



**TRADE POLICY REVIEW**

REPORT BY

PERU

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

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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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## 1 INTRODUCTION

1.1. Since its last Trade Policy Review, despite the international financial crisis, Peru's economy has continued to perform well and growth has been stable and sustained. This favourable domestic context has made it possible to improve the social indicators, for example, by increasing employment and reducing poverty and inequality.

1.2. Over the next few years it is hoped to maintain this path of growth by prioritizing the implementation of policy measures that increase well-being through greater social inclusion and improved productivity and competitiveness.

1.3. Foreign trade plays an important role in achieving this goal, considering that it has been incorporated into the national development strategies as a vision of the conversion of Peru into an exporting country offering a range of value-added goods and services that are competitive, diversified and integrated into the international markets, with foreign trade contributing to social inclusion and a higher standard of living.

1.4. To this end, Peru's trade policy has been developed in accordance with a strategy based on two main pillars: intensification of the process of market opening and trade liberalization and the development of foreign trade, with the aim of generating greater national competitiveness and making foreign trade a mechanism for social inclusion. Since the last review, Peru has worked hard at achieving both these objectives, as reflected in the adoption of specific policy instruments concerning, for example, unilateral tariff liberalization, international trade negotiations, and internal competitiveness and development policies related to foreign trade.

1.5. Peru is planning to maintain its trade policy of openness and liberalization and to continue supporting the construction of a predictable international trading system based on fair competition, the development of comparative advantages and the reduction of barriers to trade.

1.6. In particular, where international trade negotiations are concerned, there is a firm consensus that the three forms of trade agreements (multilateral, regional/plurilateral and bilateral) play a key role in enabling Peru to participate in the dynamic flows of international trade, investment and technological progress, thereby raising levels of growth, employment and well-being. More especially, Peru regards the multilateral trading system as fundamental to its trade policy and recognizes its importance as a defence against protectionism, as well as the value of other initiatives taken in this area, such as Aid for Trade.

1.7. Likewise, investment policy is aimed at guaranteeing investors, both domestic and international, a predictable and favourable legal framework within which to develop, a framework which can help to increase employment, national competitiveness and exports, while reconciling national, regional and local interests.

1.8. Peru regards trade and investment policy as an important means of achieving development and social inclusion with the ultimate objective of reducing poverty and increasing well-being by providing more quality employment. Thus, Peru has taken up a series of challenges in this and other areas with the aim of ensuring sustained and more socially inclusive economic growth and greater productivity and competitiveness, thereby guaranteeing its sustainable long-term development.

## 2 ECONOMIC ENVIRONMENT

2.1. Since its last Trade Policy Review in 2007, despite an adverse international climate due to the global financial crisis, Peru has prospered, in both regional and historical terms. Confidence has been high among businessmen and consumers, boosted by a macroeconomic environment characterized by price stability, a fiscal surplus and credit expansion.

2.2. Between 2007 and 2012, real GDP grew at an annual average rate of 6.9%, in line with the long-term potential growth rate (between 6.0% and 6.5%). Thus, the national economy expanded by almost 36.8% over the period, leading regional growth and achieving one of the most sustained expansionary economic cycles in the history of the Republic. The sustained economic growth

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of recent years resulted in a steady increase in per capita GDP, which rose from US\$3,772 in 2007 to US\$6,621 in 2012.

2.3. This trend was due, among other things, to the expansion of domestic demand, especially in the areas of private investment and consumption.

2.4. The flow of private investment doubled during the review period, increasing at a real average rate of 13.5%. In addition, Peru received around US\$48 billion of foreign direct investment, which represented about 5.3% of GDP over the period. This was mainly attributable to the development of major projects linked with the mining and construction sectors.

2.5. For its part, private consumption expanded at a real average rate of 6.3%, to give a cumulative increase of 33.1%. This expansion was the result of improvements in employment countrywide and in national disposable income. Where employment is concerned, over the period 2007-2012, the growth of private investment made it possible: for unemployment to be brought down from 8.4% to 6.8%; for urban employment in formal-sector businesses with ten or more employees to record an average annual growth rate of 5.4%; for the proportion of the population suitably employed to increase by 15.3 percentage points; and for time-related underemployment to be reduced by 4 percentage points. For its part, national disposable income increased by around 36.2% between 2007 and 2012, which corresponds to a real average annual increase of 7.0%.

2.6. In addition, between 2007 and 2012, Peru maintained a policy of prudent macroeconomic management reflected in a relatively low inflation rate (averaging 3.4%), an improved fiscal position (average economic outturn of the non-financial public system 1.3% of GDP), a reduction in public debt (in terms of GDP, public debt fell from 28.5% in 2007 to 19.7% in 2012), a strengthening of the external accounts and an increase in international reserves (in 2012 international reserves were equivalent to 32% of GDP).

2.7. Peru's robust macroeconomic performance enabled it to obtain an investment-grade rating from the rating agencies Standard & Poor's and Fitch Rating in 2008 and from Moody's at the end of 2009, which facilitated access to the global financial markets at lower interest rates and an increase in the flow of capital into the country. In August 2013, Standard & Poor's increased Peru's long-term foreign currency debt rating from BBB to BBB+, while, for its part, in August 2012 Moody's had likewise raised the rating of Government of Peru long bonds, in foreign and local currency, from Baa3 to Baa2.

2.8. All this helped Peru to emerge successfully from the global economic crisis of 2009-2010, thanks to the implementation of countercyclical fiscal and monetary policies. These included an Economic Stimulus Plan, which was gradually phased out following the appearance of clear signals of a robust and sustained recovery in private spending.

2.9. The favourable domestic economic context also made possible a steady reduction in the levels of poverty and inequality. Between 2007 and 2012, total poverty fell from 42.4% to 25.8% of the population and extreme poverty from 11.2% to 6.0%. Moreover, according to the World Bank, the degree of inequality in income distribution, as measured by the Gini index, fell from 51.7 in 2007 to 48.1 in 2011.

2.10. For 2013, growth in economic activity is estimated at between 5.5% and 6.0%, in line with the revised Multi-Annual Macroeconomic Framework. It is expected that in the fourth quarter of 2013, GDP will grow at around 6% thanks to a recovery in mining and fishery export volumes due to the entry of mining projects into full-capacity production, increased production of natural gas and the recovery in marine biomass. At the same time, it is expected that the non-primary sector will grow by about 5.9%, given the dynamism of the construction, services and trade sectors.

2.11. It is also expected that between 2014 and 2016 GDP will increase between 5.8% and 6.3%, which means that Peru would continue to lead growth in the region. In the next few years, the engines of growth will be: (i) private spending, which should maintain its momentum and increase at a rate approximating its long-term sustainable level; (ii) public spending, which should grow faster than potential GDP, thereby helping to reduce infrastructure deficits;

and (iii) exports, which should increase substantially thanks to the entry into production of large-scale new mining projects capable of doubling the output of copper in the next few years.

2.12. These circumstances will facilitate the achievement of the broad objectives of economic policy: (i) growth with stability; (ii) increased regular tax revenues; (iii) higher-quality public expenditure through results-based budgeting; (iv) a more productive and competitive Peruvian economy; and (v) greater social inclusion.

(a) Growth with stability

2.13. Ensuring macroeconomic and financial stability is a priority objective for achieving sustained stable growth, which in its turn will generate the conditions necessary to apply a fiscal policy that provides the resources needed to underpin the activities of the State and soften the impact of unfavourable cyclical events, attract substantial flows of private investment, sustain the level of investment and improve bond ratings.

(b) Increased regular tax revenues

2.14. To increase regular tax revenues, Peru is implementing measures aimed at permanently broadening the tax base (the tax burden increased from 16% of GDP in 2007 to 16.4% in 2012), through, among other things, a frontal attack on tax evasion, the repression of smuggling, greater formalization, risk analysis for the supervisory and audit systems, and rationalization of tax exemptions and concessions.

2.15. The main objective is to strengthen the National Tax System on the basis of the principles of sufficiency, neutrality, efficiency, equity and simplicity, so as to make it possible to obtain the fiscal resources necessary gradually to achieve the Government's objectives, which include greater coordinated public spending focused on the priority areas of social expenditure, infrastructure, security and internal order.

(c) Higher-quality expenditure

2.16. To improve the quality of public spending, Peru has set itself the objective of formulating nearly 100% of budgeted expenditure in results-oriented programmes and having the National Budget System contribute to the efficiency and effectiveness of public spending by linking the financing of budget programmes with the results to be achieved.

2.17. In addition, Peru aims to introduce greater transparency into government procurement and modernize the management of State-owned enterprises through better corporate governance and the participation of private capital.

2.18. In order to boost the absorption capacity of the public sector so as to be able to invest public resources efficiently, every phase of the current public investment system is being improved. In this way, it will be possible to avoid fragmented public investment, with poor sectoral and territorial connectivity and low economic and social returns.

2.19. To achieve these objectives, it is necessary, among other things, to progress with the generation and use of performance data to allocate resources more efficiently and effectively, to establish a culture of accountability, to improve coordination between current and capital expenditure, and to strengthen territorial integration.

2.20. Two important contributions to results-based management were the establishment in 2008 of the National Civil Service Authority to supervise the Human Resources Management System and the enactment in July 2013 of the Law on Civil Service Reform, which is contributing to a continuous improvement in the administration of the country by strengthening the civil service and raising the standard of the services which the State provides for its citizens.

(d) Improved productivity and competitiveness

2.21. Peru has made significant advances linked with improving the productivity and competitiveness of the Peruvian economy with a view to maintaining the pace of growth. According to the World Economic Forum's latest Global Competitiveness Report 2013-2014, Peru ranks 61<sup>st</sup> out of a total of 148 countries, whereas in the 2007-2008 Report it ranked 86<sup>th</sup> out of 131. In the Doing Business 2013 rankings, Peru comes 43<sup>rd</sup> out of 185 economies. However, major challenges remain, particularly with regard to institutional improvements, infrastructure, technological expertise, business sophistication and innovation.

2.22. Accordingly, in order to continue growing rapidly and steadily, Peru is working on various reforms which will make it possible to improve its competitiveness, such as, for example, the reform of the National Quality System to promote compliance with international standards in the production of goods and services; the reduction of the infrastructure deficit; substantial improvements in human capital and the encouragement of science, technology and innovation; greater financial deepening and the development of the capital market; and the appropriate design and application of measures in support of environmental sustainability, among other important tasks on the domestic agenda that form part of the National Competitiveness Plan (approved in 2005) and the Competitiveness Agenda 2012-2013.

i. Infrastructure

2.23. With regard to the infrastructure deficit<sup>1</sup>, the current project portfolio is the most important in Peruvian history with major projects in air, land and river transport; electricity and hydrocarbons; telecommunications; sanitation; and irrigation, among others. To develop this package of projects successfully, the Peruvian Private Investment Promotion Agency (PROINVERSIÓN) is carrying out intensive promotional activities in the principal markets, having generated keen interest among investors from various countries.

2.24. Within this framework, public-private partnerships (PPPs) constitute an excellent means of reducing the deficit, by making it possible for the private sector to ally itself with the State for the purpose of creating, improving, operating and maintaining infrastructure and public services. The Peruvian Government is encouraging PPPs by providing a favourable environment for their development and promoting efficient, transparent and competitive procedures, which are attracting better-qualified enterprises to ensure the provision of high-quality services and infrastructure. As a result of this policy, Peru is recognized as one of the countries of Latin America and the Caribbean with the best environment for the sustainable development of PPPs. According to a study made by *The Economist's* Economic Intelligence Unit<sup>2</sup>, in 2012, Peru ranked third in the region, with high scores for its institutional and regulatory framework and its climate of macroeconomic stability.

ii. Science, technology and innovation

2.25. The creation of value through the incorporation of knowledge into our products is a requirement for maintaining sustained long-term growth that makes it possible to attain the desired levels of development. It is therefore necessary to promote greater investment in research and development, in both the public and the private sectors, as well as to give greater impetus to science, technology and innovation.

2.26. In the course of a survey of public policy in this field, Peru's innovation policy was examined by the OECD, while UNCTAD conducted a review of its science, technology and innovation policies, the results of which were published in 2011. The two reports provided an overview of the action that needed to be taken to promote a virtuous circle of research, knowledge, development and growth networks. In this connection, mention should be made of the reorganization of the National Council for Science, Technology and Technological Innovation, begun in 2012, for the purpose of building its capacity to lead development in the field, together with the role

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<sup>1</sup> According to the Association for the Promotion of the National Infrastructure (AFIN), for the years 2012-2021 Peru's investment deficit for infrastructure will amount to US\$88 billion, equivalent to 33% of the GDP projected for this period.

<sup>2</sup> Infrascopes 2012: Evaluating the environment for public-private partnerships in Latin America and the Caribbean.

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of new demand instruments such as the Research and Development Fund for Competitiveness, the project Innovation for Competitiveness (FINCyT II) and its predecessor the Science and Technology Programme (FINCyT), the National Fund for Scientific and Technological Development and Technological Innovation and the Framework Fund for Innovation, Science and Technology as a source of financing for initiatives in these areas.

iii. Financial and capital market

2.27. The Peruvian financial market is sound, profitable and well capitalized, in line with the increase in domestic economic activity and the adoption of prudential measures, despite the signs of uncertainty that still prevail in the global financial markets. Private-sector credit, in real terms, was among the most dynamic in the region, driven by the growth in mortgage and business lending (especially for micro and small enterprises). This, together with sound regulation, enabled Peru to come first in the global microfinance rankings between 2008 and 2012, compiled by *The Economist's* Economic Intelligence Unit.<sup>3</sup>

2.28. However, to achieve greater financial depth and the development of the capital market, a series of measures has been introduced to create a more dynamic local financial and securities market, alongside a more flexible but still rigorous regulatory framework. These measures include, in particular, the incorporation of the recommendations made by the Basel Committee concerning the composition of regulatory capital to cover risks; the Law promoting financing through the commercial invoice; and the amendment of the Securities Market Law.

iv. Environmental sustainability

2.29. Peru is one of the most biologically diverse countries in the world thanks to its great genetic variety, many species of flora and fauna and continental and maritime ecosystems. Its enormous natural riches and their relevance to economic growth entail a high degree of accountability and call for the design and application of appropriate environmental sustainability measures. On the one hand, the aim is to ensure that economic activities are carried out under the best environmental conditions that modern technology can provide, while at the same time it is proposed to use Peru's biodiversity and renewable resources to propel the development of new inclusive and sustainable economic activities with high value added.

2.30. National awareness of the environmental dimension of development and the need to ensure the integrated management of Peru's natural resources and environment to preserve and develop them in accordance with a systemic approach led in 2008 to the creation of the Ministry of the Environment and the approval, one year later, of the National Environment Policy, which is aimed at improving people's quality of life by ensuring the existence of ecosystems that remain healthy, viable and functional over the long term and at promoting the sustainable development of the country, through environmental protection, prevention and restoration and the conservation and sustainable use of natural resources, in a manner that is both responsible and consistent with respect for fundamental human rights.

(e) Greater social inclusion

2.31. Economic growth, the result of efficient and responsible management of the economy at the macroeconomic level, has been the main factor in reducing poverty. This growth made it possible to reduce poverty by producing two effects, the first of which, namely, a decentralized increase in employment (which raised household incomes, especially in the poorest quintile), mainly accounted for the reduction in urban poverty (in 2011, the urban area poverty rate was 18%).

2.32. The second effect, which contributed mainly to the fall in rural poverty (in 2011, the rural poverty rate was 56%), was the higher tax revenues resulting from increased economic activity, which made it possible to raise the decentralized budget allocations for social programmes, investment in infrastructure, education, health and sanitation and, in general, provide support for the most vulnerable sectors of the population. Even though rural poverty is greater, targeted government intervention is yielding good results, considering that, between 2007

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<sup>3</sup> Global microscope on the microfinance business environment.

and 2011, poverty was reduced by a greater amount in the rural areas (-17.9 percentage points) than in the urban areas (-12.1 percentage points).

2.33. Despite the reduction in the poverty figures and inequality, substantial segments of the population are still lagging behind. Accordingly, in 2011, the Ministry of Development and Social Inclusion was created, in pursuance of the economic policy objective of achieving greater social inclusion, this being followed, in April 2013, by the approval of the National Development and Social Inclusion Strategy "Include to Grow", a management tool aligned on the Millennium Development Goals and aimed at coordinating and guiding joined-up development and social inclusion measures to achieve priority results.

2.34. Peru is committed to continue advancing its social inclusion agenda and the Millennium Development Goals and improving its ranking in the United Nations Development Programme's Human Development Index (HDI). In this connection, in 2012, Peru came 77<sup>th</sup> out of 187 countries in the HDI (for the period 2007-2008, it came 87<sup>th</sup> out of 177), which demonstrates the progress made in this area thanks to the well-conceived public policies adopted in recent years, including trade and investment policy as described below.

### 3 TRADE POLICY

3.1. The core of Peru's message, as reflected in its three previous Trade Policy Reviews, is that for more than 20 years the country has been implementing a policy of opening up and liberalizing trade aimed at integrating the country into the global economy with a view to improving the well-being of the population and benefiting from international market specialization. In addition, Peru has paid special attention to strengthening a system of predictable international trade based on fair competition, the development of comparative advantages and the reduction of barriers to trade.

3.2. The institutional framework for the formulation of trade policy has been maintained since the last Trade Policy Review. The Ministry of Foreign Trade and Tourism (MINCETUR) was created in 2002 with responsibility for defining, directing, implementing, coordinating and supervising foreign trade policy and is also responsible for export promotion and international trade negotiations, in conjunction with the Ministry of Foreign Affairs and the Ministry of the Economy and Finance (MEF) and other sectors of government within their respective areas of competence. For its part, the MEF plans, directs and controls aspects relating to customs and tariff policy, the latter in conjunction with MINCETUR and the ministry for the sector concerned, where appropriate.

3.3. Peru has incorporated foreign trade in its national development strategies.<sup>4</sup> This is reflected in the idea of converting Peru into an exporting country able to offer a competitive and diversified range of value-added goods and services bound into the international markets, with foreign trade contributing to social inclusion and a higher standard of living, as well as in the strategic objective of achieving a sustained increase in trade, with the emphasis on non-traditional exports, and consolidating Peru's image as an exporter of competitive goods and services.

3.4. Peru's commercial strategy has two main strands: the deepening of the trade opening and liberalization process and the development of foreign trade, which are linked with the objective of generating greater national competitiveness and making foreign trade a mechanism for social inclusion.

3.5. Since the last review, Peru has been working hard on these two approaches, which are being translated into specific policy instruments, such as unilateral tariff liberalization, international trade negotiations and domestic foreign trade-related competition and development policies.

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<sup>4</sup> Among other things, the National Agreement, agreed in 2001 between the Government, civil society and the main political parties and signed in July 2002 (a series of State policies drawn up and approved for the purpose of defining Peru's path to sustainable development and affirming its democratic governance); and the first Strategic National Development Plan, the "Bicentenary Plan: Peru by 2021", approved in 2011 (a long-term plan setting out Peru's national development policies and the objectives the country hopes to achieve by the bicentenary of its independence).

(a) Unilateral tariff reduction

3.6. Peru has been systematically extending the significant reduction in its tariffs as part of a trade liberalization policy begun in 1990, which has never been rolled back. In 2006, the MEF established the Tariff Policy Guidelines, which indicate that this policy involves the reduction of tariffs on broad groups of tariff subheadings, so as to provide greater access to imported inputs, capital goods and consumer goods, at lower prices, in greater variety and of better quality, the ultimate goal being to promote greater efficiency in the allocation of productive resources and increased well-being. This policy approach is reflected in a reduction in the average tariff and tariff dispersion.

3.7. Thus, on four occasions between 2007 and 2012, the tariff structure was amended downwards, with the result that the average MFN *ad valorem* tariff fell from 8.3% in 2007 to 3.2% in 2012, while the tariff dispersion went from 6.2 to 3.8 percentage points.

3.8. Currently, Peru applies three MFN *ad valorem* tariff rates (0%, 6% and 11%) for 100% of the tariff universe, with around 56% of that universe being subject to a 0% tariff, which in value terms represents 74% of imports in the year 2012.

(b) Forums and International Trade Negotiations

3.9. In Peru, there is a firm consensus that integration into the dynamic flows of international trade, investment and technology will make it possible to improve growth, employment and well-being. The three forms of trade agreement (multilateral, regional/plurilateral and bilateral) play a fundamental part in achieving this goal.

3.10. Peru considers that trade agreements make it possible: to improve the conditions of access to external markets for its goods and services, as well as to access expanded markets; to establish clear and predictable rules and disciplines for foreign trade; and to provide a regulatory framework that attracts private investment.

3.11. In this context, the ability to exchange goods and services and to attract investment from the rest of the world means greater well-being for society as a whole, through broad access to goods, services and technology for the purpose of improving the standard of living and combating poverty.

i. Multilateral sphere

3.12. Peru has been a member of the multilateral trading system for 62 years and is firmly committed to it. Peru became a contracting party to the GATT 1947 in 1951 and is an original Member of the World Trade Organization.

3.13. During the review period 2007-2012, Peru participated actively in the Seventh and Eighth Ministerial Conferences, as well as in the WTO's councils, committees and working groups responsible for the implementation and administration of the Agreements, with a view to ensuring that they were correctly applied and monitored. As part of the routine work of the Organization, Peru has presented various communications in committees such as those on Import Licensing, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, and Anti-Dumping Practices, among others, as well as making regular notifications in fulfilment of its transparency obligations. Moreover, in 2012, it assumed the chairmanship of the Working Group on Trade and Transfer of Technology.

3.14. Likewise, it has participated in the negotiations within the framework of the Doha Development Agenda with the aim of achieving as balanced and ambitious an outcome as possible in the Doha Round, including in the ministerial-level meetings of July 2008. Within the negotiations, Peru has submitted various proposals, individually or jointly with other WTO Members.<sup>5</sup> The areas in which Peru has submitted proposals include agriculture, fisheries subsidies; intellectual property – biodiversity, traditional knowledge and genetic resources; trade facilitation; and environmental goods and services, among others. Peru therefore notes with the

<sup>5</sup> For example, as part of the interest groups G-20, Cairns Group, Tropical Products Group and G-33 in agriculture; "Friends of Fish", in rules; and "W52" and "W59" sponsors, in intellectual property rights.

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utmost concern that, despite all the efforts made for more than 12 years, it has still not proved possible to arrive at any substantive result.

3.15. Even though Peru maintains its firm support for the principle of the "single undertaking", it trusts that at the Ninth Ministerial Conference, to be held in Bali, Indonesia, it will be possible to achieve, pursuant to paragraph 47 of the Doha Ministerial Declaration, concrete results that benefit the whole of the Membership, in particular the developing countries, and contribute to the credibility of the WTO and confidence in its negotiating function. Peru, as one of the officers of the Ninth Ministerial Conference, is committed to this objective.

3.16. Peru maintains its ambitious approach to all the negotiating topics in the Doha Round. Its objective is to foster greater security in the opening of markets, through the creation of new access opportunities for its exports and the establishment of transparent, fair and predictable trading rules that supplement in regulatory terms the trade disciplines of its bilateral and regional agreements.

3.17. In particular, Peru cannot conceive of a balanced outcome to the Doha Round that fails to afford greater protection for genetic resources and the associated traditional knowledge under the patents regime, in the context of an amendment to the TRIPS Agreement, or deliver results in areas such as the elimination of fisheries subsidies that contribute to excess capacity and overfishing, including special and differential treatment in favour of artisanal fishing in the developing countries; a substantive reduction in domestic support and the elimination of agricultural export subsidies; the liberalization of tropical and alternative products; and deeper mode 4 commitments on market access in services, among other topics which, because of their nature and sensitivity, are not usually a matter for negotiation in regional and bilateral trade agreements.

3.18. Peru appreciates the great importance of the WTO in an economic crisis situation as complex as that which the world has experienced in recent years, in having served as a guarantee against protectionism. Its normative and transparency instruments are especially significant in the endeavour to resist protectionism in all its forms, above all bearing in mind the economic and social impact of specific restrictive measures, which could adversely affect the common good of the Membership. Accordingly, on numerous occasions, in this and other forums (APEC, OECD, G-20), Peru has called on the other countries to show the utmost restraint in applying trade measures with major protectionist effects – even where these might be considered consistent with the WTO provisions – above all when such measures might affect the exports of developing countries or jeopardize a country's food security.

3.19. Peru also appreciates the work done by the WTO in connection with its Aid for Trade initiative, as an essential instrument for use by developing countries such as Peru in their efforts to build supply-side capacity and the physical and regulatory infrastructure needed to expand their trade and derive greater benefits from trade agreements.

3.20. Since 2007, Peru has actively participated in the regional and global activities organized around this initiative, in addition to having hosted the first Regional Review for Latin America and the Caribbean in September 2007 and having organized the National Dialogue on Aid for Trade in 2009. In 2011, in connection with the Third Global Review, Peru submitted three case stories<sup>6</sup> and was the South American country forming the subject of the most case stories and one of the six countries associated with the initiative to have submitted the most cases. In 2012, Peru also organized a National Workshop on Aid for Trade entitled "Strengthening Public-Private Cooperation".

3.21. Although Aid for Trade is being put to good use, we are asking for it to be strengthened to enable progress to be made with the reforms to increase productivity and distribute the benefits derived from trade more broadly, thereby translating the economic achievements into more significant improvements in the social indicators. In particular, Aid for Trade is of prime importance for ensuring that trade-related assistance for Peru revolves around four strategic poles:

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<sup>6</sup> These case stories are: (a) Impact of the incorporation of trade in the development strategy of Peru; (b) Public-Private Partnership and Biodiversity: the Maca Chain in Peru; and (c) Development of Cusco Textile Artisan Export Associations: gender equality, entrepreneurship and inclusion in trade development. Available at: <http://www.oecd.org/aidfortrade/casestories-partnercountries.htm#P>.

(i) the strategic build-up of policies and projects at governmental and institutional level; (ii) productive and technical capacity building for the development of a competitive range of exports at company level; (iii) the decentralized transfer of knowledge and capabilities in the area of trade at sub-national (regional and local) government level; and (iv) training and the permanent dissemination of opportunities for trade within the multilateral framework and the network of bilateral and regional trade agreements signed by Peru.

ii. Trade forums and agreements in force

3.22. For Peru, all bilateral and regional trade negotiations should be based on WTO provisions and principles and be WTO-consistent. Accordingly, the WTO is the fundamental element within the framework of Peruvian trade policy and international trade negotiations. The regional and bilateral agreements supplement the multilateral trade agreements and are in no way a substitute for them.

3.23. The bilateral and regional agreements signed by Peru are trade policy tools which contribute to the dynamism of Peruvian exports on the global market and to the country's economic growth, by making it possible to develop a diversified export sector for goods and services. In particular, these agreements have helped to consolidate duty-free access for its principal trading partners, with greater impact on the non-traditional sectors, together with the establishment of stable and predictable rules for attracting investment and improving bilateral trade relations. In addition, they have helped to improve the efficiency and productivity of domestic industry through access to cheaper imports of inputs, technology, services and the capital goods needed to ensure competitiveness and specialization.

3.24. Since the last review, Peru has signed and put into effect a series of bilateral trade agreements, with the first to enter into force being the Trade Promotion Agreement with the United States, the negotiation and implementation of which opened the way to a quite ambitious trade negotiations agenda.

3.25. All these new trade agreements are consistent with Article XXIV of the GATT and, except for one which does not cover trade in services, with Article V of the GATS. Moreover, they were duly notified to the WTO Committee on Regional Trade Agreements for review within the framework of the Transparency Mechanism for Regional Trade Agreements, and the reviews of the agreements with the United States, Chile, Canada, Singapore, China, the Republic of Korea, EFTA, Japan and Panama had been successfully completed by 2013.

Partner	Date of entry into force	Notification of WTO
		WTO provision
United States	1.2.2009	Art. XXIV of the GATT and Art. V of the GATS
Chile	1.3.2009	Art. XXIV of the GATT and Art. V of the GATS
Canada	1.8.2009	Art. XXIV of the GATT and Art. V of the GATS
Singapore	1.8.2009	Art. XXIV of the GATT and Art. V of the GATS
China	1.3.2010	Art. XXIV of the GATT and Art. V of the GATS
EFTA		
Switzerland and Liechtenstein	1.7.2011	Art. XXIV of the GATT
Iceland	1.10.2011	
Norway	1.7.2012	
Rep. of Korea	1.8.2011	Art. XXIV of the GATT and Art. V of the GATS
Mexico	1.2.2012	Art. XXIV of the GATT and Art. V of the GATS
Japan	1.3.2012	Art. XXIV of the GATT and Art. V of the GATS
Panama	1.5.2012	Art. XXIV of the GATT and Art. V of the GATS
European Union	1.3.2013	Art. XXIV of the GATT and Art. V of the GATS
Costa Rica	1.6.2013	Art. XXIV of the GATT and Art. V of the GATS

3.26. The Trade Promotion Agreement with the United States was an important landmark because it led not only to changes in the national legal framework for its regulatory and institutional implementation in order to fulfil the commitments undertaken in the TPA but also, and even more importantly, to regulatory and structural reforms for the purpose of taking advantage of the opportunities generated by the Agreement and the FTAs that followed. Thus, in December 2007, with a view to facilitating the implementation of the TPA and promoting the country's economic competitiveness in order to make good use of it, authority to legislate on the following matters was delegated to the Executive: (i) trade facilitation; (ii) improvement of the regulatory

framework, institutional strengthening and administrative simplification, and modernization of the State; (iii) improvement of the administration of justice in trade and administrative disputes; (iv) promotion of private investment; (v) encouragement of technological innovation, quality improvements and capacity building; (vi) promotion of employment and of micro, small and medium-sized enterprises; (vii) institutional strengthening in the area of environmental management; and (viii) improvements in the competitiveness of agricultural production. This process led to the enactment and publication of 99 Legislative Decrees: 12 relating to implementation; 84 to utilization and three to both.

3.27. In addition, in December 2011, there entered into force the "Protocol between the Republic of Peru and the Kingdom of Thailand for Accelerating the Liberalization of Trade in Goods and Trade Facilitation" and its Additional Protocols, which constitute an "early harvest" of the FTA, the negotiation of which is approaching its conclusion. Moreover, in August 2013, the "Commercial Partial Scope Agreement between the Republic of Peru and the Bolivarian Republic of Venezuela" entered into force within the framework of the LAIA legal system.

3.28. Moreover, in its previous Trade Policy Review, in addition to participation in the Asia-Pacific Economic Cooperation Forum (APEC), Peru had in force the Andean Free Trade Zone, within the context of the Andean Community, and Economic Complementarity Agreements with Cuba, Chile, MERCOSUR and Mexico, within the context of the Latin American Integration Association (LAIA), under the Enabling Clause.

3.29. As a signatory to the 1969 Cartagena Agreement, Peru forms part of the Andean Community (CAN), which also consists of the Plurinational State of Bolivia, Colombia and Ecuador and the organs and institutions of the Andean Integration System. The CAN has a free trade area in force for all the goods produced in the subregion and has developed Community rules that govern trade relations between the member countries, including a "General Framework of Principles and Rules for the Liberalization of Trade in Services".

3.30. In August 2013, the CAN member countries were assessing the re-engineering of the Andean Integration System with a view to strengthening the CAN, by steering it towards a new, more modern vision with a view to reinvigorating it and adapting it to address the requirements, issues and challenges of the present regional and international context. The measures being taken on the basis of this new vision coincide with Peru's one-year Pro Tempore Presidency of the Andean Community, which means that it will play a significant role in the conduct and implementation of this process.

3.31. Finally, as a member economy since 1998, Peru has been actively participating in the initiatives of the Asia-Pacific Economic Cooperation Forum (APEC). Peru was the host economy for the main meetings of the Forum in 2008 and will again be the host in 2016. Its participation in APEC has enabled it to contribute to the establishment of APEC's topics and priorities, promote the liberalization and facilitation of trade and investment in the country, and coordinate joint positions in support of the multilateral trading system and regional economic integration, as well as to facilitate approaches to the Asia-Pacific economies with a view to opening bilateral and regional negotiations.

3.32. It should be pointed out that in 2008, Peru successfully underwent a peer review of its Individual Action Plan (in the areas laid down in the Osaka Action Agenda) and that, in 2010, it was one of the eight volunteer developing economies to submit to an assessment of their progress towards achieving APEC's Bogor Goals (free and open trade and investment, for the industrialized economies in 2010 and for the developing economies in 2020), it being recognized that Peru had made significant progress towards achieving these goals.

iii. Agreements to enter into force or being negotiated

3.33. As of August 2013, the FTA between Peru and Guatemala had been signed and the FTAs with Honduras, El Salvador and, as mentioned above, Thailand were being negotiated. The Trans-Pacific Partnership Agreement (TPP) and the Pacific Alliance (PA) were also being negotiated.

3.34. Peru announced the decision to form part of the TPP negotiating process within the context of the APEC Leaders Summit held in Peru in November 2008. Since then it has participated in the meetings relating to this initiative at every level (leaders, ministers, chief negotiators, negotiating rounds).

3.35. This initiative now has 11 participating APEC economies, in addition to Peru: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Singapore, the United States and Vietnam and has turned into a plurinational negotiating process that is more ambitious and broadly based not only with respect to the product coverage and the disciplines included but also with respect to the economies from three continents involved.

3.36. Peru is committed to working with its TPP partners to achieve the success of the initiative, whose negotiating process is aimed at constructing an inclusive and high-quality agreement to support economic growth, development and the creation of employment in the member countries, which in its turn will become the basis and the medium for a future Asia-Pacific Free Trade Area (FTAAP), which is why it is open to the entry of other APEC economies and to the development of mechanisms that will make it flexible and able to evolve.

3.37. In April 2011, the Heads of State of Peru, Chile, Colombia and Mexico agreed, in the Declaration of Lima, to establish the Pacific Alliance with the aim of "progressively moving towards the free movement of goods, services, capital and persons". During their 4<sup>th</sup> Summit at Antofagasta, Chile, in June 2012, the Heads of State signed the Framework Agreement establishing the Pacific Alliance, stressing its importance as a legal instrument which lays the institutional foundations for this regional integration initiative and establishes its objectives, while also setting forth the participation requirements for those countries of the region that might wish to join in the future. In June 2013, the Congress of the Republic of Peru approved the Pacific Alliance Framework Agreement, which was ratified by the Executive in July 2013.

3.38. The Framework Agreement provides the initiative with the institutional system and legal structure necessary for it to represent an economic, political and commercial integration space for boosting the growth, development and competitiveness of the Parties' economies, by offering economic operators a predictable legal framework for the free movement of goods, services, capital and persons and establishing a gateway to other regions, especially the Asia-Pacific region.

3.39. The first package of Pacific Alliance negotiations, which concluded in August 2013, concerns the trade chapter of this integration process, which seeks to broaden and deepen the existing bilateral agreements between the four countries (92% of the tariff universe will be duty free as soon as the agreement enters into force and the remaining 8% in the short or medium term). There have also been other important achievements such as the elimination of visas for business people with Pacific Alliance country nationality who move between member States (remunerated activities up to 180 days); the signing of the Agreement on Business Collaboration for promoting the Pacific Alliance; the signing of the Inter-Agency Cooperation Agreement between the Health Authorities of Pacific Alliance Member States; the signing of the Memorandum of Understanding on the Pacific Cooperation Platform; the establishment of the Platform for Student and Academic Mobility (study grants and fellowships); the signing of the Agreement to establish the Pacific Alliance Cooperation Fund; the signing of the Cooperation Agreement on Tourism; etc.

3.40. This initiative provides for the participation of Observer States (20 countries in August 2013) and the accession of new States Parties, which must have a free trade agreement with each of the Parties. In May 2013, the Presidents of the Pacific Alliance received Costa Rica's request to initiate its accession process.

3.41. At the same time, Peru is working on other ways of advancing the trade liberalization agenda. Thus, since March 2012 it has been actively participating in the plurilateral negotiations for an Agreement on Trade in Services (TISA), in order to continue expanding the opportunities for trade and investment in the sector.

3.42. In August 2013, there were 22 WTO Members participating in this initiative, which has the ambitious objective of achieving a GATS-consistent agreement that could be raised to multilateral level in the future; a broad scope, with no sector or mode of supply being excluded a priori;

and commitments that will be adjusted as closely as possible to actual practice and offer opportunities for improved market access and new and better disciplines.

(c) Development of foreign trade

3.43. As regards the development of foreign trade, the strategies and actions continue to be outlined in the National Strategic Export Plan (PENX) 2003-2013, which establishes the trade promotion strategy at national level. The main benefit derived from the existence of the PENX is the coordinated participation with the private sector, the leading player in foreign trade.

3.44. In this respect, the PENX and its components have defined a joint public-private agenda for promoting the development of the export offer, together with the development of international markets, trade facilitation and an export culture.

1. Development of the export offer: by identifying the export offer and strengthening commercial intelligence, quality improvement programmes and the competitiveness agenda; and by focusing on niche markets, SMEs and new export enterprises, especially in the regions.
2. Development of international markets: by organizing international fairs, developing joint market surveys, exploiting international markets (by implementing the FTAs and developing tools such as operational market plans and other specialized studies), and strengthening bilateral agendas and the commercial presence network abroad (by 2016 it is hoped to have 40 commercial offices in other countries).
3. Trade facilitation: by establishing a legal framework that makes it possible to apply effective foreign trade facilitation mechanisms (including a single foreign trade window), promote infrastructure development and provide for access to and the supply of physical distribution and financial services of better quality at lower prices.
4. Development of an export culture: by providing training in export and human resource development subjects through the introduction of a National Foreign Trade Education Policy and the promotion of an export culture, particularly among young businessmen and small and medium-sized enterprises and among associations and production clusters (to inform them of the opportunities offered by the foreign market).

3.45. It should be noted that the Regional Strategic Export Plans (PERX) for each of the regions, the Trade Facilitation Master Plan, the Sector-specific Operational Plans (POS), the Product-specific Operational Plans (POP), the Destination Market Operational Plans (POM) and the Export Culture Plan are all offshoots of the PENX.

3.46. As the existing PENX ends in 2013, it is currently being reviewed and updated, with a view to the adoption of the PENX 2014-2021, which reflects the new global, regional and local economic trends, in line with the shared view of Peru's future in the 21<sup>st</sup> century.

## 4 INVESTMENT POLICY

4.1. The specific legal framework for the promotion and protection of investment and the institutional framework for the formulation of investment policy have been maintained since the last Trade Policy Review.

4.2. The cornerstone of the robust legal framework is the 1993 Constitution, which contains the rules enshrining the essential principles for guaranteeing a legal framework conducive to the development of private investment and particularly foreign investment. Domestic investment and foreign investment are both subject to the same conditions, as the legal framework governing investment is based on the "national treatment" principle. Foreign investment is permitted without restriction in almost all branches of economic activity and does not require prior authorization for being foreign. In addition, Legislative Decree No. 662 of 1991 establishes clear rules and the necessary safeguards for the development of foreign investment in the country.

4.3. The MEF is responsible for formulating foreign investment policy and PROINVERSIÓN implements the national policy on the promotion of private investment in accordance with the general policy guidelines laid down by the MEF.

4.4. Peru's investment policy guidelines seek to promote investment, preferably decentralized, in accordance with Peruvian economic policy; to prioritize the promotion of investment that helps to increase employment, national competitiveness and exports, while reconciling national, regional and local interests; to improve the quality and expand the coverage of public services and infrastructure by encouraging investment that does not depend on the Peruvian State; to develop mechanisms designed to attract investors and cater for their needs, by identifying and eliminating barriers to investment in sectors of importance for the country's sustainable development; to maintain and promote the country's image as a favourable environment for investment; and to negotiate international double taxation agreements.

4.5. Peru has been very active in negotiating bilateral, regional and multilateral instruments in order to establish guarantees of treatment, protection and access to dispute settlement mechanisms applicable to investment. Peru has concluded reciprocal investment promotion and protection agreements with 33 countries, 31 of which are in effect.<sup>7</sup> Within the Andean Community framework, there is a Common Regime under which subregional investment is guaranteed the same treatment as that applicable to national investment. Moreover, investment chapters have been included in the trade agreements that have entered into force with Canada, Chile, China, Costa Rica, the Republic of Korea, Mexico, Panama, Singapore and the United States and in the FTA signed with Guatemala, and investment chapters are being negotiated in the FTAs with Honduras and El Salvador, as well as in the TPP and the Pacific Alliance.

4.6. Furthermore, Peru is a member of the International Centre for Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA).

4.7. Since July 2008, Peru has been a signatory to the OECD Declaration concerning guidelines for multinational enterprises and is participating in the Investment Committee as an observer, in continuation of the efforts aimed at improving the climate for investment. In order to contribute to the preservation of a favourable climate for investment, PROINVERSIÓN is responsible for disseminating and promoting the guidelines for multinational enterprises in Peru, and to that end acts in coordination with various public- and private-sector bodies and civil society organizations.

4.8. Peru has agreements in force for the avoidance of double taxation and the prevention of tax evasion with Brazil, Canada and Chile, as well as with the Plurinational State of Bolivia, Colombia and Ecuador within the context of CAN Decision No. 578. It has also signed agreements for the avoidance of double taxation and the prevention of tax evasion with the Republic of Korea, Mexico, Portugal and Switzerland. Moreover, it has started negotiations on the subject with France, Italy, Qatar, Singapore, Spain, Sweden, the United Kingdom and Thailand.

4.9. One of the most important advances in investment law during the review period was the enactment in 2008 of the Framework Law on Public-Private Partnerships to generate productive employment and regulate the streamlining of private investment promotion processes. In order to close the infrastructure gap (section 2(d)(i)), this Law promotes private-sector participation in the development of public infrastructure and the provision of public services, to which end it lays down, *inter alia*, the requirements for the classification of projects into two types (self-sustaining and co-financed) and includes arbitration as a dispute settlement mechanism.

4.10. During the review period, Peru was active in designing measures to facilitate private investment and improve the business climate. Thus, for example, in July 2013 the Congress of the Republic agreed to amend various laws to facilitate investment and stimulate productive development and business growth. With respect to the facilitation of private investment, measures were taken to eliminate bureaucratic obstacles to entrepreneurial activity, facilitate the scoring

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<sup>7</sup> Argentina, Australia, Belgium, the Plurinational State of Bolivia, Canada, Chile, China, Colombia, Cuba, the Czech Republic, Denmark, Ecuador, El Salvador, Finland, France, Italy, the Republic of Korea, Luxembourg, Malaysia, the Netherlands, Norway, Paraguay, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, Thailand, the United Kingdom and the Bolivarian Republic of Venezuela. The agreements with Colombia and Singapore are not yet in force.

of urban renovation and construction projects, and simplify municipal authorizations to encourage investment in, among other things, public services and public infrastructure works.

## 5 TRADE AND INVESTMENT PERFORMANCE

5.1. The trade (exports and imports of goods<sup>8</sup> and services) to GDP ratio was maintained at an average of 50% over the review period 2007-2012 (higher than the average of 39% for the period 2001-2006), which places Peru among the most open economies in the region as a consequence of the continuity of its market-opening policies.

5.2. The aggressive development of foreign trade and the promotion of investment are reflected in the positive results for the period 2007-2012. Merchandise exports grew by 62.4%, rising from US\$28,094 million in 2007 to US\$45,639 million in 2012, due to the high prices of minerals and the improvement in market access conditions resulting from the signing of trade agreements. The trend in non-traditional exports (up by 75%), especially in the agricultural sector, is particularly noteworthy. For their part, merchandise imports grew by 109.9%, rising from US\$19,591 million in 2007 to US\$41,113 million in 2012, which reflected the stronger demand for inputs and capital goods associated with the increase in domestic economic activity and the development of the investment project portfolio (with an 81% average share of total imports). Throughout the review period, Peru recorded a trade surplus, which in 2012 closed at US\$4,527 million.

5.3. Exports of services grew by 62.8%, rising from US\$3,152 million in 2007 to US\$5,130 million in 2012, the trend in tourism income being particularly noteworthy owing to the increased number of visitors and their higher average spend (with a 54% average share of services exports over the period 2007-2012 and 54% growth). For their part, imports grew by 70%, rising from US\$4,344 million in 2007 to US\$7,388 million in 2012, owing to higher external payments for freight, business services and travel. Throughout the review period, Peru recorded a deficit in foreign trade in services, which in 2012 closed at US\$2,258 million.

5.4. Where foreign investment is concerned, the annual flow of FDI into Peru averaged around US\$7,900 million during the period 2007-2012 (much higher than the average of US\$2,000 million for 2000-2006). On the basis of figures on foreign investment as a contribution to capital, the foreign direct investment balance amounted to US\$22,674 million at the end of 2012. The contributions were mainly concentrated in the following sectors: mining (23.9%), finance (18.5%), communications (17.3%), industry (13.7%), and energy (13.5%).

5.5. Peru offers a broad and diversified range of goods and services. Although the offer is still concentrated in traditional merchandise exports (with a 76% average share of merchandise exports in 2007-2012), during the review period exports of non-traditional products soared.

5.6. The development and utilization of capabilities for diversifying the export offer over the review period 2007-2012 is reflected, for example, in the non-traditional exports of the agro-industrial, textiles, chemicals, fisheries and engineering sectors. Optimization of the use of capabilities such as logistical management, agricultural modernization, control of the cold chain and more extensive air networks made it possible to increase agro-exports, which on average contributed 27% to non-traditional exports and grew by a remarkable 101% (2007-2012). In addition, the flexibility of the enterprises in the textiles sector enabled them to adjust to the different requirements of the international market, while maintaining an average 23% share of non-traditional exports and growing by 24%. Over the same period, in the chemicals sector, non-traditional exports of chemical products (such as organic and inorganic chemical products and personal care products, essential oils and perfumery) grew by 102% (14% of non-traditional exports); and the fisheries sector also recorded 102% growth (9% of non-traditional exports). Meanwhile, the dynamism of the mining sector led to the expansion of the engineering sector, with a 141% increase in non-traditional exports and an average contribution of 5%.

5.7. Within Peru's services export basket (in 2012, 10% of total exports), in addition to continued efforts to establish the country as a tourist and culinary destination (by boosting the restaurant and hotel sector), there is backing for adding value to other services and integrating into global

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<sup>8</sup> In this section the statistics on merchandise trade are presented in accordance with the coverage of economic territory, on the basis of information compiled by the Central Reserve Bank of Peru.

value chains by taking advantage of the distinguishing features of the Peruvian offer. For example, Peru has been recognized as a country with a great potential for offshore services and business process outsourcing (BPO) services, such as contact centres, accounting services, legal services and human resources services, and for information technology outsourcing (ITO) services, such as consultancies and hardware-related services. Moreover, the Peruvian Commission for the Promotion of Exports and Tourism (Promperú) has implemented initiatives with a view to expanding exports of software services and health services, such as cosmetic surgery services offered to foreigners in Peru.

## **6 CONCLUSIONS AND OUTLOOK**

6.1. Following Peru's third Trade Policy Review in 2007, WTO Members praised Peru's solid economic growth, sustained by prudent macroeconomic policies, structural reforms and a favourable global economic environment, and encouraged it to persevere with its structural reforms to increase productivity, in particular those needed to eliminate the bottlenecks created by inadequate infrastructure and to spread the benefits more widely, so as to bring about more significant improvements in the social indicators, including poverty reduction.

6.2. During the present review period, important progress has been made with these structural reforms to achieve sustained economic growth and greater social inclusion, productivity and competitiveness. These reforms have been based on sound strategic planning and the identification of national priorities.

6.3. Peru is convinced that this national development model founded on fiscal discipline, economic stability, open markets, promotion of private investment and significant public investment in infrastructure, together with other factors, has made it possible for Peru to enter a virtuous circle of continuous growth. Although Peru is not immune from the possible adverse effects of a still feeble global economy and the risks of a fall in raw materials prices, it possesses the macro and microeconomic strengths needed to absorb them, provided that it can continue to make progress with facilitating private investment and achieving sustainable increases in productivity and competitiveness, while improving the quality of education, the labour force and its institutions and increasing investment in science, technology and innovation, all areas in which it faces great challenges.

6.4. Where trade is concerned, under the Multi-Annual Strategic Sector Plan (PESEM) for Foreign Trade and Tourism 2012-2016, trade policy will continue to promote exports, especially non-traditional exports, in order to increase value added, integrate the country into global value chains, improve product quality, make the economy more competitive and better exploit the international markets. Trade policy should be an important tool for social inclusion and development, with the ultimate aim of reducing poverty and increasing the well-being of the population through quality employment.

6.5. Thus, if Peru continues along this path, it is possible to envisage, by 2021, a country similar to that described in its Bicentenary Plan 2021, that is, a country enjoying steady economic growth, marked by stability and social inclusion, and supported by a more productive and competitive national economy, with a State at the service of its citizens and well-being for all Peruvians.

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