Peru Trade Brief

Trade Policy

After drastically reducing tariffs between September 1990 and March 1991, a framework for trade liberalization in Peru was established through a legislative decree in 1991. Peru's latest (2007) MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 7.4 percent places the restrictiveness of its tariff regime on par to that of an average Latin America and Caribbean (LAC) or upper-middle-income country as judged by TTRIs of 7.6 and 6.9 percent, respectively. Peru ranks 78th of 125 countries, where 1st is least restrictive. Peru's barriers to imports are somewhat higher for agricultural goods than non-agricultural goods, with TTRIs of 10.6 and 6.9 percent. Peru's 2008 simple average of the MFN applied tariff (including ad valorem equivalents of specific duties) fell four percentage points since 2006 to 6.1 percent, reflecting recent major liberalization. It now is significantly lower than the average for LAC countries of 9.3 percent. Peru's maximum tariff on all goods (excluding alcohol and tobacco) was 17 percent in 2008, with all tariff lines bound. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), rose in the past year to 24.1 percent. Regarding the extent of its commitment to trade liberalization in services, Peru ranked 64th out of 148 countries according to the GATS Commitment Index.

In response to the global increase in food prices in 2007–08, the Peruvian government lowered tariffs on imported rice (from 25 to 9 percent) and maize, and eliminated tariffs on wheat imports in April 2008.[2] Duties were cut or reduced on other basic foodstuffs including beef, dairy products, fish, fruits, and vegetables. Most recently, in the face of the global economic downturn, the government temporarily increased the tax rebate rate for non-traditional exports (from 5 to 8 percent).[3] In 2008, Peru initiated three anti-dumping investigations. In March 2009 a safeguard investigation on imports of cotton yarn was initiated, but the case was rejected in August 2009.[4]

External Environment

According to the latest Market Access TTRI[5] (including preferential rates), on which it is ranked 15th (out of 125) and scores 0.8, both Peru's agricultural and manufactures exports face very low tariff barriers on international markets, especially when compared to a LAC and an upper-middle income group comparator (2.0 and 2.3 percent, respectively). Peru's 2008 rest of the world simple average applied tariff (including preferences) is a high 9.6 percent, compared to the mid-2000s average of 7 percent. When considering the level of trade, it is 0.9 percent. Over the course of 2008, the Peruvian currency, the nuevo sol, depreciated against the U.S. dollar by 4.7 percent.[6] In the third quarter of 2008, Brazil and Argentina initiated anti-dumping investigations against Peru. During 2008, the real effective exchange rate of the nuevo sol appreciated by 7.1 percent, reducing the competitiveness of exporters.

Peru is part of the Andean Community of Nations (CAN) free trade area, along with Bolivia, Ecuador, and Colombia. A key element of Peru's trade strategy has been securing markets through trade agreements. The Peru-U.S. Trade Promotion Agreement (TPA), a comprehensive free trade agreement, entered into force on February 1, 2009. As a member of CAN, Peru has been engaged in recent talks about a free trade agreement (FTA) with the EU, which began in June 2007. Negotiators from Colombia and Peru completed a fifth round of negotiations toward a free trade deal with the EU in July 2009. In March 2009, an FTA with Chile went into effect and an FTA with China was signed in April 2009. In August 2009, two separate FTAs—one with Canada and one with Singapore—went into effect. Peru is currently negotiating additional bilateral trade agreements with Japan and the Republic of Korea.[7]

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Peru ranked in the top third (56th out of 183 countries) in the 2010 Ease of Doing Business index. The Logistics Performance Index, a measure of the ease of trade facilitation, rates Peru at 2.77 on a scale from 1 to 5 with 5 being the highest performance. This is compared with 2.57 for the LAC region and 2.85 for countries in the upper-middle-income group. Peru ranked 59th in the world and 5th in the LAC region (with Chile leading the regional group). The area in which it performed the best was domestic logistics costs and timeliness of shipments and it needs most improvement in quality of transport and IT infrastructure In response to the financial crisis, the Peruvian government set up, in January 2009, a stimulus plan to provide trade finance to small and medium-size exporters.[8]

Trade Outcomes

Peru's real growth (in constant 2000 U.S. dollars) in total trade of goods and services accelerated to 17.7 percent in 2008 from 13.9 percent in 2007 but is expected to slowdown in 2009. Real exports grew by 10.1 percent in 2008 compared to 6.2 percent in 2007, while real imports of goods and services grew by 24.1 percent in 2008 (compared to 21.3 percent in 2007).

Rich in mineral resources, Peru's top exports are copper, gold, zinc, fishmeal, and fish oil. High commodity prices during the first half of 2008 largely explain the 20.1 percent increase in the dollar value of exports in 2008 (even though international prices and world demand for Peru's exports fell by 18.4 percent in the fourth quarter). The impact of lower copper prices has been cushioned by higher/steady prices of gold and silver. The main buyers of Peru's exports—the United States, China, Canada, and Japan—are experiencing lower economic growth due to the financial crisis, which leads to expectations that the dollar value of exports will fall by 15.6 percent in 2009. During the first half of 2009, exports have already fallen by 29.6 percent year-on-year. Peru's main imports include petroleum and petroleum products, plastics, machinery, and vehicles. High fuel prices largely explain the 40.1 percent increase of imports in nominal terms in 2008. Imports are expected to decrease by 14.8 percent in 2009 due to lower international prices for commodities and weaker domestic demand. FDI inflows have increased steadily since 2003, peaking at close to 5 percent of GDP in 2007, though they declined to 3.2 percent of GDP in 2008.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009.
3. Cuesta and Jaramillo, 2009.
4. WTO, July 2009.
5. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
6. IMF, 2009.
7. SICE, 2009.
8. WTO, 2009.

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