health field. It is a means of seeking technical solutions to matters which may give rise to conflict with the country's trading partners. In this connection, there have been far-reaching discussions on matters of relevance to Peru's exports, such as recognition of equivalence, regionalization, current European legislation on what are called *novel foods*, health measures affecting fish meal, etc. Moreover, Peru has positively capitalized on the advantages afforded to a developing country by the Dispute Settlement System: it has twice had recourse to the mechanism as complainant, and has had a favourable outcome on both occasions.¹

38. With regard to the multilateral negotiations, Peru hopes that they will produce suitable disciplines whereby advantage can be taken of the opening up of markets for goods and services. This opening up must be accompanied by the elimination of hidden barriers to trade which prevent it from benefiting from the improved conditions of access obtained by tariff reductions and broader specific services commitments.

39. It is therefore playing an active part in the current process of negotiation and has expressed its commitment to the success of the Doha Development Round. Being convinced that development is the key to better living conditions and that trade policy is an instrument for achieving that objective, Peru considers that Doha offers a great opportunity to strengthen the Multilateral Trading System and to demonstrate that it is an opportunity for all its members.

40. Peru therefore takes an ambitious approach to all the subjects under negotiation in the Doha Round. However, in view of the wide range of subjects being dealt with in the WTO, allowing a trade-off among its Members, Peru has drawn up a list of its priorities for specific negotiating issues. To this end:

- Peru has stepped up its participation in the agriculture negotiations via strategic alliances with the principal players in the process. This has been reflected in its

¹ The cases concerned the trade description of scallops ("conchas de abanico"), and subsequently the trade description of sardines.

return to the G-20 and its inclusion in the Cairns Group, which together represent Peru's participation in the G-33, demonstrating a balanced strategy between offensive and defensive interests. It is important to point out that Peru has ceased to be a net importer of foodstuffs and become an exporter of agricultural products that are winning international markets. Consequently, where agriculture is concerned, Peru supports the complete liberalization of tropical products and alternatives to illicit crops. In conjunction with various countries in the region, it has submitted proposals aimed at generating development in the rural areas of the country, making it possible for them to take advantage of trading opportunities by exporting their tropical and alternative products to markets which place a premium on quality. In addition, recognizing sensitivities in the world of agriculture, Peru supports the establishment of a list of special products.²

- One matter of fundamental importance to Peru is to obtain mechanisms which recognize the close link between genetic resources and traditional knowledge and the patent (intellectual property) system. That recognition is becoming necessary in view of the absence of a multilateral protection framework to regulate and recognize the efforts made by native communities to conserve traditional knowledge and genetic resources. Therefore, Peru is actively promoting an amendment to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in order that the grant of any patent involving a genetic resource or traditional knowledge is made subject to the requirements of disclosure of origin, evidence of prior informed consent and benefit sharing.
- Peru attaches special importance to the negotiations on services and is playing an active part in those linked to access as well as to standard-setting questions. In order to expand and diversify Peru's exports of services, requests have been made to the main trading partners to improve supply. Similarly, Peru has presented an improved services offer which has been considered ambitious, in order to contribute to the opening up of trade and to greater efficiency and competitiveness in the domestic production system. At the same time, proposals relating to domestic regulation, mode 4 and subsidies have been prioritized.
- With regard to the other Doha Round issues, Peru is making a definite contribution with the aim of strengthening those disciplines that make trade flexible and transparent. In the area of trade facilitation, various proposals for strengthening customs disciplines and boosting the trade in commodities, without neglecting proper customs controls, have been put forward. Also, in order to avoid hidden protectionism which keeps products out, Peru is promoting and supporting proposals that contribute to a responsible, technical approach to anti-dumping investigations. The subject of fishing subsidies deserves special mention: Peru has participated from the outset in the "*Friends of Fish*" group which seeks to eliminate all subsidies that lead to over-exploitation of fish resources and distort trade in this sector, and to regulate certain exceptions.

² However, its scope will have to be limited in order that this flexibility, as part of special and differential treatment, is the exception, not the rule; otherwise tariff barriers damaging to the developing countries themselves may be created.

41. Doha is an opportunity to contribute to development in so far as ambitious positions are taken which ensure clearer rules assisting genuine access. That being so, Peru is concerned that delays in this Round may cause a weakening of the Multilateral Trading System.

(2) REGIONAL SPHERE

Andean Community (CAN)

42. At the subregional level, Peru forms part of the Andean Community, which now comprises Bolivia, Colombia and Ecuador and the organs and institutions of the Andean Integration System.

43. Within this integration arrangement, reforms are being put into effect for the purpose of intensifying the Andean integration process within five areas of intervention: free movement of goods and services, customs union, strengthening of the judicial/institutional system, a joint investment and production development plan, and programmes of support for Bolivia and cooperation with Ecuador.

44. In this context, the Andean Free Trade Area, which Peru rejoined in 1997, was extended in January 2006. From that date onward services, especially transport services, have also been liberalized in their various modalities.

APEC

45. Peru has been a member of the APEC, the largest forum in the Asia-Pacific region, since 1998. As a member, Peru has an obligation to meet the Bogor trade liberalization goals by the year 2020. This means that the country must substantially reduce its tariff and non-tariff barriers worldwide by that date. Similarly, belonging to APEC also means that Peru has to give effect to measures designed to facilitate foreign trade.

46. Restating the undertakings entered into in the APEC framework sends a positive signal to other countries, demonstrating Peru's determination to reduce existing trade barriers; this may be an important factor in encouraging foreign companies to trade with Peru and make the country a regional hub.

47. In 2008, Peru will host the Forum's meetings, with an opportunity to contribute to the establishment of APEC subjects and priorities, as well as to promote trade and investment opportunities in the country and Peru's image as an attractive country for foreign tourism. APEC Peru 2008 will be the greatest and most important event staged on Peruvian soil in all its history as a republic.

(3) BILATERAL SPHERE

(a) Trade Promotion Agreement between Peru and the United States

48. The Peru-United States Trade Promotion Agreement (TPA) was approved by the Peruvian Congress in June 2006, and is now awaiting approval by the United States Congress. Once approved, the Peru-United States TPA will come into force provided both parties have completed the domestic procedures for its incorporation into domestic law. Once the agreement comes into force, it is expected to produce the following benefits:

- Guarantee of permanent preferential access to the United States market.

- Consolidation of the policy of investment and opening up of economic activities, affording certainty to investors.
- Establishment of a judicial mechanism for settling trade disputes between the two countries.
- Important opportunities for the export of professional services (engineers, accountants and architects).

(b) Extension of Economic Complementarity Agreement (ECA) 38 with Chile

49. In June 2005 negotiations started with the aim of extending the scope of ECA No. 38 of 1998 in the LAIA framework. Extension of the agreement was agreed in August 2006 and is now awaiting approval by the Chilean Congress. It will consolidate a legal framework in keeping with levels of services and investment, for the purpose of establishing a full Free Trade Area between Peru and Chile. It should be noted that ECA No. 38 only contained provisions on trade in goods and set out a programme of liberalization for the entire tariff universe, with maximum periods of 18 years. At the present time it only remains to reduce tariffs on a number of agricultural products with time-limits extending as far as 2008, 2013 and 2016.

(c) Economic Complementarity Agreement (ECA) 58 between Peru and MERCOSUR

50. ECA 58 was signed in the LAIA framework in 2003, came into force in 2006, and only contains provisions on trade in goods for the entire tariff universe. It lays down various timetables for tariff reductions between Peru and each MERCOSUR country, the time-limits for tariff reduction granted to Peru by Argentina and Brazil being up to eight years, and in the case of Paraguay and Uruguay up to 13 years. On the other hand, the tariff reduction time-limits granted by Peru to Argentina and Brazil are up to 15 years, and those granted to Paraguay and Uruguay up to 13 years.

(d) Early Harvest Protocol (EHP) between Peru and Thailand

51. In October 2003, Peru and Thailand signed an Outline Economic Association Agreement, and two years later signed an EHP at the APEC Summit. That agreement, the first trade agreement between Peru and an Asian economy, seeks to speed up liberalization of trade in goods and to facilitate trade between the parties.

52. The Tariff Reduction Programme contained in the EHP includes over 70 per cent of each country's tariff universe, leaving 28 per cent of reduction arrangements to be defined in the case of Peru and 26 per cent in the case of Thailand. The agreement also includes general provisions on rules of origin, safeguards, SPS, TBT, customs procedures and dispute settlement.

53. In order for the agreement to come into force, Thailand is at present in the process of incorporating the whole of the EHP into its domestic legislation; for the purpose of reaching an FTA with Thailand, questions concerning services and investments, and the definition of the remainder of the tariff universe, are still awaiting negotiation.

(4) NEGOTIATIONS IN PROGRESS

(a) FTA between Peru and Singapore

54. Peru and Singapore announced their intention to negotiate an FTA in November 2004 during the APEC Summit in Santiago, Chile. The negotiations with Singapore began in February 2006, and

after three rounds most of the chapters have been agreed. Among those finalized are market access, specific requirements as to origin, investment, trade protection, SPS, TBT, competition policy, dispute settlement, government procurement and customs procedures not relating to origin.

(b) Extension of Economic Complementarity Agreement (ECA) 8 with Mexico

55. The extension of ECA 8 began in January 2006 with the aim of increasing and diversifying bilateral trade between Mexico and Peru by extending and broadening the disciplines. The negotiations cover such matters as market access, services, investment, rules of origin, trade protection, SPS, TBT, dispute settlement, and mutual recognition of appellations of origin. It should be pointed out that ECA 8 was signed in the LAIA framework and came into force in 1987. Its provisions concern only trade in goods.

(c) FTA between Peru and EFTA (Switzerland, Liechtenstein, Norway and Iceland)

56. In April 2006, in order to strengthen trade relations between the two partners, Peru and EFTA signed an Agreement on Cooperation in Economic Matters. On the basis of that agreement, a Peru-EFTA Joint Committee, which held its first meeting in October 2006, was set up for the purpose of initiating talks on the bilateral treatment of trade disciplines for inclusion in a possible FTA. The first round of these negotiations took place in June 2007 in Colombia, since that country is carrying out parallel negotiations with EFTA in conjunction with Peru.

(d) FTA between Peru and Canada

57. In 2001 Peru and Canada signed a Convention for the Avoidance of Double Taxation with respect to Taxes on Income and Capital, which came into force in 2004. Peru and Canada subsequently decided to begin negotiating a bilateral trade agreement in 2007. As in the case of the Peru-EFTA FTA, the negotiations took place jointly with Colombia; however, each country will have its own agreement with Canada. The first round of negotiations took place in Peru in July 2007.

(e) Association Agreement between CAN and the European Union

58. Since 1 July 2005, Peru has benefited from the System of Generalized Preferences which the EU applies to developing countries and is known as SGP Plus; it previously benefited from SGP Drugs. These preferences are established unilaterally and there is a risk that the EU will decide not to renew them. For this reason it is important for Peru to strengthen its trading links by way of a free trade agreement which will guarantee the permanent enjoyment of the benefits which it currently receives under SGP Plus.³

59. In July 2006 the final "Joint Valuation" document, containing conclusions and recommendations, was approved. Similarly, the Andean Community submitted the Andean view of the Basis for Negotiation. The negotiations were begun in Bolivia in June 2007, and the first meeting took place in Brussels in July 2007.

(f) Joint Feasibility Study: China and Korea

60. In May 2007 Peru and China set up a committee to carry out a Joint Feasibility Study to evaluate the impact and potential benefits of a bilateral free trade agreement. Both parties undertook

³ The system envisages that 7,200 subheadings out of a total of 9,200 will be exempted from payment of *ad valorem* duties.

to complete the study within the next three or four months, after which the decision will be taken on whether to start negotiations on the agreement.

61. During the Summit of APEC Leaders in Hanoi, Peru and Korea held talks to initiate the preparation of a Joint Feasibility Study to evaluate the potential impact of a bilateral free trade agreement between the two parties. It was proposed that this study should be carried out by the private or academic sector in each country.

(5) COMPETITIVENESS AND COOPERATION IN FOREIGN TRADE

62. Between 2000 and 2006, Peru raised its level of competitiveness and improved its relative position in the World Economic Forum's global competitiveness rankings. However, there are still some areas in which major improvements can be made, including better infrastructure development, institutions, education and the quality of public administration.

63. Various indicators show that between 2000 and 2006 the competitiveness of local businesses improved. On the one hand, labour productivity rose by 20 per cent and unit labour costs fell by 6 per cent. On the other hand, the value of total exports grew by 245 per cent and the value of non-traditional exports by 141 per cent. This expansion was accounted for by the 61 per cent increase in the number of export enterprises, the 13 per cent increase in the number of export markets and the 20 per cent increase in exportable supply.

64. The export sector plays a fundamental role as an engine of growth, creating jobs and fostering development. In particular, export growth makes it possible to reach a far larger market, and one with much greater purchasing power, than the domestic market, and if the exports are of high added value the increase has the effect of improving the country's well-being by way of more jobs, higher wages, an increase in foreign exchange reserves and ultimately a better standard of living.

65. Peru is therefore developing a clear and coordinated strategy to access foreign markets and take advantage of existing opportunities abroad, as well as turning its export potential to good account. As has been said, this strategy focuses on three fronts – development of foreign trade, international trade negotiations and unilateral tariff management.

66. Peru has used technical assistance and international cooperation opportunities as a tool to help boost trade, build capacity and modernize its institutions. Accordingly, it attaches special importance to the WTO Aid for Trade initiative.

(6) INVESTMENT PROMOTION AND PROTECTION POLICY

67. Private investment grew by 20.2 per cent in 2006 against a background of stability and economic expansion, low inflation rates, better conditions of access to funding and a favourable international climate – factors which fostered greater sales and profits and higher expectations on the part of entrepreneurs regarding the future of the economy. Technological renewal projects and plant extensions went ahead in response to high levels of demand (especially in manufacturing and mining). Similarly, the construction of commercial and residential premises, oil exploration and exploitation works, projects linked to electrical power generation, mining and quarrying, were all prominent. Regarding investment in capital goods, the main areas of note were construction, mining, electricity distribution and telecommunications.

68. Public investment grew by 12.7 per cent in 2006, owing mainly to higher spending by central and local government. It should be mentioned that the bulk of public investment was concentrated in the second half of the year, in response to the grant of a supplementary appropriation for the 2006 tax

year (Law No. 28880) in the framework of the "investment shock" process. A series of public projects were taken forward during that period in such sectors as sanitation, road repair and improvement, transport and communications.

69. Investment performance is being sustained in a stable legal framework. In this connection, the Peruvian Constitution of 1993 contains rules laying down essential principles such as to guarantee a legal framework conducive to the development of private investment in general and foreign investment in particular, for example:

- Freedom of private initiative against the background of a social market economy and economic pluralism.
- Freedom of work, business, trade and industry.
- Definition of the subsidiary role of the State in economic activity.
- Free competition and prohibition of monopolies, and measures to combat abuse of dominant positions.
- Freedom of contract.
- The possibility of the State's providing guarantees and sureties via law contracts (*contratos ley*).
- Equality of treatment for domestic and foreign investment.
- Possibility of submitting disputes involving the State to domestic or international arbitration tribunals.
- Guarantee of freedom to possess and dispose of foreign currency.
- Inviolability of property and determination of exceptional grounds for authorization of expropriation, subject to payment following assessment; application of the equality principle in tax matters; and recognition that no tax may produce confiscatory effects.

70. The legal framework for dealing with investment is based on the principle of "national treatment". Foreign investment is permitted without restriction in the great majority of economic activities and does not require prior authorization as such. The acquisition of shares owned by domestic investors is wholly permitted, whether through the stock market or through transactions outside it.

71. Regarding the country's WTO commitments, no selection mechanism or performance requirement is applied to or imposed on foreign investors as such. In the case of investments which benefit from legal stability agreements with the State, the requirements are the same as for domestic investors.

72. Every enterprise is entitled to organize and develop its activities as it sees fit. Peru has repealed all the provisions of law which laid down production methods or indices, which prohibited or required the use of technological inputs or processes and, generally speaking, intervened in companies' production processes depending on the type of economic activity they pursued, their

installed capacity or any other similar economic factor, with the exception of the legal rules governing industrial health and safety, environmental conservation and public health.

73. With the aim of consolidating a legal framework which safeguards and protects investment and helps to create a climate conducive to a greater flow of foreign investment, Peru has been very active in negotiating bilateral, regional and multilateral instruments whose purpose is to establish guarantees of treatment, protection and access to investment dispute settlement mechanisms.

74. Peru has signed 31 bilateral agreements on the reciprocal promotion and protection of investments with countries in the Pacific Basin, Europe and Latin America, as well as the Trade Promotion Agreement with the United States (pending approval by the United States Congress), which contains a chapter on investment. In the case of the United States, mention should also be made of the agreement with the Overseas Private Investment Corporation (OPIC) on the provision of risk cover for North American investments in Peru.

75. Peru has bilateral investment agreements with the following trading partners: Argentina, Australia, Belgium-Luxembourg Economic Union (ratified), Bolivia, Canada (signed), Chile, Colombia, Cuba, Czech Republic, Denmark, Ecuador, El Salvador, Finland, France, Germany, Italy, Malaysia, Netherlands, Norway, Paraguay, People's Republic of China, Portugal, Republic of Korea, Romania, Singapore, Spain, Sweden, Switzerland, Thailand, United Kingdom, United States (ratified), and Venezuela.

76. At the same time, Peru is a member of the Multilateral Investment Guarantee Agency (MIGA) and has acceded to the Convention establishing the International Centre for Settlement of Investment Disputes (ICSID) and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).

(7) RESULTS AND OUTLOOK

77. Since 2002, Peru has returned to the path of growth started at the beginning of the last decade, managing to achieve 8 per cent growth in GDP during 2006. This means that, after two periods of expansion and one of stagnation (1998-2001), Peru today presents a picture of macroeconomic stability, an appropriate monetary policy based on the set of inflation targets which has enabled the country to maintain a low, stable inflation rate, a GDP growth rate above the regional average, and an absence of external imbalances – all factors which help to bring about a climate conducive to investment. This is perhaps the reason why Peru currently occupies third place in the macroeconomic stability table within Latin America.

78. Assuming a stable international situation, with a responsible fiscal and monetary policy in operation (based on the set of explicit inflation targets), it is hoped that over the coming years economic growth will be kept at an annual average of 7 per cent, that accumulated inflation will be 1.9 per cent, that private investment will exceed US\$20,000 million and that the balance of payments on current account will reach a surplus of 1.5 per cent relative to GDP.

79. In particular, in accordance with the Multi-annual Strategic Sector Plan for Foreign Trade and Tourism 2008, where foreign trade is concerned it is expected that the degree of openness in the trade in goods⁴ will exceed 50 per cent by 2011 and that by that year the value of non-traditional exports recorded in 2006 will have doubled.

⁴ Exports+imports/GDP.

80. Furthermore, as a consequence of access to new markets, it is expected that the percentage of non-traditional exports linked to trade agreements will rise above 80 per cent by 2010. Similarly, the diversification of exportable supply will continue to be encouraged, with a view to increasing the number of markets for Peruvian exports and the number of exporting companies; this, together with the advances in terms of infrastructure, institutions and quality of management, will enable Peru to improve its global competitiveness ranking.

81. Nevertheless, despite the fact that macroeconomic stability and the opening up of trade have helped to boost growth and therefore had positive effects in reducing poverty, Peru is aware that it is not enough to rely solely on openness and/or growth in order to eradicate poverty. For this reason, complementary policies, both cross-cutting and in particular sectors, are being developed (*Sierra Exportadora* Programme, Growth Programme, Regional Export Plans, etc.) which seek to help expand the impact of growth on poverty and in this way to speed up the reduction in the number of very poor and extremely poor people, whether in rural or in urban areas, and so improve income distribution in the country.
