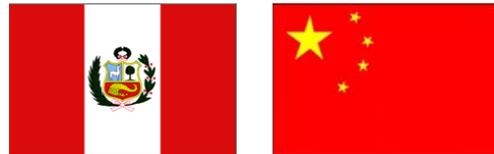




Ministerio de Comercio Exterior y Turismo



PERU – CHINA FREE TRADE AGREEMENT

JOINT FEASIBILITY STUDY

This study has been prepared by the Ministry of Foreign Trade and
Tourism of Peru and the Ministry of Commerce of the People's
Republic of China

Each Party is responsible for the comments and statements included in this study relating to its own economy. The Conclusions and Recommendations were prepared jointly by both Parties.

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1 INTRODUCTION

1.1 Background of China – Peru FTA

China

Since China and Peru forged diplomatic ties in 1971, the two countries have enjoyed frequent political and economic exchanges and communications; cooperation and coordination in science and technology, education, and culture have also been successfully expanded.

On January 28, 2001, the Chief Representative of Negotiations of the Ministry of Foreign Trade and Economic Cooperation Long Yongtu signed a bilateral agreement on China's entry into the WTO at the headquarters of the WTO, with Ambassador of Peruvian mission in Geneva, Jorge Voto-Bernales. During the APEC Summit in 2004 in Chile, President Alejandro Toledo Manrique declared that Peru admitted China's market economy status. In January 7, 2005, when Chinese Vice President Zeng Qinghong visited Peru, both sides agreed to establish an all-around cooperative partnership.

In March 2007, H.E. Li Changchun, member of the Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China, paid a visit to Peru. During his visit, Mr. Li, together with President García, co-announced to launch the China-Peru FTA Joint Feasibility Study in 2007.

Peru

China and Peru hold long-lasting relations that started in the middle of the 19th century when the first Chinese immigrants arrived to Peru to work in the agricultural sector.

Since then, both countries have shared a very sound bilateral connection. These friendly ties were strengthened in November 1971, when Peru recognized the "one China policy" and established diplomatic relations with the People's Republic of China.

In the last few years, the Sino-Peruvian relationship has also experienced a substantial improvement from the economic viewpoint. On the one hand, the evolution of trade looks promising. During the 1980s, trade flows between China and Peru did not go beyond US\$ 100 million every year. In 2006, the bilateral trade grew up to around US\$ 3,700 million and China became Peru's second largest trading partner.

On the other hand, in terms of investment, Chinese companies began to settle in Peru in the 1990s and recently some Peruvian companies have started to do the same in China.

These facts show the strong potential of the bilateral association between Peru and China. Therefore, the interest for both countries to deepen their relationship has increased. An evidence of this positive attitude is reflected in the high-level exchange of communications and meetings that took place recently among our authorities. In this way, China's Minister of Commerce, Bo Xilai, and Peru's Minister of Foreign Trade and Tourism, Mercedes Araoz, met in Hanoi, Vietnam, in November 2006, to explore real possibilities to strengthen trade links.

Subsequently, on March 30th, 2007, China's Member of the Standing Committee of the Political Bureau of the CPC Central Committee, Li Changchun, and Peru's President, Alan García, launched officially the Joint Feasibility Study of a Free Trade Agreement between China and Peru, to explore the opportunities and challenges that both countries would face and to measure the impact of an eventual FTA. Finally, the Joint Feasibility Study pretends to recommend on the best ways to conduct negotiations to the governments of China and Peru.

1.2 Major Characteristics of Macro Economy of China and Peru

China

China has successfully maintained a rapid economic growth for over two decades since its reform and opening-up, leading the world with an average annual GDP growth rate of more than 8%. By the end of 2006, China's GDP grew by 10.7% year on year to reach RMB 20,940.7 billion. The number of working population was 764 million. The registered urban unemployment rate decreased by 0.1% year on year to 4.1%. China's CPI rose up 1.5% than last year. In 2006, China had a trade surplus of US\$ 177.5 billion. By the end of 2006, China's foreign exchange reserves hit US\$ 1,066.3 billion, the largest amount in the world. The exchange rate of RMB has been relatively stable since the reform of exchange rate in July 2005.

Table 1.1 Macro Economy Items of China (2001-2006)

Year	Growth Rate of GDP (%)	Growth Rate of CPI (%)	Registered Unemployment Rate in Urban Areas (%)	Growth Rate of Investment in Fixed Assets (%)	Growth Rate of M2 (%)	Growth Rate of Bank Loan (%)
2001	7.5	0.7	3.6	13.1	17.6	13.0
2002	8.0	-0.8	4	16.1	16.8	16.9
2003	9.1	1.2	4.3	27.6	19.6	29.3
2004	9.5	3.9	4.2	25.8	14.6	14.4
2005	9.9	1.8	4.2	25.7	17.6	12.8
2006	10.6	1.5	4.1	24.0	16.9	14.7

Source: China Statistical Yearbook 2006

China's trade in goods reached US\$ 1,760.7 billion in 2006, a year-on-year increase of 24%. China's export and import volume hit US\$ 969.1 billion and US\$ 791.6 billion, up 27.2% and 20.0% respectively.

In 2006, China's total investments on fixed assets increased by 24.0% to RMB 10,987 billion. Investment in industrial sector grew significantly faster than that in other sectors. 41,485 foreign invested enterprises were granted approval of establishment, down 5.8% from last year. Actually utilized foreign investment decreased by 4.1% to US\$ 69.4 billion. China's local and foreign currency deposits in financial institutions recorded a balance of RMB 23.9 trillion, up 16% year on year.

Since 2000, industries with fastest growth rate are manufacturing (11.6% in 2005), construction (12.6% in 2005), transportation (11.7%) and so on. The fast growth of manufacturing reflects that China is in the middle-stage of industrialization. The investment in hi-tech industries such as computers, and in petroleum and chemical industries has been the driving forces of Chinese economy in recent years. With accelerated urbanization, the real estate investment is very high, which further facilitates the growth of construction. Since China joined the WTO in 2001, the leaping foreign trade is another force driving China's economy.

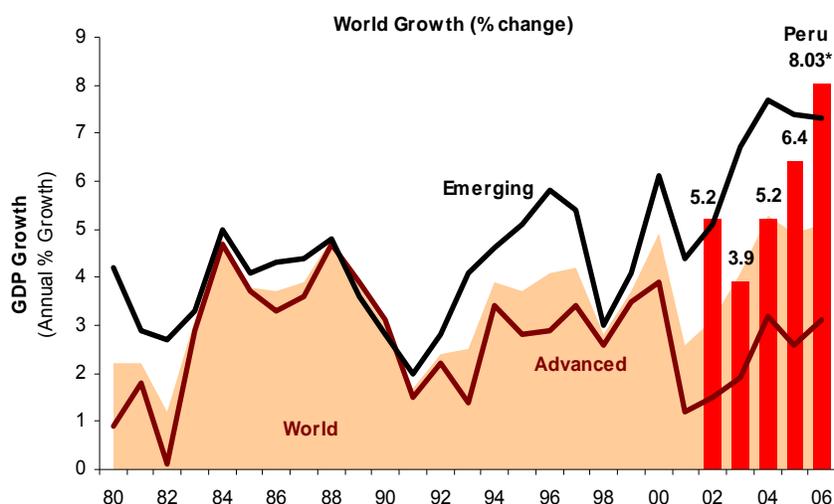
Table 1.2 Gross Domestic Product Growth by Sectors (%)

Year	Agriculture	Manufacture	Construction	Transportation, Warehouse & Post	Wholesale & Retail
2001	2.8	8.7	6.8	11.6	9.3
2002	2.9	10	8.8	9.9	10
2003	2.5	12.8	12.1	8.3	11
2004	6.3	11.5	8.1	17.1	8.1
2005	5.2	11.6	12.6	11.7	7.8
2006*	5.0	12.5	12.4	8.3	N.A.

Source: The data of 2001-2005 is from China Statistical Yearbook 2006, and the data of 2006 is from General Survey of year 2006 for National Economy and Social Development

Peru

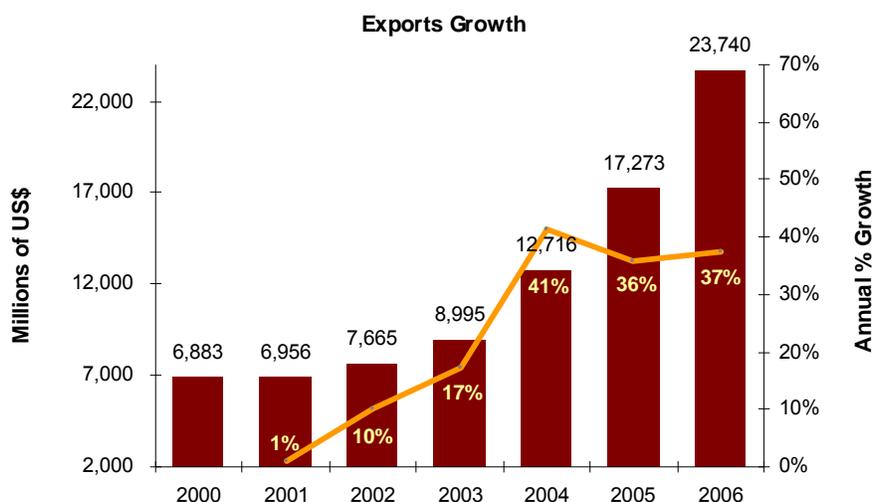
Peru has recorded outstanding economic expansion in the last years evidenced by a GDP growth of 8.03% in 2006¹ and 6.4% in 2005. This performance is expected to be maintained in the future, mainly through high levels of public and private investment, an increase in domestic demand and greater exports driven by a strong world economy. In this scenario, GDP per capita would grow at an annual 6% and its estimated value for 2007 (US\$ 3,600) would rise up to US\$ 5,700 by 2015.



Source: International Monetary Fund and BCRP / *Estimate: INEI
 Prepared by: ProInversión

Total exports reached US\$ 23.7 billion in 2006, exceeding all prior projections, growing at an annual rate of more than 35% for the last three years. This is due to an increase in international demand, which translates into higher world prices and greater demanded volumes for Peruvian exports to the benefit of shrewd local business.

¹ The highest rate since 1995.



Source: SUNAT
Prepared by: MINCETUR

Traditional and Non Traditional Exports²

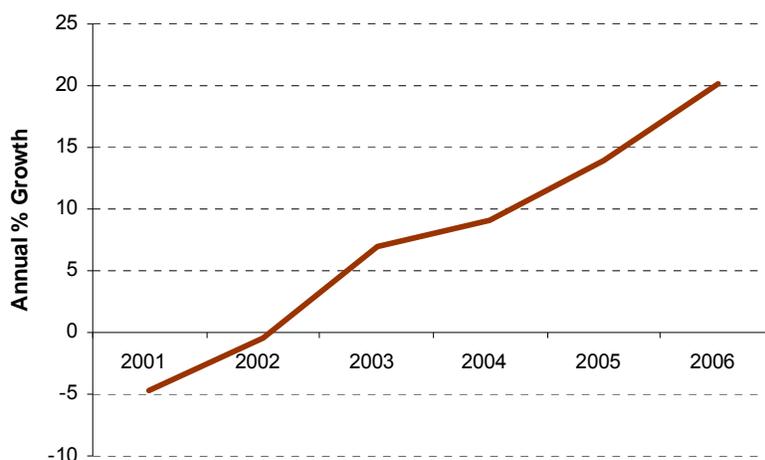
Exports	2005	2006	Var%
Traditional Products	12,918.7	18,332.2	41.9
Fisheries	1,303.0	1,331.4	2.2
Agriculture	330.6	572.5	73.2
Mining	9,759.5	14,715.8	50.8
Crude and byproducts	1,525.6	1,712.5	12.3
Non Traditional Products	4,276.5	5,262.1	23.0
Agriculture	1,008.7	1,212.0	20.2
Fisheries	322.5	432.1	34.0
Textiles	1,275.0	1,468.9	15.2
Lumber and paper, products	261.3	332.8	27.4
Chemical	537.6	600.8	11.8
Non metallic minerals	118.1	135.2	14.5
Iron, steel and jewelry	493.3	828.8	68.0
Machinery	190.1	162.5	-14.5
Other	69.9	89.0	27.3
Other	141.1	155.3	10.1

Source: BCRP and SUNAT

Private investment grew 19.9% in 2006, after increasing 13.9% in 2005. Similar rates are expected for the following years as a consequence of the strong world demand and the significant confidence surge of Peruvian investors and consumers. In this sense, annual private investment flows to Peru are expected to exceed US\$ 20 billion or 20% of GDP in the near future. Additionally, public investment will benefit from the higher levels of tax collection (tax revenues increased 28.9% in 2006) and improvements in the capabilities to execute public investment projects.

² The concept of "traditional exports", utilized by the Peruvian Central Bank, includes the products that historically have constituted most of the value of the Peruvian exports; which in relative terms tend to include a smaller added value than the "non traditional" products. The traditional exports include basically some agricultural (cotton, sugar and coffee) and mining products (copper, tin, iron, gold, silver, lead, zinc and molybdenum), hydrocarbons, fishmeal and fish oil; while all the other exports are considered non traditional.

Private Investment Growth



Source: MEF and BCRP

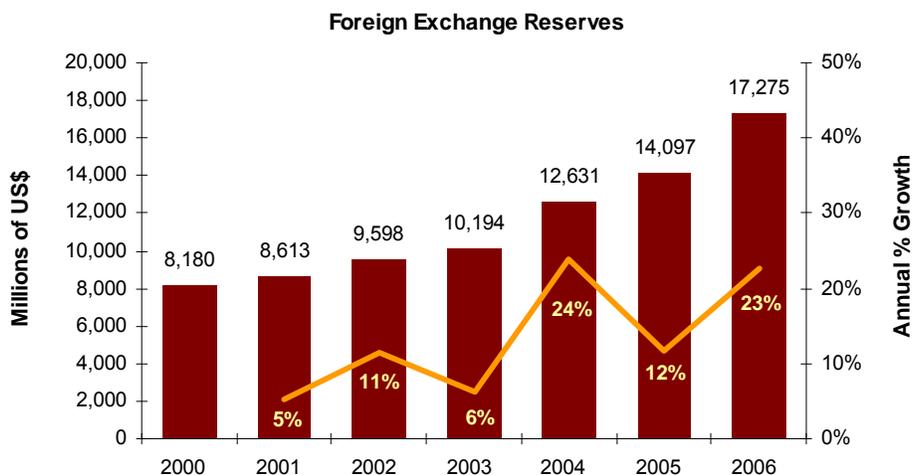
Key Investment Variables

Variable	2004	2005	2006
Private Investment (% change)	9.1	13.9	19.9
Public Investment (% change)	5.7	12.2	14.6
Employment in companies of 10 or more workers (% change)	1.8	2.8	9.8
Exports (% change in US\$)	40.9	35.3	37.1
Capital goods imports (% change in US\$)	19.6	29.6	40.5
Construction Sector GDP (% change)	4.7	8.4	14.7
Tax Collection (% change)	14.9	18.3	28.9
Financial System Credits	4.7	7.9	16.6
Pension Funds (% Change)	17.5	25.5	40.3
Lima Stock Market General Index (% Change)	52.3	29.4	168.3

Source: ProInversión

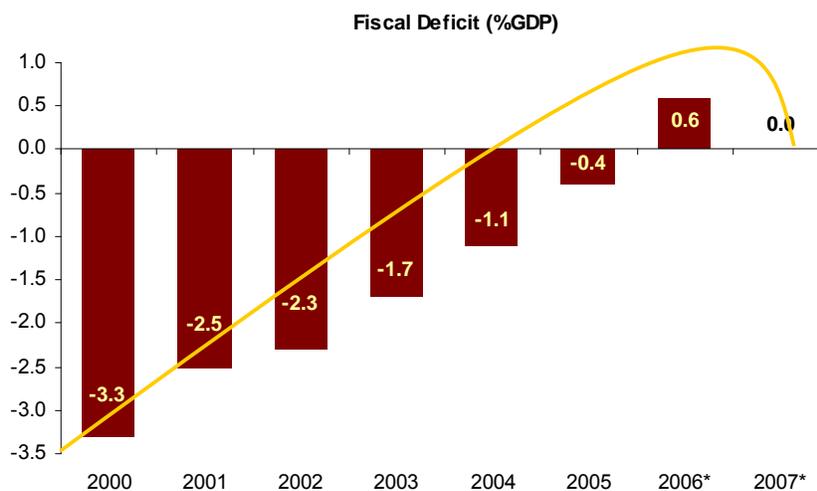
Peru's growth has also started to build up on a livelier domestic demand, stemming from a growing income and more jobs. Particularly, in 2006, the domestic demand grew 10.6%, this was explained by the expansions registered on public and domestic consumption, and mainly on gross domestic investment. The high growth rates recorded in these components of the domestic demand indicate that the Peruvian economy is crossing an expansive phase with growth over the tendency

In 2006, Peru continued to show a sound international liquidity position thanks to its Foreign Exchange Reserves, equivalent to US\$ 17.3 billion and one full year of imports. Such level ensures Peru to honor its international liabilities with other countries.



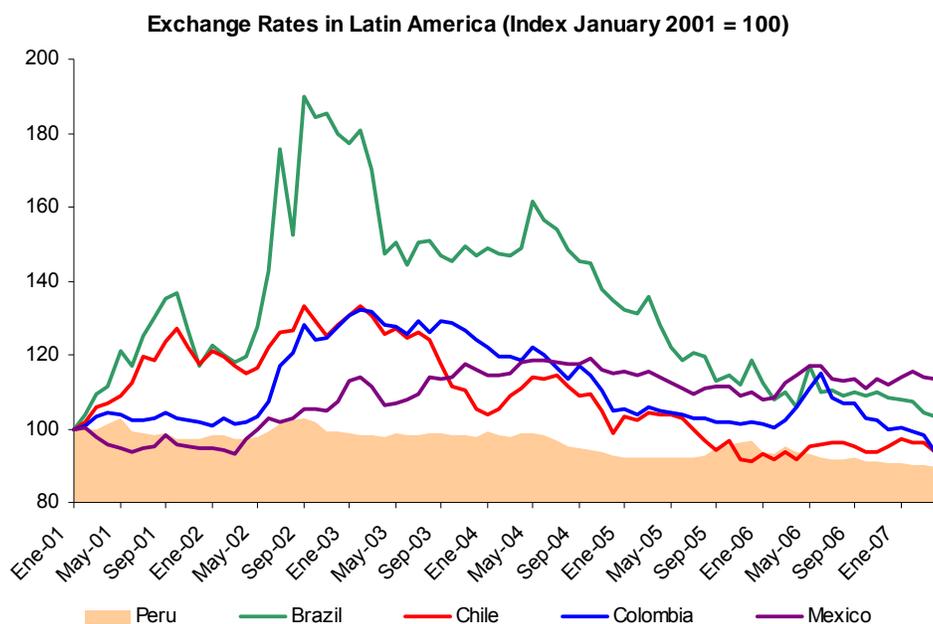
Source: BCRP

Balanced government accounts are another key element in evaluating Peruvian economic health. Peru has rapidly reduced its fiscal deficit, from an average of 2.4% of GDP in 2000-2003 to a surplus 0.6% of GDP in 2006, through sound economic management and increased tax revenues, sustained by economic growth and high international prices. Peru's fiscal balance is among the strongest region-wide.

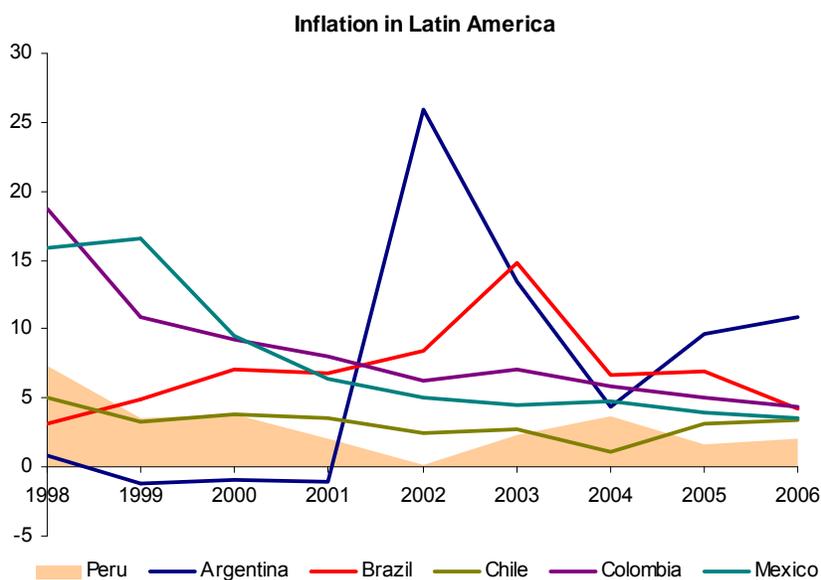


Source: BCRP/ *Projected values: MEF

Peru's economic growth has benefited from the country's exchange rate and price stability, now lasting over ten years, as a consequence of the economic authorities' firm commitment to the necessary fiscal balance and a conservative monetary policy. On the one hand, Peru has a very stable floating exchange rate, where the Central Bank seldom intervenes to prevent sharp fluctuations. On the other hand, Peru has the lowest inflation in Latin America.



Source: Bloomberg and Banco de Crédito del Perú



Source: Banco Central de Reserva del Perú, Chile, Mexico and Argentina / Data as of October 2006

International analysts and capital markets expect Peru to be upgraded to investment grade in the near future in recognition to the strong fundamentals of the Peruvian economy. Two of the main international rating companies have rated Peruvian public debt instruments one step below investment grade. Standard & Poor's (S&P) upgraded Peru's long-term debt risk rate in foreign currency, from BB to BB+, and its rating of long-term sovereign debt in domestic currency from BB+ to BBB-. Fitch Ratings had done so before, taking the lead in upgrading Peru's credit risk.

Credit Classification in 2007- Latin America Comparison

	S&P	Fitch	Moody's
Mexico	BBB	BBB	Baa1
Chile	A	A	A2
Peru	BB+	BB+	Ba3
Colombia	BB	BB	Ba2
Brasil	BB	BB	Ba2
Venezuela	BB-	BB-	B2
Argentina	B+	B	B3
Bolivia	B3	B-	B-
Ecuador	CCC+	B-	Caa1

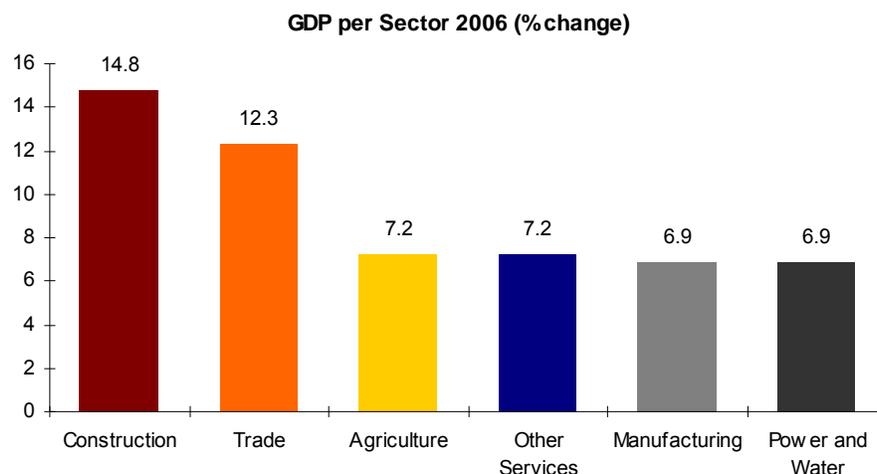
Source: Standard & Poor's, Moody's and Fitch Rating

At the end of 2006, the EMBI+ country risk indicator awarded by investment bank JP Morgan Chase reached 120 basis points (its lowest level ever) and it has continued decreasing during 2007. In the last five years, the drop has exceeded 5 percentage points (more than 500 basis points) leading to major cost savings in some local projects.

A. Key Industries

At the end of 2006, the top performing industries were construction (14.8% growth), trade (8.1%), agriculture (7.2%), manufacturing (6.9%) and other services (7.2%).

Construction's strong growth is reflected in more shopping centers, private housing, and infrastructure building. Construction is strongly driven by government-supported programs such as MiVivienda (social housing program) and others with similar funding schemes. Main infrastructure works were Cerro Verde mining company's primary sulfur plant expansion, Southern Copper's Ilo smelter plant upgrade, the construction of the Pillones dam and the start of the TransAmazon highway, among others.



Source: Banco Central de Reserva del Perú

Agriculture grew on average 7.2%, reflecting the 7.9% and 6.6% increases in crop and livestock production, respectively. Driven by farm exports, this sector is making Peru known worldwide for its asparagus, artichokes, piquillo pepper, red peppers (*páprika*), among other products.

Manufacturing industry's growth (6.9%) was mainly driven by non-primary manufacturing that typically adds more value and has a greater impact in creating jobs. Growth focused on serving expanding local markets, and consolidating old and capturing new foreign markets.

Remarkably, manufacturing industries grew against the background of a more strongly competitive local and external environment. Food, beverages, and tobacco; and paper and printing were the most dynamic industries.

Domestic Gross Product by Productive Sectors (% change)

Sector	2002	2003 (*)	2004 (*)	2005 (*)	2006 (*)
Agriculture (crop and livestock) (**)	6.10	1.90	1.70	4.80	7.20
Fisheries	6.10	-12.50	33.90	1.20	2.90
Construction	7.90	4.30	4.70	8.40	14.80
Mining and hydrocarbons	12.00	5.40	5.20	8.10	1.30
Manufacturing	5.90	3.20	7.40	6.50	6.90
Other services	4.10	4.50	4.40	6.30	7.20
Power and water	5.50	4.20	4.60	5.30	6.90
Trading	3.70	2.90	5.80	5.20	12.30
GROSS VALUE ADDED (GVA)	5.30	3.80	5.10	6.20	8.03
Product taxes and import tariffs	4.00	5.20	6.40	8.50	
GROSS DOMESTIC PRODUCT	5.20	3.90	5.20	6.40	
Primary sectors GVA	7.70	2.90	4.60	5.40	
Non primary sectors GVA	4.60	4.00	5.20	6.50	

(*) Preliminary / (**) Including forestry

Source: Banco Central de Reserva del Peru, INEI

B. Potential Growth Sectors

Main industries with major growth potential include agribusiness and farm exports, fish farming, forestry, tourism, mining and hydrocarbons, and services, among others. Peru has been specializing in high-price growing products, like vegetables and fruits, and is currently the leading country in asparagus and dry red pepper (*paprika*) exports. Peruvian asparagus exports exceeded US\$ 290 million, while paprika exports reached US\$ 73.3 million in 2006. Due to agricultural exports fast development, it is expected that some 300,000 hectares will be allocated to horticulture and fruit growing for exports in the mid-term. This growth is sustained by significant investments made by the private sector.

In Peru, aquiculture and fish farming are expected to develop and consolidate as leading Peruvian export industries, due to particular sea and continental conditions, availability of nutrients and great biodiversity. Moreover, Peru's clean seas, rivers, lakes and lagoons, combined with local expertise and leadership in worldwide exports of fishmeal used for animal feed, create additional opportunities for growth.

Some 1.7 million foreign tourists visit Peru each year. This figure is still low taking in consideration the country's attractions. Not surprisingly, some years' tourism has grown about 20%. Tourist arrivals are expected to reach three million. At least three travel circuits need developing. The Southern Circuit, currently the most attractive, may attract up to 2 million tourists per year in the medium term once access to some areas improves and traveler flows are rearranged accordingly. Developing the Northeast Circuit is now a priority. Private companies have shown interest. The Central Circuit's main attraction is a visit to the city of Lima and its surrounding areas. Longer trips may cover two or more circuits.

Forests also provide potential for development. Peru is the world's ninth country for forest surface, second only to Brazil in Latin America. Located in the South American tropics where most of the world's rainforests are found, Peru has 78.8 million hectares of natural forests and over 8 million hectares of lands available for reforestation. It is estimated that US\$ 3 billion per year can be earned from exports of timber and its byproducts, to meet world demand worth over US\$ 100 billion and thereby create stable jobs for some 400,000 Peruvians.

In the energy and mines sector, successful prospecting resulted in the announcement of important projects. Investments in mining will reach US\$ 2 billion a year, also including non metallic mineral projects, and extraction and use of gas and petroleum.

Several other investments are expected to be made in the manufacturing, trading, real estate and services sectors, totaling annual private investments of US\$ 20 billion.

1.3 Status of China and Peru’s FTAs with other countries

China

Currently, China has concluded or is undertaking FTA negotiations with 28 economies.

Table 1.3 China’s FTA Negotiations

No.	NAME	PROGRESS
1	CHINA-HK CEPA CHINA-MACAU CEPA	CONCLUDED
2	CHINA-ASEAN FTA	PARTIALLY CONCLUDED -Trade in Goods: CONCLUDED -Trade in Services: PARTIALLY CONCLUDED -Investment/Economic Cooperation: ONGOING
3	CHINA-CHILE FTA	PARTIALLY CONCLUDED -Trade in Goods: CONCLUDED -Trade in Services/Investment: ONGOING
4	CHINA-PAKISTAN FTA	PARTIALLY CONCLUDED -Trade in Goods: PARTIALLY CONCLUDED -Trade in Services/Investment: ONGOING
5	CHINA-GCC FTA	ONGOING
6	CHINA-AUSTRALIA FTA	ONGOING
7	CHINA-NZ FTA	ONGOING
8	CHINA-SINGAPORE FTA	ONGOING
9	CHINA-SACU FTA	ONGOING
10	CHINA-ICELAND FTA	ONGOING
11	CHINA-INDIA FTA	JOINT STUDY ONGOING
12	CHINA-KOREA	JOINT STUDY ONGOING
13	CHINA-PERU FTA	JOINT STUDY ONGOING
14	CHINA-NORWAY FTA	JOINT STUDY ONGOING

A. China-ASEAN Free Trade Agreement

China-ASEAN FTA is the first FTA China has signed. In the Framework of the Agreement on Comprehensive Economic Cooperation Between China and ASEAN (thereafter referred as “the Framework”) signed up in November 2002, two sides decided to establish the China-ASEAN FTA in 2010. In November 2004, China and ASEAN signed the Agreement of Trade in Goods under the Framework, to be in force in July 2005. In January 2007, the Agreement of Trade in Service under the Framework was signed, and put into practice from July 2007. The negotiation on Investment is ongoing.

B. Closer Economic Partnership Arrangement (CEPA) between Mainland and Hong Kong SAR, and between Mainland and Macao SAR

CEPA was signed between Mainland and HK, and Mainland and Macao in 2003, and took effect as of January 1, 2004. The Supplement, Supplement II, Supplement III and Supplement IV to the CEPA were signed in 2004, 2005, 2006 and 2007 respectively.

C. China-Chile Free Trade Agreement

China and Chile signed the Free Trade Agreement in November 2005. The China-Chile FTA is the first FTA signed between China and a Latin American country. This agreement has been implemented since July 1 2006. According to this agreement, the tariffs of 97% products in the tariff lines of both countries will be eliminated within 10 years. Some textile raw

materials exporting from China to Chile, and some kinds of paper importing from Chile by China are in the list of exclusive commodities. China and Chile will promote cooperation in economy, small and medium-sized enterprises, culture, education, science and technology, environment, labor and social security, intellectual property, investment, mineral products, and industry. Negotiations on trade in services and Investment were launched last year.

Peru

In recent times, Peru has embarked on an extensive negotiations path. At the multilateral level, Peru is supporting the WTO Negotiations and several initiatives within the Cairns Group, G-20 and G-33 which aim to liberalize trade. Also, from the bilateral-regional viewpoint, Peru has taken a very ambitious and comprehensive approach in order to facilitate transactions and increase trade flows with other countries.

In 1997, Peru started this process by deciding to join into the Andean Free Trade Zone, which was in effect since 1993. Peru negotiated a gradual integration into this zone with the rest of the Andean Community members³ and completed its full incorporation in December 31st, 2005.

After the incorporation to the Andean Free Trade Zone, Peru negotiated a Free Trade Agreement in goods with Chile, which entered into force in 1998. This agreement has been deepened in 2006, when both countries finished the negotiations in services and investments. Moreover, Peru signed a Free Trade Agreement with MERCOSUR⁴ in 2005, which only covers trade in goods.

Apart from these agreements, under the framework of the Latin American Integration Association (ALADI) Treaty of Montevideo⁵, Peru has negotiated and put into force Partial Agreements in goods with Mexico and Cuba.

In addition, Peru is in the middle of other ongoing FTA processes. On the one hand, Peru signed a FTA with the U.S. in April 2006 and only the ratification process from the U.S. Congress is pending. In the same way, Peru and Thailand signed an Early Harvest on trade in goods in November 2006, which has to be ratified by their legislative branches. On the other hand, FTA negotiations with Singapore, Mexico, Canada and EFTA (European Free Trade Association) are currently underway and it has been announced to start in the near future, trade negotiations with the European Union.

Peru's Trade Agreements and Regional Integration Initiatives

Trade Agreements and Regional Integration Initiatives	Progress
Andean Community	In Force
APEC	In Force
Latin American Integration Association (ALADI)	In Force
Free Trade Area of the Americas (FTAA)	Suspended
Peru - United States Trade Promotion Agreement	Concluded
Peru - Chile Economic Complementation Agreement	In Force / Extension Concluded
Peru - MERCOSUR Economic Complementation Agreement	In Force
Peru - Thailand FTA	Early Harvest Concluded / Ongoing Extension
Peru - Singapore FTA	Concluded

³ Bolivia, Colombia, Ecuador and Peru are the current Andean Community members.

⁴ Argentina, Brazil, Paraguay and Uruguay

⁵ ALADI is the Association of Latin American Integration, which is comprised by Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

*Peru – China Free Trade Agreement
Joint Feasibility Study*

Peru - Mexico Economic Complementation Agreement	In Force / Ongoing Extension
Peru - Cuba Economic Complementation Agreement	In Force
Peru - EFTA FTA	Ongoing
Peru - Canada FTA	Ongoing
Andean Community - European Union Association Agreement	Ongoing
Peru - China FTA	Joint Study Ongoing
Peru - Korea FTA	Joint Study on Discussion

Prepared by: MINCETUR/VMCE/OGEE

2 TRADE AND INVESTMENT POLICIES AND SYSTEMS

2.1 Introduction

China

Since 1979, China had been progressively reforming its economic system. China's consistent efforts to resume its status as a contracting party to GATT, and accession to the WTO Agreement are in line with its objective of economic reform to establish a socialist market economy as well as its basic national policy of opening to the outside world.

Peru

Trade between China and Peru dates from the middle of the nineteenth century, after the first Chinese immigrants settled in Peru. Since that time, bilateral trade has grown substantially thanks to their complementary economies, increased demand for the goods produced by the other and open trade policies implemented by China and Peru.

Currently, there are some existing tariff and non-tariff barriers that affect bilateral trade. However, despite these obstacles, trade flows have shown a continuous upward trend. This means that further liberalization by means of a trade agreement between China and Peru can bring significant benefits to both countries.

2.2 Measures Affecting Trade in Goods

2.2.1 Tariffs

China

Under the Regulation on Import and Export Tariff (Article 9), duty rates on imports comprise: MFN tariff rates, agreement tariff rates, special preferential tariff rates, general tariff rates, tariff quota rates and interim tariff rates.

MFN tariff rates shall apply to goods imported from and originated in the members of the WTO providing the MFN treatment is mutually reciprocal between the People's Republic of China and these members; or those countries or regions with which the People's Republic of China has concluded a bilateral trade agreements for reciprocal tariff preference; or the Customs territory of the People's Republic of China.

The agreement tariff rates shall apply to goods imported from and originated in the countries or regions which join together with the People's Republic of China into regional trade agreements for tariff preferences.

The special preferential tariff rates shall apply to goods imported from and originated in the countries or regions with which the People's Republic of China has concluded a special tariff preferential agreement. This type of tariff rates is more preferential than the agreement tariff rates.

The general tariff shall apply to the imported goods originated from other resources or/and to the imported goods of undetermined origin.

The tariff quota rates shall apply to imported goods which are subject to the tariff quota administrative regulations.

The interim tariff rates are applied for a specific period of time to certain goods.

At present, the products subject to TRQ administration in China include wheat, corn, rice, sugar, wool, wool tops, cotton and three categories of chemical fertilizers.

Table 2.1 Simple Average Tariff Level of China

Year	1992	1993	1996	2000	2001	2002	2003	2004	2005	2006	2007
Tariff	43.2	39.9	23.0	16.4	15.3	12.0	11.0	10.4	9.9	9.9	9.8

Sources: Ministry of Finance, China.

Part 3.4 have described in details about China's tariff level and structure.

Peru

Since the economic reforms at the beginning of the 1990s, Peru has made good progress in reducing its tariff levels and dispersion. In December 2006, Peru issued the Supreme Decree N° 211-2006-EF that eliminated tariffs for 2,894 items and facilitates the imports of capital-intensive goods and industrial inputs. With this measure, 43.56% of the items are currently tariff-free. Afterwards, in July 2007, Peruvian tariffs were reduced once again, reaching a current average applied tariff of 8.04%.⁶ Currently, Peru only has 5 effective ad-valorem tariff levels: 0%, 12%, 17%, 20% and 25%.⁷

In terms of the bound tariff, Peru maintains in the WTO a 30% rate for most of the items, with the exception of 29 agricultural tariff lines of some sensitive goods (maize, wheat, sugar, sugar substitutes and some dairy products), which keep a 68% tariff bound rate.

Also, it is important to mention that Peru does not apply specific tariffs or tariff quotas.

2.2.2 Non Tariffs Barriers

China

Apart from tariffs, China has implemented other policies in foreign trade administration, including: rules of origin, import licensing system, customs valuation, pre-shipment inspection, technical regulations and standards, sanitary and phytosanitary measures and trade remedies. After China's accession to the WTO, the Chinese government has been making great efforts to ensure that the policies adopted are WTO consistent.

Peru

One of the main features of Peru's trade policy is the absence of trade distorting NTB measures. In this sense, Peru does not apply import and export licenses, export levies, voluntary export restrictions or quantitative restrictions.

In the case of quantitative import restrictions, Peru's only exceptions are related to sanitary, health, internal security, environmental, biodiversity and cultural heritage protection. Similarly, Peru's quantitative export restrictions only apply to cases related to biodiversity and cultural heritage protection.

Peru also applies price bands on a non-discriminatory basis, which are restricted to a list of 46 agricultural goods. This mechanism known as Variable Specific Duty was put into practice in 1991. The idea is to apply this specific duty every time the corresponding import prices for the affected goods fall below the minimum established import price. In this way, domestic producers are protected against a sharp drop of import prices.

⁶ The dispersion of Peru's tariff lines by applied tariff rate is shown in Section 3.4.

⁷ There is one additional level of 10% for only one subheading: Other yellow dent corn (10059011).

This scheme has been enhanced in 2001 with the introduction of ceiling prices. If the corresponding import prices rise above the ceiling prices, a tariff rate reduction comes into effect in order to restrain the price increase and protect customers. With this adjustment, it is possible to be protected from significant international price fluctuations and help to stabilize domestic prices⁸.

PERU: DAIRY PRODUCTS SUBJECT TO PRICE BANDS

SUBHEADING	DESCRIPTION
0401.10.00.00	Milk and cream not concentrated or sweetened of a fat content, by weight, not exceeding 1
0401.20.00.00	Milk and cream not concentrated or sweetened of a fat content, by weight, exceeding 1 % but not exceeding 6 %
0402.10.10.00	Milk and cream concentrated and sweetened in powder or granules of a fat content, by weight, not exceeding 1%, in immediate packing of a net content not exceeding 2,5 kg
0402.10.90.00	Milk and cream concentrated and sweetened in powder or granules in immediate packing of a net content not exceeding 2,5 kg. Other
0402.21.11.00	Milk and cream concentrated and unsweetened in powder or granules of a fat content, by weight, exceeding 1.5 % and a fat content equal or exceeding 26%, by weight over dry content, in immediate packing of a net content not exceeding 2,5 kg
0402.21.19.00	Milk and cream concentrated and unsweetened in powder or granules of a fat content, by weight, exceeding 1.5 % and a fat content equal or exceeding 26%, by weight over dry content, in immediate packing of a net content not exceeding 2,5 kg. Other
0402.21.91.00	Milk and cream concentrated and unsweetened in powder or granules of a fat content, by weight, exceeding 1.5 %, in immediate packing of a net content not exceeding 2,5 kg. Other
0402.21.99.00	Milk and cream concentrated and unsweetened in powder or granules of a fat content, by weight, exceeding 1.5 %. Other
0402.29.11.00	Other milk and cream concentrated in powder or granules of a fat content, by weight, exceeding 1.5 % and a fat content equal or exceeding 26%, by weight over dry content in immediate packing of a net content not exceeding 2,5 kg
0402.29.19.00	Other milk and cream concentrated in powder or granules of a fat content, by weight, exceeding 1.5 % and a fat content equal or exceeding 26%, by weight over dry content in immediate packing of a net content not exceeding 2,5 kg. Other
0402.29.91.00	Other milk and cream concentrated in powder or granules of a fat content, by weight, exceeding 1.5 % in immediate packing of a net content not exceeding 2,5 kg.
0402.29.99.00	Other milk and cream concentrated in powder or granules of a fat content, by weight, exceeding 1.5 % in immediate packing of a net content not exceeding 2,5 kg. Other
0402.99.10.00	Condensed milk
0404.10.90.00	Whey. Other
0405.10.00.00	Butter
0405.90.20.00	Dehydrated dairy oil (“butteroil”)
0405.90.90.00	Butter and dairy spreads. Other
0406.30.00.00	Processed cheese, not grated or powdered
0406.90.10.00	Other cheese of a water content, by weight not exceeding 36%
0406.90.20.00	Other cheese of a water content, by weight exceeding 36% but not exceeding 46%
0406.90.30.00	Other cheese of a water content, by weight exceeding 46% but not exceeding 55%
0406.90.90.00	Other cheese. Other

Source: Ministry of Economics and Finance.

⁸ Within the context of the Peru – US FTA, Peru has committed not to apply the price bands to the imports originating from US. If one of these 46 agricultural goods is originating from US, the tariff level agreed in the negotiation with their subsequent tariff reduction will be applied. In case the MFN effective tariff applied to similar goods from third Parties is lower than the preferential tariff levels, goods from US will be charged with the former one.

PERU: AGRICULTURAL GOODS SUBJECT TO PRICE BANDS

1005.90.11.00	Other maize (Corn). Unmilled. Yellow
1005.90.12.00	Other maize (Corn). Unmilled. White
1005.90.90.90	Other maize (Corn). Unmilled. Other
1006.10.90.00	Rice in the husk (paddy)
1006.20.00.00	Husked (brown) rice
1006.30.00.00	Semi milled or wholly milled rice, whether or not polished or glazed
1006.40.00.00	Broken rice
1007.00.90.00	Grain Sorghum. Other
1103.13.00.00	Groats and meals of maize (corn)
1108.12.00.00	Maize (corn) starch
1108.13.00.00	Potato starch
1701.11.90.00	Cane sugar raw. No additives. Other
1701.12.00.00	Beet sugar raw. No additives
1701.99.00.90	Cane or beet sugar raw. Other
1702.30.20.00	Glucose syrup
1702.60.00.00	Other fructose and fructose syrup, containing in the dry state more than 50 % by weight of fructose, excluding invert sugar
1702.90.20.00	Caramel
1702.90.30.00	Sugars containing added flavouring or colouring matter
1702.90.40.00	Other syrups
1901.90.90.00	Other food preparations of flour meal starch or malt extract. Other
2106.90.99.90	Other food preparations not else where specified. Other
2309.90.90.00	Other preparations for animal feed. Other
3505.10.00.00	Dextrins and other modified starches

Source: Ministry of Economics and Finance.

2.2.3 Rules of Origin

China

In China, rules of origin can be divided into non-preferential and preferential rules.

Regulations on Rules of Origin of Import and Export Goods of the People's Republic of China took effect on January 1st, 2005, and applies in determining the origins of imports and exports in non-preferential trading measures implementation, such as MFN treatment⁹, anti-dumping, anti-subsidy, safeguard measures⁹, administration of geographical indications⁹, country quotas, tariff quotas and other activities such as government procurement and trade statistics.

The followings belong to the preferential ones, namely, Provisional Rules of Origin of the General Administration of Customs of the People's Republic of China for Imports under Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific⁹ (2001), Rules of Origin of China-ASEAN FTA under the Framework Agreement on ASEAN and China Economic Cooperation (2003), Rules of Origin for Trade in Goods under the Mainland and Hong Kong Closer Economic Partnership Arrangement (2004), Rules of Origin for Trade in Goods under the Mainland and Macao Closer Economic Partnership Arrangement (2004), China-Pakistan FTA Rules of Origin (2005), China-Chile FTA Rules of Origin (2006).

According to the Rules of Origin of FTA that China had signed with other Parties, the products could be generally divided into three kinds: products wholly obtained or produced in the exporting Party, products worked upon in conformity with relevant provisions, but not wholly

⁹ In 2001 it was briefly called Bangkok Agreement and in 2005, it was renamed the Agreement on Trade in Asia and the Pacific Region.

obtained or produced in the exporting Party, and products satisfied with specific products rules. The contents of relevant documents should be referenced.

Also, information on rules of origin determination, administrative or judicial review and origin pre-determination can be referred to at www.customs.gov.cn.

Peru

Peru has fully implemented the WTO Agreement on Rules of Origin since January 1st, 1995, which includes the disciplines to be applied during the transition period until the harmonization work program under the WTO is completed.

Peru has notified its rules of origin legislation to the WTO and the Ministry of Foreign Trade and Tourism is the institution in charge of issuing every rule of origin.

Peru's rules of origin are based on a positive, neutral and transparent standard. A negative criterion is only used to explain the positive standard. All the rules of origin are applied in an impartial, transparent and neutral manner. In this sense, preferential and non-preferential rules of origin have to be released in official publications, as well as any changes concerning them. These changes are not applied retroactively.

A. Preferential Rules of Origin

Preferential rules of origin are applied to imports that claim for preferential treatment under trade agreements within the frame of the Latin American Integration Association (ALADI), Andean Community and other agreements.

Aside from general rules, Peru also applies product-specific rules of origin and criteria contained in these rules are based on tariff classification changes, national value content requirements, technical requirements or a combination of them.

To claim a preferential treatment, a certificate of origin issued by an official or authorized entity of the exporting country is required.

B. Non-Preferential Rules of Origin

Non-preferential rules of origin are applied to imports that are subject to antidumping and countervailing duties in compliance with the disciplines set out in the WTO. These rules are mostly based on a change in tariff classification criterion. If the non-preferential rule of origin includes a national value content requirement, then the calculation method is described in the rule.

2.2.4 Sanitary and Phytosanitary Measures

China

China applies SPS measures only to the extent necessary to protect the life and health of human beings, animals and plants. And China has made every effort to base its SPS measures on international standards, guidelines and recommendations.

With the booming growth of China's import of agricultural products and food, quarantine inspection measures are required to prevent the import of pest and diseases, protect agricultural and forestry production and at the same time, avoid harm to people's health through imported unsafe food.

The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) is responsible for the entry and exit of plants, animals, their products, and food safety concerning inspection and quarantine. Based on risk analysis,

AQSIQ is authorized to decide whether import is permitted, to establish requirements for entry-exit inspection and quarantine, and to negotiate with related government authorities of other countries on general SPS issues or detailed inspection and quarantine requirements for specific products.

Import permits for animals and plants subject to sanitary requirements, valid for a period of six months, must be obtained from the AQSIQ prior to import. Applications must be submitted to local authorities of inspection and quarantine, and permit or notice of refusal will be issued within 20 working days of receipt of the application once it is accepted. The applicant must reapply for the permit if the quantity shipped exceeds the quantity indicated in the permit by 5%.

China's laws and legislations relating to its SPS regime include: Law of the People's Republic of China on the Entry and Exit Animal and Plant Quarantine, Regulations for the Implementation of the Law of the People's Republic of China on the Entry and Exit Animal and Plant Quarantine, Law of the People's Republic of China on Frontier Health and Quarantine, Regulations for the Implementation of the Law of the People's Republic of China on Frontier Health and Quarantine, and Law of the People's Republic of China on Food Hygiene, and so on.

China's national SPS enquiry point is located in the Research Center of Standards and Technical Regulations of AQSIQ.

Peru

The competent authorities for sanitary and phytosanitary (SPS) regulations are the Ministry of Agriculture, Ministry of Production and Ministry of Health. In terms of phyto and zoo sanitary regulation, the main authority is the Ministry of Agriculture's National Agrarian Health Service (SENASA); the responsible entity in food safety is the Ministry of Health's General Directorate of Environmental Health (DIGESA); and the Ministry of Production's Technological Fishing Institute (ITP) is in charge of the sanitation issues on hydro biological goods.

All Peru's SPS regulation is under the framework of the WTO Agreement on Sanitary and Phytosanitary Measures. Peru participates actively in SPS matters at the international level. In this sense, Peru is a member of the Codex Alimentarius Commission (CODEX), World Organization for Animal Health (OIE) and International Plant Protection Convention (IPPC).

In addition, Peru has adopted the following commitments and agreements: United Nations Conference on Environment and Development (UNCED), International Code of Conduct on the Distribution and Use of Pesticides, Convention on Biological Diversity, Stockholm Convention on Persistent Organic Pollutants, Montreal Protocol, Basel Convention and the Rotterdam Convention for the implementation of the Prior Informed Consent procedure on the importation of pesticides.

SENASA is the body in charge of any phyto and zoosanitary inspection, verification and certification. Also, SENASA diagnoses, identifies and provides biological controllers. Furthermore, the institution registers and controls pesticides, seeds, plant nurseries, veterinary medicines, animal foods, importers, manufacturers, selling points, and responsible professionals. Additionally, it issues the authorizations to bring livestock and agricultural goods into the country.

All animals, plants and their related products need an authorization to have access into the Peruvian market. In addition, the corresponding institutions can issue emergency sanitary and phytosanitary measures in order to prevent the entry of certain goods in case of the presence of threat that attempts against Peru's SPS conditions.

In terms of food safety, the existing domestic regulations have been harmonized with the international regulations, particularly with the Codex Alimentarius. Also, Peru has adopted

international standards in terms of nutritional valuation and certifying food quality. To harmonize and adopt food safety international standards has helped the negotiation of equivalence agreements with third countries that are destination markets for Peruvian exports.

Pest risk analyses are conducted by the corresponding institutions. The average time to conduct an animal-related risk analysis is around 3 months. In the case of plant-related risk analysis, the average time is 1 year. The longer time for the latter is explained because of the lack of cooperation from the partner country or the insufficient information obtained from the questionnaires to conduct the analysis.

One of the main concerns of Peru's authorities is the emergence of pests and diseases that can affect the development of animal and plant-related activities; expose the population to serious risks; and damage the country's biodiversity. In this way, SENASA is taking an active role to control and eradicate diseases, which has allowed the recognition of disease-free areas from foot-and-mouth disease, avian flu, and bovine and goat brucellosis, among others.

In terms of the fishing permits, these are issued by the Ministry of Production after submitting the proper documentation required by this institution. In order to issue the permits, the interested individuals or companies must demonstrate that specific sanitary requirements are met. After the documentation is submitted, the corresponding authority has a period of 30 working days to issue the fishing permit or decline the request.

2.2.5 Technical Barriers to Trade

China

AQSIQ is a ministerial administrative organ in charge of national quality, metrology, entry-exit inspection, animal and plant quarantine, import and export food safety, certification, accreditation, standardization, and administrative law enforcement.

Certification and Accreditation Administration of the People's Republic of China (CNCA) is the governmental organ established and authorized by the State Council and administered by AQSIQ for management, supervision and overall coordination of certification and accreditation in China. AQSIQ/CNCA sets up the China Compulsory Certification (CCC) system and organizes its implementation, including but not limited to promulgation of CCC product list, designation of conformity assessment bodies, promulgation of category-specific implementation rules for CCC and organization of market surveillance. The major responsibilities of CNCA also include establishment and promotion of national voluntary certification schemes, supervision over accreditation and certification in general, laboratory qualification evaluation, import-export food hygiene registration, management of certification and accreditation related standards, and international cooperation in the areas of certification and accreditation.

China Standardization Administration specializes in the management of national standardization, actively participates in the formulation of international standards and the harmonization between international and national standards. In 2001, AQSIQ promulgated The Management Measures of Adopting International Standards, specifying the principles and procedures for adopting international standards.

Since 1980, China has always referred international standards as the base for its technical regulations, which develops into an important technical and economic policy. Relevant laws and regulations of China request a review of its technical regulations at least every five years, so as to ensure their fitness for economic development, and their alignment with international standards.

According to the Law of Standardization of the People's Republic of China, there are two types of standards in China: mandatory and recommendatory. Mandatory standards in China

are directly related to legitimate objectives such as product safety, health and environmental protection and so on, and their implementation is mandatory, which complies with the definition of "technical regulation" under the Technical Barriers to Trade (TBT) Agreement. Relevant information on preparation and revision of mandatory standards, and adopted standards are timely published on AQSIQ Gazette and /or China Standardization and /or the Standardization Administration of the People's Republic of China (SAC) website. Recommensatory standards in China are in full conformity with standards under the TBT Agreement, and all of them follow the relevant guides and recommendations of International Organization for Standardization (ISO) and International Electrotechnical Commission (IEC).

China's laws and legislations relating to its TBT regime include: Law of the People's Republic of China on Import and Export Commodity Inspection, Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection, Law of the People's Republic of China on Product Quality, Certification and Accreditation Regulation of the People's Republic of China, Standardization Law of the People's Republic of China.

China's national TBT enquiry point is located in the Research Center of Standards and Technical Regulations of AQSIQ.

Peru

Peru's technical standards are not necessarily comprised by health or public safety minimum requirements, but they can include quality aspects related to the commercial presentation of the product. The National Institute for the Defense of Competition and Protection of Intellectual Property (INDECOPi) is in charge of designing technical standards.

In the case of Peru's technical regulations, which are mandatory rules used by the Peruvian State to regulate the minimum requirements that a certain product must fulfill for safety, public health or environmental reasons and prevent malpractices to induce customers to mistakes in their decisions, the Ministry of Economics and Finance (MEF) is the institution in charge of approving them.

In general, Peru's technical regulations are based on international standards. However, sometimes regional or third-country practices are taken into account, due to differences in the development conditions, technological progress or other reason duly justified.

As a WTO member, Peru permanently monitors the practices and procedures of the WTO Agreement on Technical Barriers to Trade. All the preparation and approval of Peruvian Technical Standards is harmonized with the WTO Code of Good Practice for the Preparation, Adoption and Application of Standards and compliant with Decision 419 of the Andean Community.

On January 1st, 2005, Peru incorporated the WTO Agreement on Technical Barriers to Trade into its domestic legislation and notified to WTO that INDECOPi's Technical and Commercial Regulations Commission (CRT) is the entity in charge of implementing the notification procedures under the WTO Agreement on Technical Barriers to Trade.

Besides this, CRT's main responsibilities are the following ones:

- To approve technical standards for all sectors and regulation on legal metrology.
- To evaluate and assess public and private entities through accreditation procedures to allow them to offer conformity assessment services.
- To watch over the compliance of the standards that rule and guarantee properly the development of trade without unnecessary obstacles.

Peru participates actively in several forums related to standardization such as the International Organization for Standardization (ISO), International Electrotechnical

Commission (IEC) and Codex Alimentarius Commission. Also, Peru participates at a regional level in the Pan American Standards Commission (COPANT) and the Intra American Metrology System (SIM) and at the sub-regional level in the Andean Standardization Commission.

2.3 Services

China

2.3.1 China's Measures Affecting Trade in Services

China's system of laws on trade in services is based on the Foreign Trade Law of the People's Republic of China taking effect on July 1, 2004 (Thereafter referred to as "Foreign Trade Law"). The system includes laws, regulations and rules concerning various sub-sectors of trade in services. The details are listed in the following sub-sectors description. In March 2007, the State Council promulgated The Decision on Further Promoting the Development of Services Industry (No. 7 Document) which clearly defined the main goals, policies and measures of accelerating development of service industries.

All of these regulations, rules and policies have provided market access opportunities for foreign services suppliers. As shown by statistics, since 2006, foreign investment into China's services sectors has accelerated. By the end of 2006, 75000 enterprises had invested in services sectors in China, increasing by 10.6% over the previous year. The number of foreign enterprises in service sector accounted for 27.2% of all foreign investment enterprises¹⁰. By the end of 2006, the registered capitals of foreign investment in Chinese real estate, business service, software, hi-tech exchange and service promotion sector have been US\$ 113.44 billion, US\$ 24.86 billion, US\$ 8.52 billion, and US\$ 74.8 billion, respectively, increased by 25.3%, 58.2%, 41.9%, and 31.4% year on year.

Although China has been opening its services sectors gradually and steadily, it still has some quantitative non-discriminatory restrictions, mainly related to technical considerations and national safety, while in certain sectors local presence is required to better protect consumer interests or domestic market stability. China is examining such limitations and exceptions in order to reduce or remove them, as appropriate.

A. Business Services

- Legal Services

China has gradually opened this area and made great progress in recent years. It has eliminated the quantitative and geographical limitations on foreign law firms, and reduced the limitations on years of professional experience of representatives in these firms. China has committed to approve the establishment of representative office of such firms within 9 months. In addition, China has simplified the administrative management, and streamlined the registering procedures.

Regarding legal services, the representative office of a foreign law firm can engage in the following businesses and charge its clients for services provided: (1) to provide its clients with consultancy on the legislation of the country/region where the lawyers of the law firm are permitted to engage in lawyer's professional work, and consultancy on international conventions, commercial laws and practices; (2) to handle, where entrusted by its clients or Chinese law firms, legal affairs of the country/region where the lawyers of the law firm are permitted to engage in lawyer's professional work; (3) to entrust, on behalf of foreign clients, Chinese law firms to deal with Chinese legal affairs; (4) to enter into contracts to maintain long-term entrustment relations with Chinese law firms for legal affairs; (5) to provide information on the impact of Chinese laws. At present, foreign law firms are not allowed to

¹⁰ Source: The State Administration for Industry and Commerce.

provide services related to China's laws, to engage in lawsuit activities, and to employ Chinese professional lawyers.

According to the contracts with Chinese law firms, the representative offices of foreign law firms may directly make a request to the entrusted Chinese law firms. Foreign representative offices can charge its clients when conducting businesses, but they and their members are not permitted to interpret Chinese laws to their clients and to employ Chinese lawyers.

In this area, the Administrative Regulations on Representative Offices of Foreign Law Firms in China took effect on January 1, 2002 and the Regulations on the Implementation of the Administrative Regulations on Representative Offices of Foreign Law Firms by the Ministry of Justice took effect on September 1, 2002. By the end of 2005, China had granted nearly 200 foreign law firms and 60 Hong Kong law firms, and allowed them to run businesses in several cities to provide offshore and international company law services. Half of the biggest 50 foreign law firms in the world have set up their businesses in China.

The competent authority of legal services in China is the Ministry of Justice (<http://www.moj.gov.cn>).

- **Accounting and management Consultancy Services**

China provides foreigners with national treatment, and allows them to run joint venture accounting firms with a majority of shares after they pass the Certified Public Accountants (CPA¹¹) qualifications examination. China allows foreign accounting firms to choose their partners freely, and to engage in profit-making activities, taxation and management consulting services. Under its WTO commitments China allows foreigners to provide business management and consultancy services for domestic enterprises, and to set up branch firms with whole shares.

The Ministry of Finance (MOF) released four revised auditing statements covering accounting estimates, inter-bank confirmation, capital verification, and financial statements audit on commercial bank in 2002. The MOF has been active in standardizing accounting procedures. The Chinese Securities Regulatory Commission¹² requires that listed companies shall appoint a certified international CPA firm to conduct audits on prospectuses and annual reports in accordance with international standards.

Currently, laws and regulations related to foreign accounting firms include: the Administration of Sino-foreign Cooperative Accounting Firms Tentative Procedures; the Provisional Regulations on Representative Offices of Foreign Accounting Firms; the Notice Concerning Permission for International Accounting Firms to Identify Member Firms in China; the Provisional Regulations on Foreign Accounting Firms to Execute Temporary Auditing Business in China; the Regulations of the People's Republic of China on Chinese Certified Public Accountants.

The competent authority of Accounting Services in China is the Ministry of Finance (<http://www.mof.gov.cn>), while the competent authority of Management Consultancy Services is the Ministry of Commerce (<http://www.mofcom.gov.cn>).

- **Advertisement Services**

On December 10, 2005, the Chinese government completely opened advertisement market, in consistency with its commitments to the WTO. Wholly foreign-funded companies are allowed without further restrictions. The Advertising Law of the People's Republic of China has been put into effect. Moreover, the State Council promulgated the Regulation on Foreign-

¹¹ CPA is a professional association with some administrative function under the Ministry of Finance (MOF). For more information on CPA, please visit: <http://www.cicpa.org.cn/>.

¹² The organization belongs to the State Council. For more information, refers to <http://www.csrc.gov.cn/>.

related Advertising Agency. The competent authority of advertisement services in China is the State Administration for Industry and Commerce (www.saic.gov.cn).

B. Communication Services

- Telecommunications

China has made great efforts to open its telecommunications services market. Foreign suppliers are permitted to provide a wide range of services through joint ventures with Chinese companies, including domestic and international wired services, data services and mobile voice, value-added services, such as electronic mail, voice mail and on-line information and database retrieval, and paging services. China has cancelled all geographical restrictions on joint ventures in telecommunication services. The share of the foreign capital permitted in the joint ventures has been increasing, reaching a maximum of 49 percent for most of basic telecommunication services, a maximum of 50% for value-added telecommunication services and calling services of basic telecommunication services

On January 1, 2002, China's Regulations on Foreign-Invested Telecommunications Enterprises went into effect. It defines the requirement of the share holding, registered capital, the Chinese and foreign partners, and licensing procedures. The regulations stipulate that foreign-invested telecommunications enterprises can undertake either basic or value-added telecommunications services. Foreign ownership may not exceed 49 percent in the case of basic telecommunications services (excluding wireless paging) and 50 percent in the case of value-added services (including wireless paging, which is otherwise categorized as a basic service).

China also accepted key principles of the WTO Agreement on Basic Telecommunications Services¹³ when it acceded to the WTO. In order to abide by these key principles and its commitments, China has separated post and telecommunications services, and split the state-owned China Telecom¹⁴, the country's largest telecommunications company, into 4 enterprises in 1999. Now, the structure and form of Chinese telecommunication industry have basically formed, and the market share of any one of the 6 biggest companies is no over 50%.

In 2006, the Ministry of Information Industry released a serial of regulations: the Management Regulation on the Internet E-mail Service, the Management Regulation on Pollution Control for Electronics Information Products, the Radio Frequency Dividing Rule of People's Republic of China, the Certification Method of Testing and Approving Institutions for Wireless Equipments Shooting Characteristic and so on.

The competent authority of Telecommunication Services is the Ministry of Information Industry (www.mii.gov.cn).

- Audiovisual Services (Including Film Imports)

China's Regulations on the Management of Film and Regulations on the Administration of Audio-Visual Products went into effect on February 1, 2002. They are designed to bring more transparency and order to the film and audio-visual industries, with an eye to moving toward greater commercial efficiency in accordance with domestic reform efforts and its commitments to the WTO.

China allows to import twenty foreign films annually by the type of sub-account opening request under its WTO commitments. China also partially liberalized the distribution of audio-visual products. Joint ventures are allowed to be established. Foreign investors may also provide services in construction or renovation of cinemas with foreign share less than 49.0%.

¹³ WTO Agreement on Basic Telecommunications Services is the Reference Paper on Telecommunication Services.

¹⁴ At that time it was a state owned enterprise. At present all six biggest companies becomes the equity companies.

The main legislation relevant to this sector is contained in the Industrial Guidance Catalogue for Foreign Investment in China; the Temporary Regulation on Investing in Movie Theater, the Management Regulation on Investing Audio Visual Products, the Management Regulation on Audio Visual Products Distribution for Chinese-Foreign Contractual Joint Venture.

The competent authorities of Audiovisual Services are the Ministry of Culture (www.mc.gov.cn) the State Administration for Radio, Film and Television (www.sarft.gov.cn), and the General Administration of Press and Publication (<http://www.gapp.gov.cn>).

C. Distribution and Retailing

According to China's commitment to the WTO, China has canceled the limitations on the location, ownership of a share, quantity for foreign capitals to access the commission agency and wholesales services (excluding salt and tobacco), and the retail service (excluding tobacco), China has also canceled all restricts of charter operation and distribution and retail without the fixed places for the foreign capital. But the chain stores that sale many different categories and brands, in case that their branches are over 30 houses and sale following products: food; cotton; plant oil; sugar; books, newspapers and magazine; pharmaceutical; agrochemical; agriculture film; refined oil; fertilizer; and appointed state-operated trading goods; couldn't be shared the most equities of the company by foreign capital.

On June 1, 2004, the Managing Regulation on Foreign Capital to Invest in Commercial Fields took effect. According to this Regulation, foreign capital retailers are allowed to set up their branches in any cities at provincial level in China. On December 11, 2004 China canceled limitations on business form, location, ownership of a share, and quantity, which means that China allows foreign capitals to invest retail services without any restrictions. In 2005, 1027 foreign businesses were permitted to enter into Chinese market, 3 times as much as that from 1992 to 2004. By the end of November 2006, Carrefour, Wal-Mart, Lotus had totally developed 229 retail stores.

The main laws and regulations include: the Experimental Measures for Commercial Enterprises with Foreign Investment; the Regulations on Direct Selling Administration. The competent authority of Distribution and Retail services is the Ministry of Commerce (www.mofcom.gov.cn).

D. Construction and Related Engineering Service

In September 2002, the Ministry of Construction and former Ministry of Foreign Trade and Economic Cooperation (now referred to as Ministry of Commerce) jointly issued Decrees 113 and 114, which opened up construction and related construction design services to joint ventures with majority foreign ownership and wholly foreign-owned enterprises. On February 13, 2003, they also jointly promulgated the Regulations on the Management of Foreign-funded Urban Planning Service Enterprises which took effect as of May 1, 2003. According to the regulations, all foreign companies, enterprises, other economic entities or individuals are allowed to provide services to urban planning.

All foreign companies, enterprises, other economic entities or individuals that hope to specialize in urban planning services in China shall set up Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures, or ventures with exclusive foreign investment, and apply for the Certificate of Qualification of Foreign-funded Enterprises for Urban Planning Services. Apart from meeting requirements set in pertinent Chinese laws and regulations on foreign-funded enterprises, the following requirements shall be met for the establishment of foreign-funded urban planning service enterprises: (1) The foreign party shall be an enterprise or professional specializing in urban planning services in its resident country or region; (2) The applicant shall have more than 20 employees specializing in urban planning, architecture, road transportation, gardening and related disciplines, with foreign specialists accounting for no less than 25 percent of this total, and have at least one expatriate technician specializing in urban planning, architecture, road transportation, and

gardening respectively; (3) The applicant shall have technical apparatus and fixed work site as stipulated by the State.

Since December 1, 2002, wholly foreign-owned enterprises have been permitted, but they can only undertake the following 4 types of construction projects: (1) Construction projects wholly financed by foreign investment and/or grants; (2) Construction projects financed by loans or international financial institutions, and awarded through international tendering according to the terms of loans; (3) Chinese-foreign jointly constructed projects with foreign investment equal to or more than 50.0%, and Chinese-foreign jointly constructed projects with foreign investment less than 50.0% but technically difficult to be implemented by Chinese construction enterprises alone; (4) Chinese invested construction enterprises which are difficult to be implemented by Chinese construction enterprises alone can be jointly undertaken by Chinese and foreign construction enterprises with the approval of provincial government. Above permission is belonging to implementation of China's commitments to WTO in advance.

Since December 1, 2002, the following limitations on national treatments have been eliminated: a) registered capital requirements for joint venture construction enterprises are slightly different from those of the domestic enterprises; b) joint venture construction enterprises have the obligation to undertake foreign-invested construction projects. There are no discrimination treatments for domestic and foreign enterprises to enter in this field.

The Administrative Ordinance on Development and Management of Urban Real Estate (Decree No. 248 of the State Council) specifically stipulates that the registration capital and professionals for establishing a real estate development enterprise, and the development and management of real estate. The Administrative Ordinance on Development and Management of Urban Real Estate (Decree No. 248 of the State Council) and the Administrative Regulations on the Qualifications of Real Estate Development Enterprises (Decree No. 77 of MOC) make no specific provisions on the qualification administration of foreign-owned enterprises or joint ventures⁴ with Chinese and foreign enterprises equal in status.

The competent authority of Construction and Related Engineering Services is the Ministry of Construction (www.moc.gov.cn). The main regulation is the Regulations on Administration of Foreign-Invested Construction Enterprises.

E. Tourism and Travel Services

In December 2001, China issued the Regulations on the Administration of Tourist. It allows large foreign travel and tourism service providers to operate full-service joint venture travel agencies in four major foreign tourist destinations in China: Shanghai, Beijing, Guangzhou and Xian. Within six years after accession, wholly foreign-owned firms catering to foreign inbound tourists will be permitted, and all geographic restrictions will be removed. For now, the agencies must have an annual worldwide turnover in excess of US\$ 40 million, and local registered capital of almost US\$ 500,000.

China issued the Provisional Measures for the Interim Provisions on the Establishment of Foreign-Controlled and Wholly Foreign-funded Travel Agencies, effective as of July 2003, and fulfilled its commitments to the WTO in advance.

Current laws and regulations include: the Catalogue for the Guidance of Foreign Investment Industries; the Interim Provisions on the Establishment of Foreign-Controlled and Wholly Foreign-funded Travel Agencies, and the Regulations on the Administration of Tourist.

The competent authority of travel agency services, the foreign restaurant, hotel and catering services is China National Tourism Administration (www.cnta.gov.cn).

F. Financial Services

According to its commitment to the WTO, the Chinese government has opened its financial industry mostly in time and partially even in advance. The Chinese government has committed to expand market access and professional scope. Current laws and regulations include: the Law of the Peoples Republic of China on the Peoples Bank of China, the Law of the People's Republic of China on Commercial Banks, and the Regulations of the People's Republic of China Governing Financial Institutions with Foreign Capital.

- Banking Services

In December 2003, the Chinese Government increased the stake a single foreign investor can take in a Chinese bank from 15 to 20 percent, with a total combining 24.9 percent allowed for many foreign investors in one Chinese bank, and reduced working capital requirements for various categories of foreign banks by at least RMB 100 million.

On December 11, 2006, the Regulations of the People's Republic of China for the Administration of Foreign Banks were formally enforced. China Banking Regulatory Commission announced that foreign banks could be permitted to establish branches or representative offices in China, and conduct domestic currency business with Chinese enterprises without any geographical limitation.

By the end of September 2006, China had already allowed foreign-capital banks to develop RMB business in 25 cities, and the number of the foreign-capital banks permitted to operate RMB business had reached 111. The total amount of asset including RMB and foreign currency had reached US\$ 105.1 billion, accounting for 1.9% of total asset of financial institutions in Chinese banking sector.

The competent authority of Banking Services is the China Banking Regulatory Commission ([Http:// www.cbrc.gov.cn](http://www.cbrc.gov.cn)). The banking services are regulated by the Regulations of the People's Republic of China Governing Financial Institutions with Foreign Capital and its Implementing Rules.

- Securities Services

China Securities Regulatory Commission issued regulations on the establishment of joint venture fund management companies and securities underwriting by Chinese-foreign joint ventures shortly after China's WTO accession. Right now foreign securities firms are receiving the right to form joint ventures for fund management upon China's accession to the WTO and joint ventures for securities underwriting.

China has implemented the Provisional Measures on Administration of Domestic Securities Investments of Qualified Foreign Institutional Investors (QFII) and corresponding detailed implementing rules, which set forth the details for QFII's qualification, criteria, approval procedures, registration and settlement, investment operations, fund management, and so on. Qualified Foreign Institutional Investors are defined in this Regulation as overseas fund management institutions, insurance companies, securities companies and other assets management institutions which have been approved by China Securities Regulatory Commission to invest in China's securities market and granted investment quota by State Administration of Foreign Exchange. Recently China released the revised management regulation on QFII so as to reduce the related limitations and facilitate the QFII.

Up to now, China has already implemented all its commitments related to capital market, provided opportunities in sharing China's economic booming. By the end of November, 2006, China had granted to establish 8 joint venture securities companies and 24 joint venture funds management companies in which there are 11 joint venture funds management with foreign capital equity share reaching 49%. Shanghai and Shenzhen stock exchanges, each with 4 special members, and 39 foreign stock institutes in shanghai and 19 in Shenzhen are operating directly B shares businesses.

Since February 1, 2006 China has implemented the Management Regulation on Strategic Investment to the Listed Companies for Foreign Investor, allowing foreign investors to invest companies which have completed the reforming of the ownership of a share.

The competent authority of Securities Services is China Securities Regulatory Commission (www.csrc.gov.cn).

- **Insurance Services**

The competent authority of Insurance Service is the China Insurance Regulatory Commission (CIRC, [http:// www.circ.gov.cn](http://www.circ.gov.cn)). The insurance services are regulated by the Insurance Service Law. The main law is the Insurance Law of The People's Republic of China.

CIRC issued several new insurance regulations in recent years targeting the regulation of foreign insurance companies. The Regulation on Foreign Insurance Company effective as of Feb 1, 2002, stipulated the basic requirement of market access for foreign insurance companies. In August 2003, CIRC issued new draft implementing rules regarding capitalization requirements and transparency. These draft rules clarify licensing procedures and the lowest capital requirements for market access.

In the field of insurance China has strictly executed all its commitments to the WTO. So far, insurance industry has been completely opened excepted 2 cases, including: the foreign capital insurance companies are not allowed to operate the business of compulsory automobile liability insurance; life insurance companies must be owned by Chinese-foreign equity joint ventures, where the share of foreign capital will not exceed 50%.

G. Transportation

- **Maritime Transportation**

The competent authority of Maritime Transportation is the Ministry of Communications (hereinafter referred to as the MOC, Website: [Http:// www.moc.gov.cn/](http://www.moc.gov.cn/)). Laws and regulations include: the Regulations on International Maritime Transportation and its Implementing Rules, and the Provisions on Administration of Foreign Investment in International Maritime Transportation.

Upon approval of the MOC, foreign investors may, in accordance with relevant laws, administrative regulations and other pertinent provisions of the State, make investment to establish Chinese-foreign equity joint ventures or contractual joint ventures to be engaged in international shipping services, and make investment to establish Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures or wholly foreign capital enterprises to offer such routine services as canvassing of cargoes, issuance of bills of lading, settlement of freight and signing of service contracts for their owned or operated vessels; if they have not established any Chinese-foreign equity joint ventures, Chinese-foreign cooperative or wholly foreign capital enterprises within Chinese territory, they must commission a Chinese international shipping agent to undertake the above-mentioned business. In addition, upon the approval of MOC, foreign cooperators of international shipping services may establish representative offices within Chinese territory according to law.

The regulations on International Maritime Transportation became effective on January 1, 2002. To be engaged in international liner services, an application shall be submitted to the MOC, and the following documents shall be attached thereto:(1) name of international liner service operator, its registered place of business, photocopy of its business license, and information of its main investor(s); (2) names and identification documents of operator's main management staff; (3) particulars of vessels under operation; (4) description of intended shipping lines, shipping schedules and ports of call along shipping lines; (5) freight tariff; and (6) sample of its bill of lading, passage ticket or multimodal transport documents. The MOC shall complete examination and verification within 30 days from the date of receipt of the

application for international liner services. If application documents are authentic and complete, registration shall be granted, and the applicant shall be notified of the result, or, if application documents are inauthentic or incomplete, no registration shall be granted and the applicant shall be notified in writing, and given the reasons therefore.

In recent years China has implemented the International Maritime Transportation Regulation and its supplement administration regulations, and provided a "competing, opening, transparent" market environment for the development of Chinese international maritime transportation. More and more offshore shipping service companies entered Chinese shipping market. Currently, more than 100 offshore containers shipping companies have developed the regular international shipping liners in Chinese ports, and the market share is already over 80%. More than 30 international maritime transportation companies have established about 200 ventures or branches with exclusive foreign investment in China.

- Air transportation

The Provisions on Foreign Investment in Civil Aviation has come into force as of August 1, 2002. According to the provisions, the scope of foreign ownership in China's civil aviation industry is enlarged, a variety of modes of foreign investment is allowed, and the proportion of foreign ownership is increased while the management power of foreign owners is enhanced. Further liberalizing measures were adopted in 2003, including: further opening the 5th freedom traffic rights to foreign air companies, deliberating and approving in principle "opening the 3rd, the 4th, and the 5th freedom rights scheme", and launching the work of opening air transportation market in Hainan special economic zone.

China has effectively improved market access opportunities for foreign services suppliers in the sector of air transportation. Market access for scheduled international services is determined through bilateral Air Services Agreements. Market access for non scheduled services is determined on a case-by-case basis mainly taking into account the market needs. Foreign airlines, maintenance and repair companies, and aviation manufacturers are permitted to establish joint venture aircraft maintenance and repair companies in China. Foreign ownership of Chinese airlines is permitted up to 49% while a single foreign investor's share should be no more than 25%. Foreign ownership for the airports other than air traffic control systems in China is permitted with Chinese share holders remaining as a majority share holder.

Now, foreign citizens are allowed to hold the post of president of Chinese airlines or airports. The designated foreign airlines are allowed to wet lease third country aircraft and crew to operate the agreed services into China, subject to their compliance with the safety requirements set forth by the aeronautical authority of China.

The competent authority of Air Transportation is the General Administration of Civil Aviation of China (www.caac.gov.cn). Air Transportation is regulated by the Civil Aviation Law of the People's Republic of China.

- Road transportation

In November 2002, China issued the Notice on Further Opening the Investment Field of Road Transport to Foreign Investors. Since December 12, 2002, foreign investment has been allowed to enter the fields of road cargo transport, storage, cargo handling, and transport related services. The portion of foreign investment could reach 75.0% in the joint ventures.

Project proposal for foreign investment in road transport services and the relevant issues shall be subject to the approval of MOC. The contract and articles of a foreign-invested road transport enterprise shall be subject to the approval of competent foreign trade and economic cooperation department of the State Council.

The operation duration of a foreign-invested road transport enterprise shall be no more than 12 years normally. However, the operation duration of a foreign-invested road transport

enterprise may be 20 years, provided more than 50.0% of the total investment of the enterprise is used for the construction of infrastructure, such as passenger and goods transport stations and depots. A foreign-invested road transport enterprise, whose business operation is in compliance with industrial policies on and development plans of road transport industry, and which has passed operation qualification (quality and credibility) assessment, may apply for prolongation of operation duration with a period of no more than 20 years each time upon the approval of the competent department which granted the original approving document.

A foreign-invested road transport enterprise applying for operation duration prolongation shall submit an application, 6 months in advance of the invalidity of the operation duration, to the competent communications department of a province, where the enterprise is located, and records of operation qualification (quality and credibility) assessment and other relevant documents shall be attached thereto. After being considered and verified by the competent communications department of the province, the documents shall be submitted to MOC and be decided by MOC after consulting with the competent foreign trade and economic cooperation department of the State Council. To suspend, withdraw or terminate a business, a foreign-invested road transport enterprise shall go through the relevant formalities forthwith at MOC, the competent foreign trade and economic cooperation department of the State Council or their authorized department and the industry and commerce administrations.

The Ministry of Communications (www.moc.gov.cn) is in charge of road transportation which is regulated by the Management Regulation on Foreign investment in Road Transportation and its supplementary regulations.

Table 2.2 Regulations related to Trade in Services

Regulation	Date
Regulations on Administration of Foreign-Funded Financial Institutions	Effective 1 Feb 2002
Regulations on International Maritime Transportation	Effective 1 Feb 2002
Regulations on Administration of Travel Agencies	Amended 11 Dec 2001
Measures on the Trial of Foreign-Invested Merchandising Enterprises	Effective 25 Jun 1999
Provisional Regulations Governing the Foreign Invested Movie Theater	Effective 25 Oct 2000
Rules for Establishing Foreign-Invested Securities Companies	Effective 1 Jun 2002
Rules for Establishing Foreign-Invested Fund Management Companies	Effective 1 Jun 2002
Proclamation by the People's Bank of China on the Related Issues of Foreign-Funded Financial Institutions' Market Access	Effective 9 Dec 2001
Regulations on Administration of Foreign Funded Insurance Companies	Effective 1 Feb 2002
Measures for Administration of Representative Offices of Foreign-Capital Financial Institutions in China	Effective 18 July 2002
Provisions on Administration of Foreign Investment in Road Transport Sector	Effective 20 Nov 2001
Provisions on Administration of International Freight Forwarding Agency Enterprises with Foreign Investment	Effective 1 Jan 2003
Regulations on Administration of Foreign Invested Telecommunications Enterprises	Effective 1 Jan 2002
Regulations on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises	Effective 23 Sep 2001
Regulations on Exploitation of On-shore Petroleum Resources in Cooperation with Foreign Enterprises	Effective 23 Sep 2001
Implementing Rules of the Regulations of the People's Republic of China on International Maritime Transportation	Effective 1 Mar 2003
Measures for the Administration of Foreign-invested International Freight Forwarding Agencies	Effective 10 Jan 2003
Measures Governing Foreign Invested Distribution Enterprises for Books, Newspapers and Periodicals	Effective 1 May 2003
Interim Regulations on the Establishment of Travel Agencies with Foreign Majority Ownership and Wholly Owned by Foreign Investors	Effective 11 July 2003

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Administrative Rules Governing the Auto Financing Companies	Effective 3 Oct 2003
Regulations of the People's Republic of China on Chinese-Foreign Cooperation in Running Schools	Effective 1 Sep 2003
Implementing Rules of the Regulations on the Administration of Foreign-funded Financial Institutions	Effective 1 Feb 2002
Provisional Rules on the Establishment of Sino-Foreign Foreign Trade Companies	Effective 2 Mar 2003
Rules Governing the Foreign Invested Urban Planning Service Enterprises	Effective 1 May 2003
Regulations on the Administration of Foreign Invested Architectural and Engineering Enterprises	Effective 1 Dec 2002
Regulations on the Administration of Foreign Invested Construction Enterprises	Effective 1 Dec 2002
Notice on Issues Relating to the Experimental Establishment of Foreign Invested Logistic Enterprises	Effective 20 Jul 2002
Implementation Rules for the Administrative Measures on Auto Financing Companies	Effective 12 Nov 2003
Regulations on the Administration of Representative Office of Foreign Law Firms	Effective 1 Jan 2002
Implementation Rules for the Regulations on the Administration of Representative Office of Foreign Law Firms	Effective 1 Sep 2002
Provisional Measures on the Administration of Domestic Securities Investment of Qualified Foreign Institutional Investors (QFII)	Effective 1 Dec 2002
Provisional Provisions on Operational Qualification Access to Film Producing , Releasing and Projecting	Effective 1 Dec 2003
Administrative Measures on Chinese-Foreign Cooperative Enterprises for the Distribution of Audio and Video Products	Effective 1 Jan 2004
Supplementary Provisions to the Provisional Measures of Registering and Approval of Foreign Nationalities to Chinese CPA	Effective 1 Jan 2004
Implementation Rules for the Regulations on the Administration of International Freight Forwarding Agencies	Effective 1 Jan 2004 after amendment
Administrative Measures on the China-based Representative Offices of Foreign Insurance Institutions	Effective 1 Mar 2004
Administrative Measures on Foreign-funded Advertisement Enterprises	Effective 2 Mar 2004
The detail regulation for Foreign capital financing institution	Effective 1 Sep, 2004
The stock certificate investor protection fund manages the way	Effective 1 Jul, 2005
The management rule for QFII	Effective 1 Sep 2006
Foreign capital bank management regulation	Effective 11 Dec 2006
Foreign capital bank management regulation	Effective 11 Dec 2006
The management rule for QFII	Effective 1 Sep 2006
Basic rule for enterprise accountancy standard after revising	Effective 1 Jan 2007
The supplement rule on foreign company investing books, newspaper, periodical retail business	Effective 1 May, 2007
The management rule on registering partnership enterprise registers	Effective 1 Jun 2007 (revised)
The management rule on the representative of offshore stock exchange	Effective 1 Jul 2007

Source: edited according to Foreign Economic and Trade Gazette of MOFCOM of the People's Republic of China

2.3.2 China's International Commitments related to Services

As a result of the Uruguay Round, commercial disciplines extended beyond those related to trade in goods to cover areas such as services, investment and intellectual property. After entry to WTO, China has continued to participate in WTO working groups on services and investment.

Under the GATS, China maintains horizontal commitments on mode 3 (commercial presence) and mode 4 (movement of natural persons). China allows the entry and temporary stay of employees of a corporation of a WTO Member for an initial period not longer than 3 years.

In China, foreign invested enterprises include foreign capital enterprises (also referred to as wholly foreign-owned enterprises) and joint venture enterprises. There are two types of joint venture enterprises: equity joint ventures and contractual joint ventures¹⁵. The proportion of foreign investment in an equity joint venture shall be no less than 25 per cent of the registered capital of the joint venture. The establishment of branches by foreign enterprises is unbound, unless otherwise indicated in specific sub-sectors. Representative offices of foreign enterprises are permitted to be established in China, but they shall not engage in any profit-making activities except for the representative offices under CPC 861, 862, 863 and 865 in the sector specific commitments. The conditions of ownership, operation and scope of activities, as set out in the respective contractual or shareholder agreement or in a license establishing or authorizing the operation or supply of services by an existing foreign service supplier, will not be made more restrictive than they exist as of the date of China's accession to the WTO. The land in the People's Republic of China is State-owned. Use of land by foreign invested enterprises, domestic enterprises and individuals is subject to the limitations: 70 years for residential purposes, 50 years for industrial purposes, 50 years for the purpose of education, science, culture, public health and physical education, 40 years for commercial, tourist and recreational purposes, and 50 years for comprehensive utilization or other purposes.

Regarding the sector classification, China adopted commitments in 9 of the 12 sectors of GATS¹⁶: Business Services, Communication Services, Construction and Related Engineering Services, Distribution Services, Education Services, Environmental services, Financial Services, Tourism and Travel Related Services and Transportation Services.

The openness of service sectors in China can be measured by its commitments under GATS. One method is to compute the sector coverage ratio. There are 12 major categories of service sectors and 155 sub-sectors covered by GATS. The sector coverage ratio is the number of committed sub-sectors divided by the total number of sub-sectors of each sector¹⁷.

Table 2.3 China's Sector Coverage under GATS (%)

Sector	China
All Sectors	54.2
Business Services	60.9
Communication Services	66.7
Construction and Related Engineering Services	100.0
Distribution Services	100.0
Education Services	100.0
Environmental services	100.0
Financial Services	76.5
Health services	0.0
Tourism and Travel Related Services	50.0
Entertainment Services	0.0
Transport Services	17.1
Other services	0.0

Note: calculated according to WTO schedule of commitments by China.

China made 100% commitments in construction, distribution, education and environmental services. In business and financial services, China's sector coverage is high.

¹⁵ The terms of the contract, concluded in accordance with China's laws, regulations and other measures, establishing a "contractual joint venture" govern matters such as the manner of operation and management of the joint venture as well as the investment or other contributions of the joint venture parties. Equity participation by all parties to the contractual joint venture is not required, but is determined pursuant to the joint venture contract.

¹⁶ The sector analysis is based on the WTO document GNS/W/120, Services Sectors Classification List.

¹⁷ Each sub-sector or further subdivisions are taken into account, when possible.

However, sector coverage alone is not sufficient to depict the degree of market openness. We need to look at what the specific commitments are. There are four modes of supply for trade in services. Making commitments in one mode is obviously different from making commitments in all modes of supply. There are also different levels of commitments, namely, unconditional commitments, limited commitments and no commitments (unbound). Therefore, one could construct an openness index based on different modes of supply and different levels of commitments to complement the results of sector coverage.

In order to comprehensively analyze impacts of the WTO Specific Commitments in Services made by China under the GATS, we follow the methodology developed by Bernard Hoekman in “Tentative First Steps: An Assessment of the Uruguay Round Agreement on Services” (1995). Based on the WTO document GNS/W/120, Services Sectoral Classification List, Hoekman quantifies the specific commitments of different countries in the GATS to compare the different levels of liberalization of services sectors.

Considering the restriction applies to Market Access (MA) and/or National Treatment (NT) in any sub-sectors or in any of the 4 modes of supply, commitments can be classified into 3 categories: (1) None (no restrictions for the sector), (2) Some restrictions apply or (3) Unbound (no liberalization commitments for the sector). To estimate the scope of sector commitments, numbers “1”, “0.5” or “0” are assigned, respectively to each case (weighting methodology A).

Because this kind of restrictions hinder trade as more commitments of this type are undertaken, it can be helpful to use “n” as the exponent of 0.5, where “n” represents the number of specific restrictions applied in each sub-sector. Therefore, a sub-sector with a larger number of commitments qualified as “Some Specific Restrictions” will be graded with a lower liberalization indicator: a sub-sector with two specific commitments will have a liberalization indicator of 0.5^2 (or 0.25) and a sub-sector with four specific commitments will have a liberalization indicator of 0.5^4 (or 0.125). The other two kinds of commitments: “None” and “Unbound” keep the same weighting (weighting methodology B).

With these values, the degree of the liberalization in services of China has been evaluated with the use of index numbers obtained by adding up all the values. The higher the index number resulting from the total sum shows, the deeper the level of liberalization is.

Table 2.4 shows the possible quantity of China’s commitments undertaken in each sector. Each sector has three columns: the first one (it/Q) related to the number of commitments undertaken as a percentage of the total-possible number of commitments undertaken by sector; and the second and third ones regarding the weighted sum of the commitments by their level of liberalization, taking into account the two different weighting methodologies.

Table 2.4 China’s Openness Index Based on GATS Commitments (%)

Sector	Q Item	It/Q	Sum1/Q	sum2/Q
Business Services	368	44.02	62.64	62.38
Communication Services	192	40.63	60.68	45.71
Construction and Related Engineering Services	40	50.00	34.38	34.38
Distribution Services	40	65.00	53.75	52.81
Education Services	40	62.50	43.75	39.59
Environmental services	32	75.00	62.50	62.50
Financial Services	136	21.32	17.28	15.75
Health Services	32	0.00	0.00	0.00

Tourism and Travel Related Services	32	40.63	34.38	32.55
Recreational, Cultural and Sporting Services	40	0.00	0.00	0.00
Transport Services	280	21.43	18.04	16.89
Other Services	8	0.00	0.00	0.00
Total	1240	35.24	40.71	37.67

Note: Q Items: Total Quantity of possible Commitments (Score from Hoekman if all possible sectors and sub-sectors were liberalized for MA and NT in all modes); IT/Q: Number of Commitments made in the sector for MA and NT in all modes/Q (Percentage of Commitments made as a share of Q); SUM1/Q: Percentage of Commitments made (weighted by the score of each category “0”, “0.5” or “1”) using weighting methodology A; SUM2/Q: Percentage of Commitments made using weighting methodology B. Considered the methodology is in terms of the quantity of the commitments instead of quality, the calculating results could be references in statistics but couldn’t really and exactly reflects the liberalization degree of service sectors.

It is also helpful to make cross-comparisons by modes of supply, specific sectors and sub-sectors. Table 2.5 shows results.

In Business Services Sectors, China made commitments on Professional Services (Legal, Accounting, Auditing and Bookkeeping Services, Taxation, Architectural and Engineering), Computer and Related Services, Real Estate Services and Other Business Services. Regarding the services mentioned, China made full commitments on Modes 1 and 2, and partial commitments on Mode 3.

In Communication Services Sectors, China made commitments on sub-sectors of Telecommunication services, including Courier Services, Telecommunication Services and Audiovisual Services. On each of the sub-sectors listed, China made partial MA commitments on Modes 1, 2 and 3, full National Treatment (NT) commitments on Modes 1, 2 and 3 and no NT commitments on Mode 4.

In Construction and Related Engineering Services sectors, China made commitments on sub-sectors of CPC 511, 512, 513, 514, 515, 516, 517 and 518. On each of the sub-sectors listed, China made full commitments on Modes 2, partial commitments on Modes 3 and no commitments on Mode 1 and Mode 4.

Table 2.5 China's Openness Index Based on GATS Commitments (%)

Sector	Q item	Methodology A				Methodology B			
		Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4
Business Services	46	87.0	90.8	65.8	7.1	85.1	90.8	68.5	5.2
Communication Services	24	26.0	33.3	71.9	0.0	21.2	33.3	44.7	0.0
Construction and Related Engineering Services	5	0.0	100.0	37.5	0.0	0.0	100.0	37.5	0.0
Distribution Services	5	50.0	100.0	65.0	0.0	50.0	100.0	61.3	0.0
Education Services	5	0.0	100.0	25.0	50.0	0.0	100.0	25.0	33.4
Environmental Services	4	75.0	100.0	75.0	0.0	75.0	100.0	75.0	0.0
Financial Services	17	20.6	27.9	20.6	0.0	18.1	27.9	16.9	0.0
Health Services	4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism and Travel Related Services	4	50.0	50.0	31.3	6.3	50.0	50.0	24.0	6.3
Recreational, Cultural and Sporting Services	5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport Services	35	16.4	34.3	20.0	1.4	15.2	34.3	17.3	0.7
Other Services	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	155	40.6	56.5	44.3	4.2	38.8	56.5	39.6	2.9

Note: Modes of Supply include (1) Cross Border Supply, (2) Consumption Abroad, (3) Commercial Presence and (4) Movement of Natural Persons. Considered the methodology is in terms of the quantity of the commitments in stead of quality, the calculating results could be references in statistics but couldn't really and exactly reflects the liberalization degree of service sectors.

In Distribution Services sectors, on all 5 sub-sectors (Commission Agents Services¹⁸, Wholesale trade services¹⁹, Retailing Services²⁰, Franchising, Wholesale or Retail trade services away from a fixed location), China made full commitments on Mode 2, partial commitments on Mode 1 (Hoekman's index gives a result of 50%) and Mode 3 (Hoekman's index gives a result of 65%) and no commitments on Mode 4.

In Education Services Sectors, on all 5 sub-sectors including Primary, Secondary, Higher, Adult and Other education services, China made full MA commitments on Modes 2, partial commitments on Modes 3 and 4, fully NT commitments on Modes 2, partial NT commitments on Modes 4 and no NT commitments on Mode 3. It should be point out that Education Sector has the highest Hoekman's index (50%) in Mode 4 compared with other 11 sectors.

In Environmental Services Sectors, on all sub-sectors including Sewage Services, Solid Waste Disposal Services, Cleaning Services of Exhaust Gases, Noise Abatement Services, Nature and Landscape Protection Services, Other Environmental Protection Services, Sanitation Services, China made full commitments on Modes 2, and partial commitments on mode 1 and 3.

In Financial Services Sectors, commitments were made on almost all sub-sectors (All Insurance and Insurance Related Services, Banking and Other Services, Securities etc.). In each of the sub-sectors listed, China made partial or full MA commitments on Modes 1, 2 and 3. Regarding NT, China made almost full commitments on Modes 1, 2 and 3. The Hoekman's indexes are not so high (about 20%) in Mode 1, Mode 2 and Mode 3.

¹⁸ Excluding salt and tobacco.

¹⁹ Excluding salt and tobacco.

²⁰ Excluding tobacco.

In Tourism and Travel Related Services Sectors, China made commitments on sub-sectors, such as Hotel (including apartment buildings) and Restaurants, Travel Agencies and Tour Operators. On the aspect of market access and national treatment, the openness level on Mode 1 and Mode 2 are 50%, on Mode 3 is 31.1% and Mode 4 is 6.3%.

In Transport Services Sectors, China made commitments on Maritime Transport Services, Auxiliary Services, Internal Waterways Transport, Air Transport Services, Rail Transport Services and Road Transport Services on all Modes. China made full commitments on Mode 2, partial commitments on Mode 1 and Mode 3 and made partial commitments on International transport of Maritime Transport Service on Mode 4.

Peru

2.3.3 Peru's Measures Affecting Trade in Services

A. Professional Services

Peru does not have a General Statute concerning Professional Practice. There are 22 regulated professions in the country whose regulation is granted by the Government to the Professional Associations. In these professions, the fulfillment of the requirements and regulations (which include the revalidation of degrees granted overseas) and the inscription to a Professional Association, and the, is a mandatory requirement to provide the service.

The National Assembly of Rectors²¹, through its Office of Recognition, Certification and Legalization of Degrees and Titles is in charge of revalidation of degrees granted by foreign universities. Once the procedure for revalidation is finished, professionals must start procedures for its inscription to a Professional Association.

In the cases in which Peru counts on agreements with other countries, ANR recognizes the degrees according to the established in those Agreements. Until the end of 2006, Peru had bilateral agreements on this matter with 25 countries²².

- Legal services²³

The legal profession in Peru has the Law of the Professional Exercise of Lawyers and of the Creation of the Bar Associations as legal frame, which grants power to Department Bar Associations (professional bodies) to regulate the professional exercise of their associates. There are is no nationality or previous residency requirements to obtain a lawyer license (valid in the whole territory) or restrictions to foreign investment in companies which provide legal services, except in the case of notaries which must be practiced by Peruvian nationals. In order to provide legal services in Peru, professionals must be qualified members of the respective Departmental Bar Association, must be registered in the judicial district where the service will be provided and must have a professional degree granted by a national university or a professional degree granted by a foreign university and revalidated in Peru. In the case of a foreign supplier of legal services, it is necessary to attend a 1-year course offered by some universities²⁴ to revalidate the law degree. In case of Mutual Recognition Agreements, the titles and degree are recognized in accordance with the obligations of that Agreement.

The main regulatory instruments are:

²¹ For further information, please visit : <http://www.oei.es/homologaciones/peru.pdf>.

²² Argentina, Brazil (for professionals that started university until January 14th, 1999), Bulgaria, Colombia, Costa Rica, Cuba, Chile, China, Czechoslovakia (until its dismemberment and Czech Republic and Slovakia) Ecuador, El Salvador, Spain, Guatemala, Honduras, Hungary, Mexico, Nicaragua, Panama, Paraguay, Rumania, Santa Sede, the Ukraine, Uruguay, Venezuela

²³ For further information, please visit:

Lima Bar Association – CAL (www.cal.org.pe)

National Assembly of Rectors – ANR (www.anr.edu.pe)

²⁴ The two universities in charge of this procedure, as of today, are: Universidad Nacional Mayor de San Marcos and Pontificia Universidad Católica del Perú.

- Law of the Professional Exercise of Lawyers and of the Creation of the Bar Associations (1910)
 - Royal Decree of January, 22 1811 (Creation of the Lima Bar Association)
 - Status and bylaws of the respective Bar Associations
- **Accounting and Auditing Services²⁵**

Accounting and auditing Services in Peru are regulated by the Law of the Professional Practice of Public Accountants and of the Creation of the Public Accountants Associations, which grant power to Departmental Public Accountants Associations (professional bodies) to regulate the professional exercise of their associates. The Deans' Board of Public Accountants of Peru²⁶, institution of public right, is the maximum representative organism of the profession of Public Accountant. Their functions include to coordinate the institutional work of the Departmental Associations and to establish the requirements of membership in these associations.

There is no nationality or previous residency requirements to obtain neither a public accountant license (valid in the whole territory) nor restrictions to foreign investment in companies which provide accounting services. However, auditing services companies must be constituted only and exclusively by a public accountant resident in the country and qualified by the respective Public Accountant Association.

In order to provide public accounting services in Peru in a dependent way (private or public firms) or independently (independent auditors and bookkeepers), professionals must be qualified members of his/her respective Departmental Public Accountant Association. The basic qualification requirement is to hold a Professional title of Public accountant granted by a Peruvian university, or revalidated in the country, in agreement with the legal dispositions on the matter.

- **Engineering Services²⁷**

Engineering services in Peru are regulated by the Law of the Professional Exercise of Architects and Engineers. This law grants power to the Peru's Engineer Association to regulate the professional exercise of their associates.

There is no nationality or previous residency requirements to obtain neither an engineering license (valid in the whole territory) nor restrictions to foreign investment in companies which provide engineering services.

In order to provide engineering services in Peru, including teaching, professionals must be qualified members of Peru's Engineer Association and must have a professional degree granted by a national university or by a foreign university and revalidated in Peru. This professional degree is obtained by taking a professional examination, a thesis or a combination of both and issued, revalidated or acknowledged by Peruvian laws. Also, it is necessary to present documents that ensure the absence of a criminal record. Foreign professionals or nationals with a degree obtained overseas have to pay to Peru's Engineer Association, a greater registration fee than the ones for Peruvian professionals with a degree obtained in Peru.

In the case of non-resident foreign engineers, it is necessary to have a contract signed by a company established in the country. Likewise, engineers with a degree obtained overseas can provide engineering services on a temporary basis in the Peruvian Territory by means of inscription in the Record of Temporary Practice. --.

²⁵ For further information, please visit:

Deans' Board OF Societies of Public Accountants of Peru (www.idccpp.org)

²⁶ For Further information, please visit : <http://www.ccpl.org.pe/>.

²⁷ For further information, please visit:

Peru's Engineer Association – CIP (www.cip.org.pe)

Other main regulatory instrument is the Statute of Peru's Engineer Association (Last edition: 2005).

- **Architectural Services**²⁸

Peru's Architects Association regulates the professional practice of their associates, based on the Law of the Professional Exercise of Architects and Engineers.

There are no nationality or previous residency requirements to obtain a license (valid in the whole territory), nor restrictions to foreign investment in companies which provide engineering services.

To provide architectural services in Peru, professionals must be qualified members of Peru's Architects Association, including foreign architects working in dependent or independent way or providing services in a temporary basis, in the public or private sector. Architects must show absence of criminal records.

Architects must have a professional degree granted by a national university or by a foreign university and revalidated in Peru, according by Peruvian laws. If there is an International Agreement of Reciprocity in the Professional Practice of Architects between Peru and the country where the applicant studied, it is not necessary to revalidate the title or degree.

Architects with a degree obtained overseas can provide architectural services on a temporary basis in the Peruvian Territory by means of inscription in the Record of Temporary Practice without need of revalidation of the title, If there is an International Agreement of Reciprocity in the Professional Practice of Architects between Peru and the country where the applicant studied . -The minimum period by which it is granted is three months and the maximum is twelve months renewable once up to twelve months. Architects are required to enroll in Peru's Architects Association. Fees are greater for foreign professionals.

Other regulatory instruments are:

- Statute of Peru's Architects Association
- National Regulation of Registration in Regional and Zonal Peru's Architects Associations (2007)

- **Other (Health-related Professions)**²⁹

The General Law of Health is the main legal frame regulating Health-related professions in Peru. According to it, to provide business services related to health, professionals must have a professional degree and be qualified members of the respective professional association. The license granted by these societies is valid in the whole territory. There are no restrictions or discriminatory treatment to foreign entry in health professional services.

a) **Medical Services**³⁰

Medical services are regulated by the Law of the Creation of the Medical Society and the Law of Medical Work, which control the practice of the medical profession and grant powers to the Medical Association of Peru as autonomous entity of internal public law.

The Medical Association of Peru implements its professional regulation through the National Council and six Regional Councils.

²⁸ For further information, please visit: Peru's Architects Association – CAP (www.cap.org.pe)

²⁹ For further information, please visit: Ministry of Health – MINSA (www.minsa.gob.pe)

³⁰ For further information, please visit: Medical Association of Peru – CMP (www.cmp.org.pe)

In order to provide medical services in Peru, professionals must be qualified members of the Medical Society of Peru and must hold a professional degree granted by one of the Faculties of Medicine of the country, or confirmed in some of the National Universities, in agreement to the laws, except express exoneration of this requirement through an international agreement, in which the corresponding reciprocity will have to be proved.

b) Veterinary Services³¹

According to the Law of the Creation of the Veterinary Medical Association of Peru, the Veterinary Medical Association of Peru is in charge of regulating the professional practice of the veterinary services in the country.

In order to provide medical veterinarian services in Peru, professionals must be qualified members of the Medical Veterinarian Society of Peru and must have a professional degree.

c) Nursery Services³²

Nursery services have the Law of the Work of the Nurse as legal frame, which regulates this profession in all the dependences of the Public National Sector, as well as the ones in the private sector.

In order to provide nursery services in Peru, professionals must be qualified members of the Peru's Nurses Association and must have a professional degree granted by a recognized University of the country. In case of nurses graduated abroad, previous revalidation of the degree is necessary, according to the procedure established for such purpose.

d) Dental Services³³

Dental services in all the dependences of the public and private sector are regulated by the Law of the Creation of the Dentistry Association of Peru and the Law of the Work of the Dentist. The Dentistry Association of Peru has the powers to regulate the practice in the country.

In order to provide dentistry services in Peru, professionals must be qualified members of the Dentistry Association of Peru and must have a professional degree acknowledged by Peruvian Laws. In the case of dentists, nationals or foreigners, with a degree conferred abroad, the basic qualification requirement demanded by the Dentistry Association of Peru to practice the profession is a degree acknowledged by National Assembly of Rectors and revalidated by a Peruvian university.

B. Communication Services³⁴

- Postal Services

The General Office of Postal Services (DGSP) of the Ministry of Transportation and Communications (MTC) is in charge of the regulation of the sector and has as objectives the promotion of investment in the sector, the universal access of postal services and the development of the postal market.

The provision of postal services is granted in direct concession by the MTC without the need of public tenders. In the case of foreign company wishes to obtain the concession, it will have to be constituted in Peru in any of the enterprise forms allowed by the Law and it will specifically be put under the laws and courts of the Republic, resigning to all diplomatic claim.

³¹ For further information, please visit: Veterinary Medical Association of Peru – CMVP (www.cmvp.org.pe)

³² For further information, please visit: Peru's Nurses Association – CEP (www.cep.org.pe)

³³ For further information, please visit: Dentistry Association of Peru – COP (www.cop.org.pe), National Assembly of Rectors – ANR (www.anr.edu.pe)

³⁴ For further information, please visit: Ministry of Transportation and Communications – MTC (www.mtc.gob.pe)

Concession is given through a contract, in a temporary and non-transferable basis. The provision of postal services given in a concession is granted for a minimum of 5 years and a maximum of 20 years (renewable). There are four types of concessions, according to the scope:

- Local: In the geographic area of a province, except for the case of Lima and Callao that constitutes a single postal unit.
- Regional: In the geographic area of a region.
- National: In the geographic area of all the country.
- International: It includes the faculty to send to and receive from outside the postal shipments, from and towards any geographic area of the country.

There is no discrimination between nationals and foreigners in postal services. However, foreign providers or companies are required to be recognized in accordance with domestic regulations and must have local commercial presence and legal address in Peru.

- **Express Delivery Services**

Express delivery services are provided under the legal frame of postal services. According to this, the provision of express delivery services given in a concession is granted for a minimum of 5 years and a maximum of 20 years (renewable). The Ministry of Transportation and Communications awards the concessions on this matter at local, regional, national or international levels.

Services providers can be either domestic or foreign. Foreign providers or companies are required to be recognized or incorporated in accordance with domestic regulations, hold a legal address in Peru and have a local commercial presence. The provision of this service is guided by the principle of freedom of transit established by the Universal Postal Union.

- **Telecommunication Services**³⁵

The main legislative instruments governing Peru's telecommunications services are the Law of Telecommunications; Guidelines of Openness Policy of Peru's Telecommunications Market; Law of Single Concession for the Provision of Public Services of Telecommunications; and Guidelines for the Development and Strengthening of the Competence and the Expansion of the Public Services of Telecommunications³⁶.

The current legislation assures open competition in the Peruvian telecommunications sector and its regulation is focused in controlling abuse of market power and restrictive practices. Likewise, there is no discriminatory treatment to foreign investors or providers which, in order to provide public telecommunication services, must have local presence.

The Ministry of Transportation and Communications (MTC) and Supervisory Agency for Private Investment in Telecommunications (OSIPTEL) are responsible for the legislation and administrative procedures in telecommunications sector. MTC is in charge of market access; assignation and control of the radio electric spectrum; management of the Investment Fund in Telecommunications (FITEL), the National Plan of Telecommunications, the National Plan of the Awarding of Frequencies, the adoption of regulation and the approval of equipments, inspections and sanctions. OSIPTEL is in charge of overseeing user rates, competition, interconnection and service quality and imposing sanctions. Also, OSIPTEL administers arbitration processes and dispute mediation between companies providing telecommunication services.

³⁵ For further information, please visit: Supervisory Agency for Private Investment in Telecommunications - OSIPTEL (www.osiptel.gob.pe)

³⁶ A complete list of laws concerning to telecommunications services is available in the following web page: www.mtc.gob.pe/indice/comunicaciones.asp#c1

MTC classifies telecommunication services into categories that are granted either under concession or authorization:

- Carrier services: Involves essential facilities (networks). Given under concession.
- Final services: (such as phone services). Public services are given under concession.
- Cable services. Given under concession.
- Broadcasting services (such as TV and radio): Require authorization of MTC. These services are considered private services of public interest. The assignation of the radio electric spectrum proceeds when a concession or authorization is given.

- **Audiovisual Services**³⁷

The main legislation relevant to Peru's audiovisual sector is contained in the Law of Radio and Television (2004) for broadcasting services³⁸ and the Law of the Peruvian Motion Picture (1995) for motion picture production, distribution and projection services. Other audiovisual services such as video tape production and distribution services and sound recording are mostly unregulated.

Policy responsibility for Peru's audiovisual sector rests on the Ministry of Transportation and Communications (MTC) and the National Culture Institute (INC) through the National Council of Motion Pictures (CONACINE).

Broadcasting services (television and radio) are considered private services of public interest and its provision requires an authorization of the MTC. Only Peruvian nationals and corporate bodies organized under the laws of Peru may hold authorizations or licenses to supply free over-the-air broadcasting services. A foreigner may not hold such an authorization or license, either directly or through a one-person company. Foreign citizens may hold no more than 40 percent of the capital of a corporate body that holds such an authorization or license. Such foreign citizens must be owners of or have interest or shares in a free over-the-air broadcasting enterprise in the territory of the country of which they are a national.

Likewise, broadcasting enterprises of free over-the-air signal must dedicate at least 10% of their daily programming to the diffusion of folklore, national music and television programs related to Peruvian history, literature, culture or national reality, performed by artists hired according to the Law of the Artist. Also, broadcasting enterprises must dedicate at least 30% of its programming to local production, in the schedule between 5:00 a.m. and 12:00 p.m., on average each week. Peruvian law establishes that 80% of artists and film technicians taking part in any production have to be nationals. Some others exclusions apply in relation to some specific personnel.

By the other side, in motion picture production, distribution and projection services, some domestic regulation is applicable for the production of Peruvian films (some local government requirements and permissions to film in certain places, such as natural protected areas, archaeological sites, and historic monuments, among others). All motion picture works shall certify a written contract with the holder of the economic rights of that work in order to be distributed and projected. In addition, 80% of artists and film technicians taking part in any production have to be nationals and only national movies can win the National Prize of Motion Picture granted by CONACINE.

C. Construction Services³⁹

The Peruvian building and construction sector is required to comply with regulations at the Central and Local government levels. The key regulation for building and construction that

³⁷ For further information, please visit: National Council of Motion Pictures (www.conacine.com.pe)

³⁸ A complete list of laws concerning to broadcasting services is available in the following web page: www.mtc.gob.pe/portall/comunicacion/concesion/radiodifusion/carauto.pdf

³⁹ For further information, please visit: Ministry of Home, Construction and Sanitation (www.vivienda.gob.pe) and Superior Council of Government Procurement: (www.consucode.gob.pe)

applies nationwide is the National Regulation of Construction and public and private constructors can carry out any kind of construction works, provided they have permission from the local City Hall.

The Law of Promotion of the Private Investment in Construction promotes construction activities whose works cost no more than 50 Tax Units (172,500 nuevos soles, approximately US\$ 54,416)⁴⁰ and included in the Division 5 of the International Standard Industrial Classification (ISIC) of the United Nations. These construction services can be provided by natural and juridical persons, nationals and foreigners.

Also, the Law of Promotion of Private Investments in Infrastructure of Public Services fosters private investment in infrastructure and regulates its exploitation. Central, Regional and Local Governments can grant concessions to juridical persons, nationals or foreigners for the construction, repairing, conservation and exploitation of public services. Transportation, environmental sanitary, energy, health, education, telecommunications, tourism, recreational and urban infrastructure are the sectors included in these concessions. Public bids are open to all bidders, foreign and nationals, which have to be registered at the National Register of Providers (www.consucode.gob.pe). However, extra points are given to nationals offering their bids.

D. Distribution Services

Distribution services are highly unregulated by the Central Government. The Law of the Consumer Protection establishes the obligations of the providers of distribution services in the national territory. The Commission of Consumer Protection is the only administrative competent body able to impose administrative sanctions and corrective policies in case of infractions to the dispositions on this Law⁴¹.

The Organic Law of City Halls grants power to the Local Governments (more than 1,700) to give licenses to open distribution services and to apply fines, suspension of authorizations or licenses, closing, confiscation, retention of products and furniture, retirement of elements forbidden by rules, demolition, seizure of vehicles, immobilization of products, among others.

Local Governments can arrange transitory or definitive closing of distribution services establishments if their operations are legally prohibited; they constitute danger or risk for the public safety and private property; infringe the regulation procedures; produce smells, smokes, noises or other harmful effects.

Likewise, Local Governments regulate distribution of food and drinks, in conformity with the national rules on the matter. In coordination with the Ministry of Health, Ministry of Agriculture, INDECOPI and Public Ministry, they can arrange the confiscation of adulterated, fake articles of human consumption or in condition of decomposition; products that constitute a danger against life or health and other articles whose commercialization or consumption is prohibited by law.

E. Educational Services⁴²

The main legislation relevant to Peru's education sector is contained in the General Law of Education (2003), which regulates all educational activities in the national territory developed by natural or juridical, public or private, national or foreign persons. Universities and other tertiary educational institutions are ruled by specific laws, such as the University Law (1983).

Other important regulatory instruments are:

⁴⁰ As of June 2007, 1 Tax Unit was equivalent to 3,450 nuevos soles. According to Peru's Central Bank, the average exchange rate in June 2007 was equal to 3.17 nuevos soles per US\$.

⁴¹ For further information, please visit: <http://www.indecopi.gob.pe/destacado-comsumidor-comisiones-cpc-legis.jsp>

⁴² For further information, please visit: Ministry of Education - MINEDU (www.minedu.gob.pe)

- Law of the private educational centers (1995)
- Creation of the National Council for the Authorization of the Functioning of Universities, CONAFU (1995)
- Law of Promotion in Education (1996)
- Law of the National System of Evaluation, Accreditation and Certification of Education Quality, SINEACE (2006)⁴³.

By the type of management, educational institutions could be public (either managed directly by educational authorities of public sector or a private non-profit institution) and private. There is no discrimination between nationals and foreigners in private education services, but there are some exemptions to the MFN treatment in the framework of the Andean Community and other Mutual Recognition Agreements.

The Ministry of Education is the government body that defines and articulates the politics of education, culture recreation and sports, in conformity with the general politics of the State and supervises and controls non-university institutions.

On the other hand, universities are autonomous according with the Constitution and the University Law. They must have an authorization granted by CONAFU to provide education services. CONAFU grants permanent functioning authorizations to the universities with temporary authorization after the minimal period of evaluation of five years or the granted period of extension.

F. Environmental Services⁴⁴

The main legislation relevant to the sector is the Law for the Environment (2005), which defines “environmental services” as the resources, goods and processes that are supplied by natural ecosystems without payment or compensation by their users. The concept of environmental services include such regarding: the protection of the water cycle and resources, the protection of biodiversity, the mitigation of greenhouse gas emissions, the conservation of landscape and the scenic beauty, the control of climate, the maintenance of nutrient cycles and crop pollination, and the provision of spiritual and recreational benefits, among others.

The National Environmental Council (CONAM) is the national environmental authority and the rector of the National Environmental Management System. It also coordinates with Ministries, other national-level public institutions and sub-national governments the implementation of environmental policies. CONAM provides the general guidelines and coordinates the activities of all the public-sector environmental units at the three government levels (national, regional and local).

National and international companies must be registered in a sector list of authorized providers in order to provide services related to environmental management, such as environmental impact assessment (EIA), pollution reduction plans and closure plans.

- Sanitary Services

In the case of sanitary services, the legislation that regulates their provision is contained in the General Law of Sanitary Services and the Law to Optimize the Management of the Provider Entities of Sanitary Services (EPS) (2006).

Sanitary services provision, such as water and sewage is supervised by the National Superintendence of Sanitary Services (SUNASS).

⁴³ A complete list of laws concerning to education services is available in the following web pages: www.minedu.gob.pe/normatividad/ and www.minedu.gob.pe/dcu/legal.htm

⁴⁴ For further information, please visit: National Environmental Council (CONAM) (www.conam.gob.pe), National Superintendence of Sanitary Services (SUNASS) (www.sunass.gob.pe), National Environmental Fund (FONAM) (www.fonam.gob.pe) and National Institute of Natural Resources (INRENA): (www.inrena.gob.pe)

Provincial city halls grant the license of exploitation to the provider entities of sanitary services (EPSs) which can be public, private or mixed (public-private partnership) and must have their own equity, functional and administrative autonomy. The license is granted for a period from 15 to 60 years. The term license is determined according to the project's Master Plan and the recovery period of the investment. EPSs (municipal, private or public-private partnership) must sign a contract with a city hall or group of them to operate. In the case of private or public-private partnership EPSs, the contract is signed under the modality of concession.

According to the number of connections, EPSs are classified in major size EPS if there are more than 10,000 connections (they must be constituted as anonymous society, according to the General Law of Societies) and minor size EPS, between 1,000 and 10,000 connections (they must be constituted as Commercial Societies of Limited Responsibility, according to the General Law of Societies). In rural towns, sanitary services are provided by communal action through an Organization of Management Boards. They are regulated by SUNASS as well.

- **Forestry Environmental Services**

The Forestry and Wildlife Law (2000) defines the concept of forest environmental services as those provided by the forest and forestry plantations that have direct effect on the protection, recovery and improvement of the environment. Forestry environmental services include: soil protection, water cycle regulation, biodiversity conservation, ecosystem, landscape and scenic beauty conservation, carbon sequestration and fixation, climate regulation and maintenance of the essential ecological processes.

The Forests and Environmental Services area of FONAM promotes the investment in environmental projects related to the forest, and to achieve the sustainable development through a sustainable management of the environmental services of the forest. FONAM supports projects that preserve, take advantage and improve the environmental services that are offered by the forest, putting emphasis in the conservation of water resources, carbon sequestration, conservation and recovery of biodiversity and the combat against desertification processes.

G. Financial Services⁴⁵

The General Law of the Financial System and the Insurance System and Organic of the Superintendence of Banking, Insurance and Private Pension Funds Administrators regulates the financial services in the country.⁴⁶

The Superintendence of Banking, Insurance and Private Pension Funds Administrators (SBS) issues rules concerning operational requirements applied to the financial, insurance and private pension systems subject to its supervision. For example, rules about risk identification and management (operational, market, liquidity, credit, others), and regulations related to requirements about people involved in managing financial institutions. Also, SBS grants authorizations based on the study of the information requested to the applicant, the Central Bank's viewpoint and the fulfillment of the requirements established by Law.

Firms in this sector must be constituted as incorporated company, although some exceptions apply depending on the nature of the service provided. The financial regulations and supervisory process follow international standards such as the Basel Principles for Banking Supervision, the International Association of Insurance Supervisors (IAIS), principles for insurance services and the international principles related to stock exchange services. In addition, the accounting rules are in accordance with international standards.

⁴⁵ For further information, please visit:
Central Bank of Peru - BCRP (www.bcrp.gob.pe)
Superintendence of Banking, Insurance and Private Pension Funds Administrators -SBS (www.sbs.gob.pe)
National Commission of Insurance Companies and Equities - CONASEV (www.conasev.gob.pe)

⁴⁶ The details of the regulation concerning operational requirements issued by SBS are found in:
www.sbs.gob.pe/portalsbs/normatividad/index.asp

The establishment of foreign firms is duly regulated under Peruvian rules, and it always requires the authorization of the SBS. Accordingly, any foreign or local individual or entity that seeks to provide financial services must be incorporated as a stock company –except those whose nature does not allow it- and to begin operations in Peru, the interested applicants must follow the procedures issued by the SBS. It is important to mention that there is no discrimination with respect to the 4 modes of supply: cross-border, commercial presence, consumption abroad and temporal movement of persons on banking and insurance companies. The Law includes a provision that takes into account the principle of reciprocity under specific conditions.

- **Financial System**

To operate into the Peruvian financial system, financial institutions need to have a minimum regulatory capital-risk weighted asset ratio requirement of 9,1% and a minimum capital entry requirement according to Article 16 of General Law of the Financial System and the Insurance System and Organic of the Superintendence of Banking, Insurance and Private Pension Funds Administrators.

- **Insurance System**

The main operational requirement is a minimum capital entry requirement which varies in function of the type of insurance company⁴⁷. For Insurance and/or reinsurance companies, they shall at all time have a regulatory capital not lower than the solvency equity. The amount of the solvency equity is established based on the highest amount resulting from the application of the following criteria: the solvency margin and the minimum capital.

- **Private Pension System**

The Private Pension Fund Administrators (AFP) are subject to the set of laws regarding to investment policies and procedures of the pensions funds. Also they have to fulfill the requirements included in the Law of the Private Pension Funds Administration System.

H. Health and Social-related Services⁴⁸

The General Law of Health and Law of the Modernization of Social Security in Health regulate the provision of health-related and social services in Peru.

According to the current legislation, Peru promotes free competition in the provision of health-related and social services, although market regulation is necessary for controlling situations of possible abuse of market power and restrictive practices. Health-related and social services are granted under concession or authorization.

Health Entities Providers (EPS) are public or private institutions which provide health and social services. They must be constituted in Peru as a Juridical Person according to Peruvian Law, prior authorization of the Superintendence of Health Entities Providers (SEPS).

Ministry of Health (MINSA) is in charge of the regime of collective public health services and grants integral attention of health services to the population of scarce resources. This service is financed by public resources and offers attention across the net of state-owned establishments and other selected public or private entities.

In order to provide health related and social services, health establishments have to satisfy requirements set by the Ministry of Health related to physical plants, equipment, assistant

⁴⁷ Firms are classified in the following categories: Companies covering only one line (general risk or life); Companies covering both lines (general risk and life), Insurance and Reinsurance companies, and Reinsurance Companies.

⁴⁸ For further information, please visit: Superintendence of Health Entities Providers (www.seps.gob.pe), Ministry of Health – MINSA (www.minsa.gob.pe)

staff, sanitary systems, risk control systems, among others. Also, professionals working in health establishments must have a professional license.

I. Tourism and Travel-related Services⁴⁹

According to the current legislation, Peru promotes free competition and national treatment between foreign and national service providers. The Law for the Development of Tourism Activities (1998) establishes the legal frame for the development and the regulation of the tourist activity, the basic principles of the tourist activity and the State goals. The public institution that fosters investment in tourism and related services is the Ministry of Foreign Trade and Tourism (MINCETUR), which determines the requirements, obligations and responsibilities that must be fulfilled by the providers of these services.

Tourism and travel related services are basically classified into 5 categories: lodging (hotel, apart hotel, hostel, lodge, ecolodge); restaurants; travel agencies; tourist guides and tourism transport. In the case of lodging and travel agencies, authorization must be obtained in the Regional Government where the services are going to be provided. Restaurants have to apply for a license at the respective City Hall. Tourism transport providers must obtain an authorization from the Tourism National Administration through their respective Regional Government.

With respect to foreign entry, according to the Law of the Tourist Guide (2005), nationals and foreigners are required to hold a degree recognized by Peruvian law. Also, the Regulation of Travel Agencies, foreign travel agencies need to fulfill the same requirement for domestic travel agencies. In addition, foreign travel agencies have to be associated with domestic travel agencies and this must be notified to the competent regional body.

J. Recreational, Cultural and Sporting Services⁵⁰

Most of recreational, cultural and sport-related services are highly deregulated, except some of them, such as the administration of museums, which requires an authorization from the National Institute of Culture (INC).

- Museums

According to the Regulation of the Creation, Record and Incorporation of Museums to the National System of Museums of the State, museums can be public or private. It is necessary to obtain an official recognition of the INC through a National Directorial Resolution and to be registered in the National Record of Museums of Peru. National Institute of Culture grants official recognition only if the principal function of the museum is to conserve, investigate, exhibit and promote the cultural legacy, and it enriches the cultural life of the society.

- Cultural Performances

For providing a non-sporting public cultural performance, it is necessary to obtain a certificate granted by the INC. Beside this, if the non-sportive public cultural show is one of international folklore, it is necessary to present a letter of accreditation of the cultural manifestation from the respective diplomatic representation. Foreign artists must have an artist visa to perform in the country.

- Sporting Services

The Law of Promotion and Development of the Sport regulates sporting activities. According to it, sport organizations can be commercial societies created according to the General Law of

⁴⁹ For further information, please visit: Ministry of Foreign Trade and Tourism (www.mincetur.gob.pe)

⁵⁰ For further information, please visit: National Cultural Institute (INC) (www.inc.gob.pe), National Directorate of Casinos and Slot Machine - MINCETUR (www.mincetur.gob.pe/turismo/DGJCMT) and Peruvian Sport Institute (IPD) (www.ipd.gob.pe)

Societies or civil associations with non profit purposes. Both of them are ruled by the former Law. The sports that are performed at a competitive level are named Affiliates' Sports and include Sports Communal Associations, Clubs, Leagues and Federations. They must be legally constituted and registered in the National Record of the Peruvian Sport Institute (IPD).

Sport activities which generate revenues or utilities are regulated according to the regulation approved by the IPD on the basis of the national legislation and the international laws. Likewise, IPD grants the concession or Public Tender of the sports infrastructure.

K. Transport⁵¹

According to the current legislation, the Government promotes free competition in port services. For almost all transport services (air, land and aquatic) there are reservations with respect to national treatment.

The Ministry of Transportation and Communications (MTC) is in charge of policies related to the liberalization and regulation of this sector, the Supervisory Agency for the Investment of Transport Infrastructure (OSITRAN) is the regulatory public entity that oversees the fulfillment of the obligations of concession contracts and PROINVERSIÓN is responsible for the project designing and promotion of private investment in transport infrastructure

- Maritime Services⁵²

Shipping current policies establish free market competition, openness in navigation routes, freedom for selling or buying ships, flexibility for freight of ships and liberalization of the cabotage for the Andean Community.

There is no discrimination in the port services sector. Peruvian Government has granted in Concession two terminals: Matarani Port, located in southern Peru; and Callao Port. (only the south terminal). In 2006 the construction and later operation (green field project) of the New Container Terminal, called "South Terminal" was granted in concession. It implied an investment of US\$ 550 million. It is expected to start operations at the end of 2009.

Public ports are administrated by the state company ENAPU (National Ports Enterprise). PROINVERSIÓN, in coordination with the National Port Authority (APN), is responsible for the project designing and promotion of private investment in transport infrastructure. Additionally, the General Directorate of Captaincies and Ports (DICAPI) is in charge of the maritime transit, ship authorizations, and safety and environmental issues at the sea, lakes and rivers.

International maritime transport can be provided by foreign shipping companies but only a "Domestic shipowner" or "National Ship Enterprise"⁵³ may supply maritime cabotage services (including transport by lakes and rivers). Cabotage is exclusively reserved to Peruvian flagged vessels owned by a Domestic Shipowner or National Ship Enterprise or leased under a financial lease or a bareboat charter, with an obligatory purchase option. Foreign-flagged vessels may be used by a National Shipowner or National Ship Enterprise for a period of no more than six months for water transportation exclusively between Peruvian ports or cabotage when such an entity does not own or lease vessels.

⁵¹ For further information, please visit: Ministry of Transportation and Communications - MTC (www.mtc.gob.pe), Supervisory Agency for the Investment of Transport Infrastructure – OSITRAN (www.ositran.gob.pe) and PROINVERSIÓN – Private Investment Promotion Agency (www.ProInversión.gob.pe)

⁵² For further information, please visit: National Port Authority – APN (www.apn.gob.pe) and Maritime Authority – DICAPI (www.dicapi.gob.pe)

⁵³ A "National shipowner" or "National Ship Enterprise" means a Peruvian national or juridical person organized under Peruvian law, with its principal domicile and real and effective headquarters in Peru, whose business is to provide water transportation services for cabotage or international traffic and which is the owner or lessee under a financial lease or a bareboat charter, with an obligatory purchase option, of at least one Peruvian flag merchant ship and that has obtained the relevant Operation Permit from the General Aquatic Transport Directorate.

Besides the requirements described above, at least 51 percent of the subscribed and paid-in capital from National Flag Enterprises must be owned by Peruvian citizens. The chairman of the board of directors, a majority of the directors, and the General Manager of a National Ship Enterprise must be nationals and resident in Peru. The captain of the Peruvian-flagged vessels must be a Peruvian national. In cases where there is no duly qualified Peruvian captain, a foreign national may be authorized to serve as captain. Only a Peruvian national may be a licensed harbor pilot.

Other important features in maritime services are:

- 21 per cent of the transport of hydrocarbons in national waters or cabotage is reserved for the boats of the Peruvian Navy.
- Only a Peruvian citizen may register as a “port worker”.
- Peruvian-flag vessels must have at least 80% of Peruvian crew.
- Participation of foreign shipping companies will only be granted on the base of reciprocity.

- **Air Services**

In order to provide air transport services, it is necessary to have flight permission (national or international) and operational permission submitted by the General Directorate of Civil Aeronautics at MTC. It determines the requirements and procedures according to the category of air service. There are some exceptions for public security or national interest and in the framework of the Andean Community.

Participation of foreign air carriers in the transport of cargo or passengers will only be granted on the base of strict reciprocity. With respect to commercial aviation services (including specialty air service), the current legislation reserves services provision to Peruvian natural or juridical persons⁵⁴. Some exceptions apply. The percentage of capital owned by foreigners may be up to 70% in certain situations:

- Foreign capital at the beginning of activities, up to 49 %.
- After 6 months of operations, it can be extended up to 70 %

Also, only Peruvian nationals may perform aeronautical functions on board of aircrafts belonging to national commercial aviation suppliers, which are suppliers that hold an operating or flight authorization.

- **Rail Services**

According to the current legislation, the State promotes free competition in railroad transportation services. The Rail National Regulation establishes the legal framework for the provision of railroad transport services.

Rail Tracks have been granted in concession by the Peruvian Government. Concessionaires are not allowed to provide transport services (cargo and passengers), but must guarantee the free entrance or access to transport operators in accordance with the concessions contract.

⁵⁴ For purposes of this entry, a Peruvian juridical person is an enterprise that fulfils the following requirements:

(a) is constituted under Peruvian law, specifies commercial aviation as its corporate purpose, is domiciled in Peru, and has its principal activities and administration located in Peru;

(b) at least half plus one of the directors, managers, and persons who control or manage the enterprise are Peruvian nationals or have permanent domicile or are normally resident in Peru; and

(c) at least 51 percent of the capital must be owned by Peruvian nationals and be under the real and effective control of Peruvian shareholders or partners permanently domiciled in Peru. (This limitation shall not apply to the enterprises constituted under law N° 24882, which may maintain the ownership percentages set in such law). Six months after the date of authorization of the enterprise to provide commercial air transportation services, foreign nationals or foreign citizens may own up to 70 percent of the capital of the enterprise.

Three railways for public service in Peru have been granted under concession: Central Railway (447km), Southern and Southeastern Railways (854km and 134km, respectively). Other two railways -Huancayo-Huancavelica Railway (129km) and Tacna-Arica Railway (60km)- are owned by the MTC and the Regional Government of Tacna, respectively.

In order to provide transportation services in those railways granted under concession, operators are required to have an operation permit issued by the MTC, and sign an access contract with the Railroad Transportation Infrastructure Concessionary Company.

- Road Transportation Services

The construction and maintenance of different roads, which accounts for 14% of the National roads, has been granted in concession. The Peruvian policy tends to establish a road tariff of approximately US\$ 1.50 for each 100 Km per vehicle or per axis of heavy transport.

Road transportation services can be classified into highway and urban transportation services, which should be granted under concession by the MTC, and the relevant city halls.

Neither restriction to foreign investment participation nor band prices mechanisms exist in road transportation services. As to national road transportation services, foreign carriers are expected to comply with the same regulations and technical requirements imposed on a national carrier in order to obtain an authorization. However, there are some exemptions to the MFN treatment in the framework of the Andean Community and in the case of signatory countries of the Road International Transport Agreement of the Southern Cone (ATIT)⁵⁵. Also, this agreement indicates that licenses will be granted by a native entity to carriers according to their own legislation, and residing in their own territory.

L. Energy⁵⁶

The Law for Ensuring the Efficient Development of Electric Generation (2006) sets the basis for the efficient generation of power plants as well as the electric supply bidding mechanisms to the distributors.

The Cogeneration Regulation (2006) establishes the requirements and conditions for the cogeneration plants to participate in the electric market⁵⁷. Also, the Organic Law of Geothermal Resources (2006) regulates the procedures to obtain geothermal rights and the Regulation on the Environmental Protection in Electric Activities (1994) institutes a set of provisions for the interrelation of the generation, transmission and distribution of electric activities, with the environment, under the concept of sustainable development. In the case of hydrocarbons, the main legislation is the General Law of Hydrocarbons (1993).

Energy generation, transmission and distribution activities can be developed by companies, which must be constituted in accordance with Peruvian laws. Energy generation activities are carried out under free competition rules, while energy transmission and distribution are regulated activities with fixed rates established by the regulatory entity Supervisory Agency of Investments in Energy and Mines (OSINERGMIN). In the case of energy commercialization, Ministry of Energy and Mines (MEM) grants concessions, while OSINERGMIN is in charge of regulatory and quality supervising aspects (rates and access pricing) and INDECOPI is in charge of the preservation of competition and fair market practices. To commercialize Natural Gas for Vehicles (GNV), an authorization from the MEM is required.

To build and operate hydroelectric plants, concessions need to be granted. Nevertheless, for thermoelectric plants, only an operation authorization is required. The same company cannot

⁵⁵ Signatory Countries of the "ATIT": Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay.

⁵⁶ For further information, please visit: Ministry of Energy and Mines – MEM (www.minem.gob.pe), Supervisory Agency of Investments in Energy and Mines – OSINERGMIN (www.osinerg.gob.pe), PERUPETRO (www.perupetro.com.pe) and PROINVERSIÓN (www.ProInversión.gob.pe)

⁵⁷ Cogeneration is a process that improves the energetic efficiency and reduces the consumption of fuels by means of the combined production of electricity and useful heat.

handle electric power plants, main transmission systems and distribution activities simultaneously, but may own secondary transmission systems.

To develop oil and gas exploration and exploitation activities, in a specific area, it is necessary to sign a contract with the government, which includes benefits established by Law. PERUPETRO, as a state representative, is in charge of negotiating, signing and supervising hydrocarbon contracts and Technical Evaluation Agreements.

To develop oil and gas transmission by pipeline activities, it is mandatory to get a concession granted by the Ministry of Energy and Mines (MEM). This activity is regulated and OSINERGMIN fixes the maximum rates. In order to promote the construction of natural gas transmission pipelines, companies can access a guarantee under the Law of Promotion Development of the Natural Gas Industry (1999).

In the case of transportation, storage, processing, refining, distribution and commercialization of hydrocarbons, an authorization from the MEM is required. To develop gas distribution activities it is necessary to obtain a concession granted by the MEM. This activity is regulated and rates are fixed by OSINERGMIN.

Basic requirements for concessions are the following:

- General information of the company
- Pre-project description
- Description of needed / required studies
- Feasibility study
- Authorization for the exploitation of natural resources (if applicable)
- Valid guarantee.

Concessions can be granted on a permanent basis. In those cases, additional documentation is required: 1) an environmental impact study and 2) a certification of the non-existence of archaeological remains, granted by the National Institute of Culture (INC).

According to the General Law of Hydrocarbons, foreign companies, in order to sign exploration contracts, have to establish a branch or to constitute a society with an address in Lima, according to the General Law of Societies, and name a Chief Executive of Peruvian nationality. Foreign companies have to be registered in the Public Registries and name a legal representative of Peruvian nationality, with a legal address in Lima, Peru.

2.3.4 Peru's International Commitments related to Services

Under the GATS, Peru maintains horizontal commitments on mode 3 (commercial presence) and mode 4 (movement of natural persons). In relation to the latter, Peru allows the temporary entry of foreign providers for a period not longer than 3 years, consecutively renewable. These providers can't constitute more than 20% of the total of employees in an enterprise and their revenues can't exceed 30% of the enterprises' payroll.

Nevertheless, the Legislative Decree N° 689 establishes a wide range of exceptions to these limitations. According to it, limitations do not apply to foreigner providers with Peruvian spouses, ascendants, descendants or siblings; migrants and foreigners from countries with which Peru has signed Double Nationality Agreements or Labor Reciprocity Agreements, among others. Additionally, employers can ask for an exemption of these numerical limitations in the following cases: specialized professional or technical personnel, executive personnel (managers and board members) under certain circumstances, basic, secondary or superior education professors of foreign private schools or professors of foreign languages, and any other case settled down by Supreme Decree.

Regarding the sector classification, Peru adopted commitments in 7 of the 12 sectors of GATS⁵⁸: Business Services, Communication Services, Financial Services, Distribution Services, Tourism and Travel Related Services, Recreational, Cultural and Sporting Services and Transportation Services. Peru also participated in the negotiations on Telecommunications and Financial services after the Uruguay Round and its commitments in these sectors can be found in the Protocols 4th and 5th of GATS. In addition, on the Doha Round Negotiations, Peru presented an initial offer in 2003 and a revised offer in 2005, which was considered as one of the most ambitious of the process⁵⁹.

A useful tool to analyze Peru's commitments in GATS is to calculate the sector coverage ratio. This ratio shows the percentage of the sector listed by a country, taking into account if commitments were made in any of the 155 sub-sectors inside 12 major categories of service sectors and covered by GATS. In this sense, the sector coverage ratio is the number of committed sub-sectors divided by the total number of sub-sectors of each sector⁶⁰.

Peru's Sector Coverage Index under GATS

Sector	Peru (%)
All Sectors	25.16
Business Services	15.22
Communication Services	33.33
Construction and Related Engineering Services	0.00
Distribution Services	40.00
Education Services	0.00
Environmental services	0.00
Financial Services	94.12
Health Services	0.00
Tourism and Travel Related Services	50.00
Recreational, Cultural and Sporting Services	40.00
Transport Services	5.71
Other Services	0.00

Note: Calculated according to WTO Draft Consolidated Schedule of Specific Commitments of Peru.

In this sense, the results of the index show that Peru has variable sector coverage in GATS. While sectors as Construction, Education, Environmental, Health, Transport and Other are not covered (or show a low percentage, as in the case of Transport Services), other sectors (Business, Communication, Distribution and Tourism and Travel Related Services) show a higher coverage level in GATS. Additionally, Financial Services present the highest level of sector coverage for Peru, with a result close to 100%.

Considering that this coverage ratio is not sufficient by itself to describe the levels of liberalization committed in GATS, Peru's commitments are also presented following the methodology developed by Bernard Hoekman in "Tentative First Steps: An Assessment of the Uruguay Round Agreement on Services" (1995).

In that paper, Hoekman quantifies the specific commitments of different countries in the GATS, in order to compare the different levels of liberalization of services sectors and its evolution through time.

Each specific commitment of the Draft Consolidated Schedule of Specific Commitments of Peru is separately measured, considering if the restriction applies to Market Access (MA)

⁵⁸ The sector analysis is based on the WTO document GNS/W/120, Services Sectors Classification List.

⁵⁹ Visit http://www.wto.org/english/tratop_e/serv_e/s_negs_e.htm for further information.

⁶⁰ Each subsector or further subdivisions are taken into account, when possible.

and/or National Treatment (NT) in any subsector or in any of the 4 modes of supply. As a matter of simplification, results will be displayed only to show commitments in each mode of supply, considering MA and NT provisions for each subsector as one.

Commitments can be classified into 3 categories: (1) None (no restrictions for the sector), (2) Some restrictions apply or (3) Unbound (there are no liberalization commitments for the sector). To estimate the scope of sector commitments, numbers “1”, “0.5” or “0” are assigned, respectively to each case.

Peru’s Openness Index Based on GATS Commitments

Sector	Methodology A				Methodology B			
	Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4
Business Services	0.02	0.02	0.14	0.02	0.14	0.14	0.93	0.14
Communication Services	0.25	0.32	0.26	0.08	0.75	0.97	0.78	0.25
Construction and Related Engineering Services	-	-	-	-	-	-	-	-
Distribution Services	-	-	0.40	-	-	-	1.00	-
Education Services	-	-	-	-	-	-	-	-
Environmental Services	-	-	-	-	-	-	-	-
Financial Services	0.03	0.06	0.93	-	0.03	0.06	0.98	-
Health Services	-	-	-	-	-	-	-	-
Tourism and Travel Related Services	0.13	0.13	0.44	-	0.25	0.25	0.88	-
Recreational, Cultural and Sporting Services	-	-	0.35	0.05	-	-	0.88	0.13
Transport Services	0.03	-	0.06	-	0.50	-	1.00	-
Other Services	-	-	-	-	-	-	-	-
All Sectors	0.06	0.07	0.23	0.02	0.23	0.26	0.92	0.08

Note: Modes of Supply include (1) Cross Border Supply, (2) Consumption Abroad, (3) Commercial Presence and (4) Movement of Natural Persons.

This table shows results for Peru’s commitments in each mode of supply. These results were calculated as the total level of liberalization in each sector using the score from Hoekman’s methodology of “0”, “0.5” or “1” (considering the sum of both MA and NT provisions) divided by:

- For Methodology A: The total quantity of possible commitments for MA and NT in each mode of supply)
- For Methodology B: The total quantity of commitments made by Peru for MA and NT in each mode of supply)

The reason for the double calculation of results is even though Methodology A gives an idea about the general level of liberalization in each sector; they may appear as underestimating Peru’s liberalization commitments because they use a base the total of subsectors included in each sector, instead of just the ones where commitments have been made.

In the Business Sector, Peru made commitments for Professional Services (Accounting, auditing and bookkeeping services, Architectural services, Engineering services and Other), Rental/Leasing Services without Operators (Relating to other transport equipment) and Other Business Services (Advertising services and Convention services). Regarding Professional Services, Peru fully liberalized Mode 3 for MA in the subsectors listed and also Modes 1 and 2 in the subsector Other. Similarly, for NT, Peru fully liberalized Mode 3 for Accounting and Other sectors and partially liberalized Architecture and Engineering services subsectors. Additionally, for Rental/Leasing Services and Other Business Services, Peru made commitments of total liberalization in MA and NT for Mode 3 and Modes 3 and 4, respectively.

The sector, as a whole presented a level of liberalization of 0.02 for Modes 1, 2 and 4 and a higher level for Mode 3. If Methodology B is taken into account, results show almost full liberalization for Mode 3 and relatively low levels for Modes 1, 2, and 4.

Regarding Communication Services, Peru made commitments in several subsectors of Telecommunication services. In each of the sectors listed, for MA, Peru made partial commitments for liberalization in Modes 1, 2 and 4 and full liberalization in Mode 3. Regarding NT, Peru fully liberalized Modes 1, 2 and 3. As a whole, Peru reached an average liberalization level of 0.28 for Modes 1, 2 and 3 and a much lower result for Mode 4. (Methodology A). On the other hand, Methodology B presents very high and almost full liberalization commitments for Mode 1 and 3 and Mode 2, respectively.

In the case of Distribution Services, commitments were made in 2 of 5 subsectors (Wholesale trade services and Retailing Services) and presented total liberalization (listed as “none”) for Mode 3 in both cases (shown by result in Methodology B). Even though, when considering the sector as a whole, Hoekman’s index gives a result of 0.4 of liberalization for Mode 3 and 0% for the other modes of supply.

As for Financial Services, the Methodology A shows very low results for Mode 1 and 2 and results over 0.9 of liberalization for Mode 3. These results don’t change in a dramatic way when considering Methodology B.

Regarding Tourism and Travel Related Services, Peru made commitments for Hotels and Restaurants (including catering) and Travel agencies and tour operators subsectors. For Methodology A, Peru reached a liberalization level of 0.13 for Modes 1 and 2, and 0.44 for Mode 3. In the other hand, Methodology B almost doubles the result for each Mode.

In the Recreational, Cultural and Sporting Services, Peru listed liberalization commitments for Entertainment and Sporting and Other Recreational Services. Regarding the first one, Peru applies one restriction for both Mode 3 and 4 in MA and full liberalization for Mode 3 in NT. In respect to the latter subsector, Peru committed for full liberalization in Mode 3 for MA and NT. Considering the sector as a whole, Peru reaches a level of liberalization of 0.35 and 0.05 for Modes 3 and 4, respectively (Methodology A). With Methodology B, both results are higher, especially for Mode 3.

Finally, Peru made commitments for Passenger transportation in Maritime and Internal Waterways Transport. In both cases, Peru fully liberalized Mode 1 and 3 for MA and Mode 3 for NT. Taking the Transportation sector as a whole, these commitments translate into a total of 0.3 and 0.6 for each of the modes aforementioned, respectively (Methodology A). With Methodology B, Peru’s liberalization level is much higher and reaches 1 for Mode 3 and 0.5 for Mode 1.

2.4 Foreign Investment Regimes

China

A. Treatment of Foreign Investment

Since late 1970s, China has carried out a series of reforms on investment. The government encourages foreign investment into the Chinese market, and has uninterruptedly expanded the scope of investment. Effective and better utilization of Foreign Direct Investment (FDI) is the basic long-term principle for the Chinese government to adhere to.

The Catalogue for the Guidance of Foreign Investment Industries has been revised three times since 1997. The 2nd revision of the Provisional Regulation on Foreign Investment Guidance was completed in 2002 and took effect on April 1, 2002, and the 3rd Catalogue for the Guidance of Foreign Investment Industries was completed in 2004, and took effect on December 13, 2004. In recent years, China has further removed the restrictions on the proportion of foreign equity in investment projects, and opened more sectors to foreign

investment, including telecommunications, urban water supply and drainage, construction and operation of gas and heat distribution network. China has also further opened such service sectors as banking, insurance, distribution, trading right, tourism, telecommunications, transportation, accounting, auditing and legal services. The production and publishing of broadcasting and TV program, and film production is also opened to foreign investors. The timeframe and pace of opening of these markets has been contained in annexes to the Catalogue for the Guidance of Foreign Investment Industries. Foreign investment belonging to the encouraged category will be given preferential policies including exemption from importing equipment tariff and Value Added Tax (VAT) of importing.

The basic laws in China concerning foreign investment are: the Law of the People's Republic of China on Chinese-Foreign Equity Joint Venture; the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Venture; and the Law of the People's Republic of China on Wholly Foreign Owned Enterprises. These three basic laws on FDI have stipulated that the State will not nationalize or expropriate any foreign invested enterprises. Only under special circumstances, for the requirement of social and public interests, foreign invested enterprises may be expropriated in accordance with legal procedures, and appropriate compensation shall be provided.

Upon approval by the National People's Congress and its Standing Committee, China has revised the following laws and regulations at the time given: in October 2000, the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Venture; in October 2000, the Law of the People's Republic of China on Wholly Foreign Owned Enterprises; in March 2001, the Law of the People's Republic of China on Chinese-Foreign Equity Joint Venture; and in July 2001, the Implementation Rules on Law of the People's Republic of China on Chinese-Foreign Equity Joint Venture, including the elimination and cessation of enforcement of requirements on trade and foreign local content, export performance, compulsory technology transfer, and so on. Chinese authorities would not enforce the terms of contracts containing such requirements. The term of foreign exchange balancing⁶¹, permission or rights for importation and investment would not be conditional upon performance requirements set by national or sub-national authorities, or subject to secondary conditions covering, for example, the conduct of research, the provision of offsets or other forms of industrial compensation including specified types or volumes of business opportunities, the use of local inputs or the transfer of technology. Permission to invest, import licenses, quotas and tariff rate quotas would be granted without regard to the existence of competing Chinese domestic suppliers.

In China, foreign invested enterprises mainly include wholly foreign-owned enterprises, equity joint venture and contractual joint venture. China keeps on searching new forms of FDI. The regulations on setting up venture capital companies, foreign invested share companies and foreign invested holding companies have been either promulgated or complemented. The function for Foreign Invested Holding Companies has been further expanded. China has issued the regulation on M&A which allows foreign investors to use the way of M&A to set up foreign invested companies in China. Foreign investors are encouraged to take part in the restructuring and reform of State-owned Enterprises. The government allows foreign investors to play a role in the restructuring and disposal of the assets owned by the Asset Management Corporations.

A new regulation on venture capital that took effect March 1, 2003, which replaced the previous provisional regulations permitting the establishment of foreign-invested venture capital firms, including wholly foreign-owned enterprises, and which aimed at funding high-technology and new technology startups in industries open to foreign investment. The new regulation lowers capital requirements, allows these firms to manage funds directly invested from overseas, and offers the option of establishing venture capital firms under an organizational form similar to the limited partnerships used in other countries.

⁶¹ One of the common measures using by the developing countries for current account control, etc. the requirement for the enterprises seeking for their foreign currency balance by themselves partially or completely.

On February 15, 2007, the Ministry of Finance and the State Administration of Taxation issued the Document of Tax Policy Regarding Promoting the Development of Venture Capital. If an enterprise of venture capital invests the small and medium high-tech enterprises unlisted by the means of stocks more than 2 years (including 2 years), 70% of its investment for such enterprises would be countervailed the enterprises income tax.

China has expanded the business scope and operations of holding companies. A new regulation that took effect in April 2003 made it possible for holding companies to manage human resources across their affiliated companies, and provide certain market research and other services to their affiliates. China has also made efforts to expand the foreign invested enterprises to be listed in the stock market by ways of IPO, or directly purchase the shares of enterprises in the stock market.

Examination and approval procedure are required by the Government for setting up foreign invested enterprises. Efforts have been made to further streamline the examination and approval procedures based on the expansion of the approval authorization from central government to provincial governments for all FDI projects in the encouraged category of the Catalogue for the Guidance of Foreign Investment Industries with no limit on its investment scale, and these projects are not subject to national planning. Many provinces can provide one-stop shop services, and each province has set up the investment promotion center to help investors.

For foreign investment, China abides by the Most Favored Nation (MFN) and the National Treatment requirements. Efforts have been made to keep continuity and stability of FDI policies. Currently Foreign invested enterprises still enjoy preferential treatments in terms of taxation and so on, comparing with domestic enterprises. The Dispute Settlement Centers for Foreign Investors/foreign invested enterprises have been established at both central and provincial level to help investors solving problems.

In order to ensure the transparency related to foreign investment, China promulgates the changes of laws and regulations guiding FDI in time; Compiles and publishes investment regulations on an annual basis; seeks opinions/comments from the Foreign Invested Enterprises before the adjustment of some FDI policies; allows a reasonable transitional period for foreign invested enterprises to make adjustments⁴ or to make a comment on the draft of laws and regulations in some cases; allows businesses and other interested parties to get information on FDI in the government website (www.mofcom.gov.cn). The government website designed especially for FDI (www.fdi.gov.cn) has been set up.

B. Special Investment Regimes and/or Zones

China had established a number of special economic areas where more open policies were applied, including 5 Special Economic Zones (SEZs), 14 open coastal cities, 6 open cities along the Yangtze River, 21 provincial capital cities and 13 inland boundary cities. Those special economic areas enjoyed greater flexibility in utilizing foreign capital, introducing foreign technology and conducting economic cooperation overseas. From January.1, 2008 the new setting-up foreign enterprises in the special economic zones will pay income tax by the rate 25%, same with the Chinese enterprises.

Continuous efforts have been made to encourage foreign investors to invest in new and high-tech industry, fundamental and related industries, conduct technological renovations, and set up R&D centers in China. Many implementing regulations have been promulgated. Preparation work for the revision of the Advantageous Industrial Catalogue in Central and Western China has also been started in order to encourage foreign investors to invest in central and western China. From January.1, 2008, all high-tech enterprises whatever in or not in the special economic zones will be given the preferential enterprises income tax rate, 15%.

Peru⁶²

A. General Framework

Peru has established a stable legal framework to attract domestic and foreign direct investment. The current Constitution, approved in 1993, includes a series of provisions that guarantees a favorable juridical framework to promote the development of private investment. Among these principles, the Constitution ensures:

- free private initiative exercised in a market-based social economy
- free competition and prohibition of restrictive practices and the abuse of dominant or monopolistic positions
- freedom to hire workers
- special powers to the State to sign contract laws that establish guarantees
- national treatment
- the possibility to submit investor-State controversies to national or international arbitration
- freedom to hold and dispose foreign currency
- inviolability of property and establishment of conditions for exceptional causes that empower expropriation, specifically, in-advance cash payment of a fair-value; equal treatment on taxation matters; and the express acknowledgement that no tax may have confiscating effects.

Peru's legal investment framework is based on the national treatment principle, under which foreign investors are allowed without restrictions and previous authorization in most of the economic activities. Acquisition of shares from domestic shareholders is allowed through the stock exchange or any other mechanism. In terms of ownership, foreign individuals or corporate bodies cannot own mines, lands, forest lands, waters, fuels and energy sources, within 50 kilometers from the borders, except in the case of public necessity, previously approved by the Ministry Council.

No selection mechanisms or performance requirements are applied or demanded to foreign investors. All legal provisions establishing production methods or production indexes have been repealed. No prohibition or requirement to use certain inputs or technological processes, and in general, no intervention in production processes of companies over the type of economic activity, installed capacity, or any other similar economic factor is allowed. Exceptions are made for legal provisions over hygiene and industrial security, environment and health.

PROINVERSIÓN, Peru's private investment promotion agency is the institution in charge of promoting domestic and foreign investment in the country. As part of its duties, PROINVERSIÓN is in charge of designing, proposing and conducting the Peru's investment policy. Also, it promotes, through concessions, the participation of private investment in infrastructure public works and utilities.

B. Legal Stability Agreements

In cases where foreign investments enjoy benefits derived from the subscription of legal stability agreements with the State, the latter guarantees the legal stability to the former through the signing of agreements with law-contract status, which are subject to the general provisions on contracts established in Peru's Civil Code.

More specifically, the State guarantees foreign investors: a) national treatment; b) stability of the Income Tax System, applicable to the investor, in force when the agreement is concluded; c) free availability of foreign currency and remittance of profits, dividends and royalties. Also, the State grants stability to the enterprise receiving the investment on: a) labor engagement

⁶² For additional information, see PROINVERSIÓN website at <http://www.ProInversión.gob.pe>

system in force when the agreement is concluded; b) export promotion system in force when the agreement is concluded; and c) Income Tax System.

Any investor or enterprise receiving the investment can sign these legal stability agreements. However, to sign this kind of agreement, investors from privatization or concession processes and the enterprises involved need to fulfill the following commitments: a) to make in a two-year term capital contributions for an amount not below US\$ 5 million in any economic activity (except mining and hydrocarbon sectors, where the amounts must be not below US\$ 10 million); b) to acquire more than 50% of shares of an enterprise participating in the privatization process; c) to make capital contributions to the enterprise included in the concession contract, fulfilling the investment requirements established in this contract.

In the case of the enterprises receiving the investments flows, it is required that: a) one of its shareholders signs the corresponding Legal Stability Agreement; b) in case tax stability is requested, contributions shall account for a 50% increase in relation to the total amount of capital and reserves and shall be destined to expand production capacity or contribute to the company's technological development; c) the privatized enterprise transfers more than 50% of its shares; and d) the enterprise benefits from the concession contract.

Legal stability agreements are valid for 10 years. In the case of concessions, its term shall be extended to the term set in the concession contract. Under these agreements, any dispute is derived to arbitration tribunals. After the legal stability agreement expires, this cannot be renewed. To sign a new agreement, the investor needs to commit to new investment contributions. In this case, this guarantees the stability of the regulations in force by the date the new agreement is signed.

C. Other incentives to investors

Peru's investment laws also provide some specific incentives to investors:

- Anticipated Recovery Regime: Individuals or corporate bodies engaged in the production of goods or services for export can get a refund of the Value-Added Tax paid on imports or domestic acquisitions of capital goods⁶³.
- Incentives to agriculture: Individuals or corporate bodies involved in agriculture or the agribusiness sector are favored with lower Income Tax rates, accelerated depreciation, tax refunds and access to hire workers under more favorable labor and social security systems⁶⁴.
- Incentives to aquaculture: Individuals or corporate bodies involved in agriculture or the agribusiness sector are favored with lower Income Tax rates and access to hire workers under more favorable labor and social security systems.
- Amazon Region Law: Special tax conditions have been created to favor private investment in this Region if engaged in the following activities: agro-farming, aquaculture, fishing, tourism, forestry extraction and manufacturing activities related to the processing, transformation and commercialization of primary goods from the aforementioned activities.

D. Special Zones

- a) Centers of Exportation, Transformation, Industry, Commercialization and Services – CETICOS

CETICOS are special customs zones, whose purpose is to create development centers through industrial, maquila, assembling or storage activities. CETICOS are located in the port

⁶³ Legislative Decree No.973 specifies the conditions for the interested parties to benefit from this regime. This regime also benefits investors that have not started their commercial activities and companies which signed contracts with the State to execute projects related to the development, exploration or exploitation of natural resources and the development of infrastructure works and public utilities.

⁶⁴ Agribusiness related to wheat, tobacco, oleaginous seeds, oil and beer are excluded. Activities within the Province of Lima and the Constitutional Province of Callao are excluded as well.

cities of Paita, Ilo and Matarani. Companies settled at CETICOS are tax exempted until December 31st, 2012.

Agro-exporting activities can be developed at CETICOS. Primary transformation of agro-farming activities is allowed within the CETICOS.

b) Tacna Duty Free Zone (ZOFRATACNA)

Industrial, agribusiness, assembly and service activities can be carried out in the Tacna Duty Free Zone. These activities include the storage, distribution, disassembly, packaging, marking, labeling, division, exhibition and classification of merchandise, among others. In addition, the repairing, reconditioning and maintenance of machinery and equipment used in mining is allowed in the Tacna Duty Free Zone.

Companies settled in ZOFRATACNA in relation to the aforementioned activities are tax exempted.

c) Puno Special Economic Zone (ZEEDEPUNO)

Currently, the Peruvian Government is implementing a Special Economic Zone in the Department of Puno. The activities to be carried out in ZEEDEPUNO are going to be similar to the ones allowed in ZOFRATACNA⁶⁵. In the same way, the companies to be settled in ZEEDEPUNO to participate in these activities will be tax exempted as well.

E. Bilateral Investment Treaties (BIT)

Aiming to consolidate a stable and predictable investment climate, Peru is having an active participation in the negotiation of investment treaties with several countries. All the bilateral trade negotiations include a chapter on investment, whose objective is to promote and protect investments. If Peru already has in force a Bilateral Investment Treaty with the other country involved in the negotiations, a chapter on investment to deepen the existing BIT is negotiated.

Peru's recent BIT and investment chapters are based on a negative list approach, with national treatment principle applying from the establishment phase of the investment.

At present, Peru has 29 BIT in force with the following countries: Argentina, Australia, Bolivia, Canada, Colombia, Chile, China, Cuba, Czech Republic, Denmark, Ecuador, El Salvador, Finland, France, Germany, Italy, Korea, Malaysia, Norway, Netherlands, Paraguay, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, Thailand, United Kingdom and Venezuela.

Also, Peru has already ratified its Free Trade Agreement with United States, which includes an investment chapter, and approved a BIT with Belgium.

2.5 Trade Remedies

China

A. Safeguards

Pursuant to the provisions of the Foreign Trade Law of the People's Republic of China and China's WTO commitments, the Regulations of the People's Republic of China on Safeguards was formulated, which became effective on January 1, 2002, and were revised on March 31, 2004, according to the Decision of the State Council on Revising the Regulations on Safeguards of the People's Republic of China.

⁶⁵ However, the Ministry of Economic and Finance together with the Ministry of Production have the faculty to ban certain activities by means of a Supreme Decree.

China has also formulated two administrative rules regarding safeguards, the Provisional Rules on Initiation of Safeguards Investigation and the Provisional Rules on Hearing in Safeguards Investigation, promulgated by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in Decree No. 9 and No. 11 respectively on February 10, 2002. These two rules came into effect on March 13, 2002. In addition, The Rules on Investigations and Determinations of Industry Injury for Safeguards were issued on November 12, 2003 and took effect 30 days later.

Up to this date, only one investigation into safeguard measures has been initiated and duly notified to the WTO Safeguards Committee. The investigation was related to Partial Iron & Steel Products (provisional and final measures were adopted).

B. Anti-dumping Measures and Countervailing Duties

The State Council issued the new Regulations of the People's Republic of China on Anti-Dumping, which became effective on January 1, 2002. In early 2002, the MOFTEC, which at that time was responsible for making determinations of dumping under the new regulations, issued several sets of rules covering initiation of investigations, questionnaires, sampling, verifications, information disclosure, access to non-confidential information, price undertakings, hearings, interim reviews, refunds and new shipper reviews. The State Economic and Trade Commission (SETC), which at that time was responsible for making determinations of injury, issued rules covering industry injury investigations and public hearings in January 2003. According to the Decision of the State Council on Revising the Regulations on Anti-dumping of the People's Republic of China, the Regulations of the People's Republic of China on Anti-Dumping were revised on March 31, 2004. The Rules on Investigations of Industry Injury for anti-dumping were issued on November 12, 2003 and took effect 30 days later. Meanwhile, this new rules replaced the rules that SETC issued in early 2003.

In August 2002, the Supreme People's Court issued Rules Regarding Supreme People's Court Hearings on Judicial Review of International Trade Disputes, which provide guidance concerning judicial review of administrative agency decisions affecting international trade, including those in the Anti-dumping area. In September 2002, the Supreme People's Court issued Provisions of the Supreme People's Court on Certain Issues Concerning the Applicability of Laws in the Hearing and Handling of Antidumping Administrative Cases.

According to the above laws and regulations, countervailing and anti-dumping duties may be applied to goods whose importation into the country injures or threatens to injure the relevant national industry on account of reduced prices owing to artificial conditions, such as subsidies or dumping, in the export markets concerned.

By the end of June of 2006, China had initiated 45 anti-dumping investigations and 1 safeguarding on products from over 20 countries and regions, covering 45 kinds of products including chemicals (30), light industry (2), textile (3), steel (3), electronic (1), paper products (5), pharmacy (1) and so on. With regard to these measures, some exporters were granted 0% duty free; some exporters were given price undertakings treatment; and certain members were excluded from the investigation on the basis of negligible import volume. Up to now, Chinese investigation authorities have not initiated any investigation on countervailing measure.

C. Institutional Arrangements

In March 2003, a general reorganization of the State Council ministries and commissions consolidated the safeguard functions of the MOFTEC and SETC into the newly formed MOFCOM. Presently, the Ministry of Commerce (MOFCOM) and the Tariff Commission of the State Council (TCSC) are the competent authorities of safeguard matters.

According to the Regulations on Safeguards, the MOFCOM is in charge of the investigation and determination of increase of imports, and also responsible for investigation and determination of injury. If a definitive safeguard measure takes the form of quantitative restriction, a decision shall be made and published by the MOFCOM as the foreign trade administrative authority. TCSC is to decide whether to increase tariff level as provisional or final safeguard measure, upon proposal made by MOFCOM on the basis of investigation findings. The reason that MOFCOM and TCSC decide upon different forms of safeguard measures is to ensure the uniformity in administration of trade laws and regulations, as required by Article 10 of GATT 1994. While the MOFCOM is the government agency to formulate and enforce administrative measures concerning trade, TCSC is in charge of matters relating to formulation of custom tariffs.

Table 2.7 Trade Remedy Regime

Regulation	Date
Regulations on Antidumping	Effective 1 Jan 2002 and revised on March 31, 2004
Provisional Rules on Initiation of Antidumping Investigations	Effective 13 Mar 2002
Provisional Rules on Questionnaire in Antidumping Investigation	Effective 15 Apr 2002
Provisional Rules on Public Hearing in Antidumping Investigations	Effective 13 Mar 2002
Provisional Rules on Sampling in Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on Disclosure of Information on Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on On-the-Spot Verification in Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on Access to Non-Confidential Information in Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on Price Undertakings in Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on New Shipper Review in Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on Refund of Antidumping Duty	Effective 15 Apr 2002
Provisional Rules on Interim Review of Dumping and Dumping Margin	Effective 15 Apr 2002
Rules on Investigations of Industry Injury for Antidumping	Effective 12 Dec 2003
Regulations on Anti-subsidy	Effective 1 Jan 2002 and revised on March 31, 2004
Provisional Rules for Initiation of Countervailing Investigation	Effective 13 Mar 2002
Provisional Rules for Questionnaire in Countervailing Investigation	Effective 15 Apr 2002
Provisional Rules for On-the-spot Verification of Countervailing Investigation	Effective 15 Apr 2002
Provisional Rules for Conduct of Public Hearing in Countervailing Duty Investigation	Effective 13 Mar 2002
Rules on Investigations of Industry Injury for Countervailing Measures	Effective 12 Dec 2003
Regulations on Safeguard	Effective 1 Jan 2002 and revised on March 31, 2004
Provisional Rules on Initiation of Safeguard Investigations	Effective 13 Mar 2002
Provisional Rules on Hearing in Safeguard Investigations	Effective 13 Mar 2002
Rules on Investigations of Industry Injury for Safeguard	Effective 12 Dec 2003
Provisions of the Supreme People's Court on Certain Issues Concerning the Applicability of Law in the Hearing and Handling of Antidumping Administrative Cases	Effective 1 Jan 2003
Provisions of the Supreme People's Court on Certain Issues Concerning the Applicability of Law in the Hearing and Handling of Anti-subsidy Administrative Cases	Effective 1 Jan 2003

Source: edited according to Foreign Economic and Trade Gazette of the Ministry of Commerce of the People's Republic of China

The Bureau of Fair Trade for Imports and Exports (BOFT) of the MOFCOM is in charge of investigation and determination of dumping and subsidy; The Bureau of Industry Injury Investigation (BIII) of the MOFCOM is responsible for investigation and determination of Injury. If a provisional countervailing measure takes the form of undertakings, a decision shall be made and published by MOFCOM as the foreign trade administrative authority. TCSC decides whether to levy provisional or definitive anti-dumping duty and countervailing duty, including the level of duty, upon proposal made by the MOFCOM on the basis of the

investigation findings. However, the level of the duty decided by the TCSC cannot exceed the dumping margin determined by the MOFCOM; no countervailing duties shall be levied in excess to the amount of subsidy as determined in the final determination made by the MOFCOM.

The MOFCOM deals with the other issues related to anti-dumping and countervailing measures, including consultation, notifications, dispute settlement concerning anti-dumping and countervailing measures and so on, other than the above functions carried out by the Tariff Commission.

Peru

A. Safeguards

On January 1st, 1995, the WTO Agreement on Safeguards was incorporated into Peru's domestic laws. The application of safeguards is based on the Supreme Decree No. 020-98-ITINCI, which was later modified by the Supreme Decree No. 017-2004-MINCETUR. Also, in 2003, Peru issued the Supreme Decree No. 023-2003-MINCETUR, which set a series of regulations on transitional safeguards under the rules and commitments accepted by the Members of the WTO.

The investigations on safeguards are conducted by INDECOP's Inspecting Committee on Dumping and Subsidies (CFDS). Nonetheless, the application of safeguard measures is responsibility of a Multisectoral Committee comprised by the Minister of Economics and Finance, Minister of Foreign Trade and Tourism and the Minister of the sector where the affected domestic industry belongs.

Peru has applied safeguard measures only two times⁶⁶. In December 2003, provisional safeguards to the importation of textiles and apparel originating from China were imposed. This measure was based on the possibility to use this mechanism under the Article 16 of the Protocol on the Accession of the People's Republic of China to the WTO. This measure was in effect for 200 days and no final safeguards were imposed afterwards.

In August 2004, Peru started an investigation to evaluate the possibility to impose a general safeguard to the importation of textiles and apparel. In October 2004, a provisional safeguard for 200 days was imposed, based on the Article 6 of the WTO Agreement on Safeguards. However, in May 2005, Peru decided not to apply final safeguards to the importation of the aforementioned goods.

B. Anti-dumping and countervailing duties

On January 1st, 1995, the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 and the WTO Agreement on Subsidies and Countervailing Measures were incorporated into Peru's domestic laws.

The application of anti-dumping and countervailing measures is based on the Supreme Decree No. 006-2003-PCM that regulates the rules established in the aforementioned WTO Agreements⁶⁷. Under this regulation, investigations on dumping and subsidies are conducted at lower discretionary levels compared with former regulations on the matter (Supreme Decrees No. 043-97-EF, No. 144-2000-EF and No. 225-2001-EF) in order to bring more transparency and predictability to the process.

⁶⁶ Also, within the Andean Community framework, Peru imposed two times safeguard measures since 1995. From September 2001 to November 2003, it imposed a safeguard measure on the importation of aluminum bars and pipes from the Andean Community countries. In addition, safeguards on some oleaginous goods from Colombia have been imposed since November 2003.

⁶⁷ The Supreme Decree No. 006-2003-PCM was notified to WTO in March 2003.

The CFDS is the body in charge of the investigation of dumping and subsidies cases. In this way, any domestic producer who deems to be harmed or threatened by the importation of similar goods under dumping conditions or unfairly favored by subsidies has the right to request the CFDS to start an investigation to determine the existence of dumping or subsidies, as well as the damage caused to the domestic production due to the importation of these goods.

The CFDS is the administrative authority at first instance to resolve the investigations on dumping and subsidies. It only imposes anti-dumping measures and countervailing duties if the investigation has proved the following elements:

- The existence of dumping or subsidies favoring the goods under investigation.
- The existence of serious injury or threat thereof to a domestic industry producing the similar goods.
- The causal link between the imports subject to dumping or subsidies and the alleged damage caused to the domestic industry producing the similar goods.

The CFDS decisions can be appealed to INDECOPI's Tribunal, which resolves in second and final administrative instance. Both decisions on first and second instances can be appealed directly before Peru's Supreme Court.

From January 1998 to June 2007, Peru completed 15 anti-dumping investigations on goods imported from China. 13 of these investigations resulted in the imposition of anti-dumping measures. Currently, 11 of these measures are in effect.

**Peru: Antidumping Investigations on Imported Goods from China
From January 1998 to June 2007**

Product	Date - Start of Investigation	Decision after Investigation	Current Status
Electricity single-phased meters	Feb 7, 1998	AD measures	Revoked on Sep 26, 2005
Footwear with outer soles	Feb 5, 1999*	AD measures	In force since Mar 7, 1997
Bodyboard surf-boards and kickboards	Sep 2, 1999	AD measures	In force since Oct 13, 1999
Weave, plain, twill and fabric made of polyester and polyester and cotton	Apr 27, 2001**	AD measures	In force since Aug 1, 1995
Water meters	May 26, 2001***	AD measures	Revoked on Sep 18, 2003
New pneumatic tires	Jun 6, 2001	AD measures	In force since Sep 17, 2001
Stainless steel cutlery	Jun 7, 2001	AD measures	In force since Feb 19, 2002
Slide fasteners	Oct 18, 2001	AD measures	In force since Nov 15, 2001
Woven plain made of poplin or polyester	Jul 19, 2002	Request denied	-
Hinges of base metal	Jul 27, 2003	AD measures	In force since Dec 17, 2003
Tableware, kitchenware and other articles made of porcelain	Oct 18, 2003	AD measures	In force since Oct 24, 2004
Stainless steel pots, teapots and frying pans	Jan 25, 2004	AD measures	In force since Aug 23, 2004
Weave made of cotton, bleached, unbleached and dyed	Nov 13, 2004	AD measures	In force since Nov 12, 2005
Denim weave	Sep 8, 2005	AD measures	In force since Jul 27, 2006
Footwear with uppers of textile	May 23, 2006	Request denied	-

* Request to extend AD measures to footwear entering under two unaffected tariff lines

** Request to keep AD measures applied since August 1, 1995

*** Request to keep AD measures applied since November 24, 1995

Source: INDECOPI

With respect to the imposition of countervailing measures, none of the investigations on subsidies started during this period affected any product from China. Peru only conducted 3 investigations in this regard. One of them was declared groundless and at present, just the countervailing measures on the importation of olive oil from the European Union are in effect.

2.6 China's Commitments Regarding the WTO

China became a WTO member on December 11, 2001 and it has abided by WTO fundamental principles and general applicable stipulations since accession. It would ensure uniform administration and transparency of the trade regime and non-discrimination. It also makes commitments in trade in goods, trade in services and trade-related intellectual property regime, etc. China's Protocol of Accession, accompanying Working Party Report and Goods and Services Schedules are available on www.mofcom.gov.cn.

Like all acceding WTO members, China agreed to assume the obligations of more than 20 existing multilateral WTO agreements, covering all areas of trade in goods, trade in services, as well as IPR etc. China made a commitment that upon accession it would participate in the

Information Technology Agreement ("ITA") and would eliminate tariffs on all information technology products as set out in China's schedule, furthermore, China would eliminate all other duties and charges for ITA products. China began to implement relevant tariff reduction on January 1, 2002 and became a member of ITA on April 24, 2003.

One of the most important commitments made by China in acceding to the WTO was in the area of trading rights. The area of trading rights covers both the right to import products into, and export products from, China. In its accession agreement, China committed to substantially liberalize in the area of trading rights. Specifically, China committed to eliminate its system of examination and approval of trading rights, and make full trading rights automatically available for all Chinese enterprises, Chinese-foreign joint ventures, wholly foreign-owned enterprises and foreign individuals, including sole proprietorships, within three years of its accession, or by December 11, 2004, and trading rights will be granted in a non-discriminatory and non-discretionary way, and any requirements for obtaining trading rights will be for customs and fiscal purposes only, and will not constitute a barrier to trade.

Prior to the adoption of an automatic trading rights system, China committed that it would eliminate for both Chinese and foreign-invested enterprises any export performance, trade balancing, foreign exchange balancing and prior experience requirements, such as in importing and exporting, as criteria for obtaining or maintaining the right to import and export. This commitment took effect immediately upon China's accession (on December 11, 2001). China further committed to expand the availability of trading rights pursuant to an agreed schedule covering the first three years of its WTO membership. First, China committed that it would make trading rights available to Chinese enterprises immediately upon its accession, subject to certain minimum registered capital requirements, to be gradually decreased during the three-year transition period (ending December 11, 2004). The minimum registered capital was to be set at RMB 5 million on December 11, 2001, and then reduced to RMB 3 million one year later (December 11, 2002) and to RMB 1 million two years later (December 11, 2003) before being eliminated three years later (December 11, 2004). Second, China committed that it would make full trading rights available to joint ventures with minority foreign ownership beginning not later than one year after China's accession, except with regard to those goods still reserved for state trading under China's accession agreement. Third, China committed that it would make these same trading rights available to joint ventures with majority foreign ownership beginning no later than two years after China's accession.

China Promulgated the Revised Foreign Trade Law of the People's Republic of China, which became effective on July 1, 2004. Compare to the former Foreign Trade Law, it allows individuals to engage in foreign trade dealings, so the new revised law has extended the scope of foreign trade dealers to individuals who engage in foreign trade dealings in compliance with this law, and other relevant laws and administrative regulations. Furthermore, it has abolished the examination and approval procedures of import and export of goods and technologies dealings, and it has only required foreign trade dealer to register as required.

China's accession agreement also includes several special mechanisms. These include a unique, China-specific safeguard provision allowing a WTO member to restrain increasing Chinese imports that disrupt its market (available for 12 years), a special textile safeguard (available for 7 years) and the continued ability to utilize a special non-market economy methodology for measuring dumping in anti-dumping cases against Chinese companies (available for 15 years). In addition, the WTO also created a special multilateral mechanism for reviewing China's compliance on an annual basis. Known as the Transitional Review Mechanism, this mechanism operates annually for 8 years after China's accession, with a final review by year 10 or the earlier date decided by the General Council.

We should note that China has been fulfilling its WTO accession commitments in a positive and serious spirit. Great improvement has been made in terms of legislative construction, market access opportunities, policy transparency since China accession to the WTO. China should also enjoy its rights while fulfilling its commitments, but there are some unfair treatments to China. For example, the market economy status of China and the implementation of Annex 7 to our accession protocol by certain members. Despite the fact

that China has made remarkable achievements over the past two decades in the establishment of its market-economy, and that Chinese companies are now totally driven by Market Forces in their business operations, we notice that few Chinese companies have been granted market economy treatment. To large extent, this is due to the fact that those criteria and procedures provided for in China's Protocol of Accession, which justifies fair treatment towards Chinese companies meeting market conditions, are not properly reflected in the anti-dumping rules and practices maintained by some Members. These inconsistencies seriously impair the interests of Chinese companies, and impede the normal trade between China and these members.

Table 2.8 Selected Aspects of China's WTO Accession

<p>Trade in goods—China's average bound tariff level will decrease to 15% for agricultural products. The range is from 0 to 65%, with the highest rates applied to cereals. For industrial goods the average bound tariff level will go down to 8.9% with a range from 0 to 47%, with the highest rates applied to photographic film , automobiles, and related products. Some tariffs will be eliminated and others reduced mostly by 2004 but in no case later than 2010.</p>
<p>Trading and investment regimes. National treatment/non-discrimination—Measures and practices that discriminate against imported products or foreign companies will be removed. Trade-Related Aspects of Intellectual Property Rights (TRIPs)—China will enforce the rights protecting intellectual property within China. Trade-Related Investment Measures (TRIMs)—Foreign investment approvals will no longer be subject to mandatory requirements (e.g., technology transfer or local content requirements). Agricultural subsidies—China has agreed to limit domestic agricultural subsidies to 8.5 percent of the value of production (i.e. less than the 10 percent limit allowed for developing countries under the WTO Agreement on Agriculture), and to eliminate all agricultural export subsidies upon WTO entry. Export subsidies—Upon accession, all forms of export subsidies inconsistent with WTO rules, including grants and tax breaks linked to export performance, were eliminated.</p>
<p>Trade in services—foreign access is to be ensured through transparent and licensing procedures in various sectors, including banking and insurance, legal and other professional services, telecommunications, and tourism. Specifically: Telecoms—Upon China's accession, foreign service suppliers will be permitted to establish joint venture enterprises, without quantitative restrictions, and provide services in several cities. Foreign investment in the joint venture shall be no more than 25%. Within one year of accession, the areas will be expanded to include services in other cities and foreign investment shall be no more than 35%. Within three years of accession, foreign investment shall be no more than 49%. Within five years of accession, there will be no geographic restrictions. Banking—foreign financial institutions will be permitted to provide services without client restrictions for foreign currency business upon accession; local currency services to Chinese companies within two years (by December 2003); and services to all Chinese clients within five years (by December 2006) Insurance—Foreign non-life insurers will be permitted to establish as a branch or as a joint venture with 51% foreign ownership. Within two years of China's accession, foreign non-life insurers will be permitted to establish as a wholly-owned subsidiary. Upon accession, foreign life insurers will be permitted 50% foreign ownership in a joint venture with the partner of their choice. For large scale commercial risks, reinsurance and international marine, aviation and transport insurance and reinsurance, upon accession, joint ventures with foreign equity of no more than 50% will be permitted; within three years of China's accession, foreign equity share shall be increased to 51%; within five years of China's accession, wholly foreign-owned subsidiaries will be permitted.</p>
<p>Trading partner safeguards. Anti-dumping. Under WTO agreement, other members can invoke "non-market economy" provisions to determine dumping cases for 15 years following accession. Non-market economy provisions imply that domestic prices cannot be used as a reference point and make it much easier to reach a positive finding in an antidumping investigation. Transitional product-specific safeguard mechanism—As provided under the WTO Agreement on Safeguards, a country may impose restrictions on imports if it can demonstrate that they cause or threaten to cause serious injury to domestic firms producing similar products.</p>

Source: Edited according to China's Protocol of Accession and Working Party Report

3 ECONOMIC RELATIONS, CHALLENGES AND PROSPECTS BETWEEN CHINA AND PERU

3.1 Trade in Goods

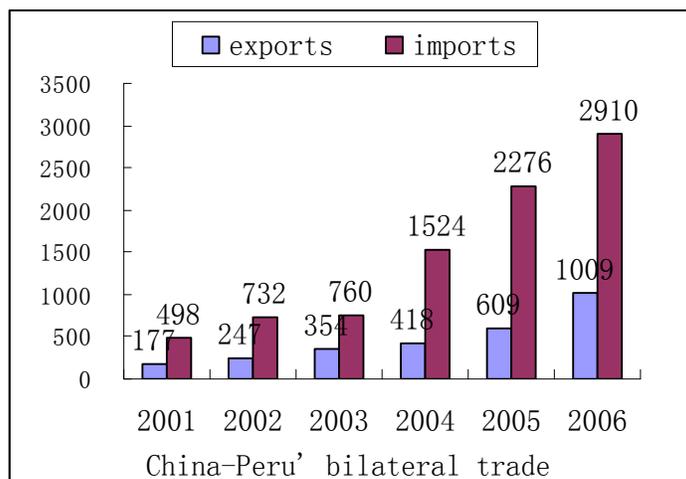
China

With the development of the Chinese-Peruvian trade and economic relations, and the complementarities in their economic structures, the two countries have witnessed continuous expansion of economic and trade cooperation, as evidenced by the rapid increase in the economic and trade activities.

According to the statistics issued by China Customs, bilateral trade volume totaled US\$ 3919 million in 2006, increasing by 35.80% over the previous year, with US\$ 1009 million exports and US\$ 2910 million imports on the Chinese side, increasing by 65.63% and 27.82% respectively. From January till March 2007, bilateral trade volume totaled US\$ 1256, up by 61.49% over the same period of the previous year, with US\$ 287 million exports and US\$ 969 million on the Chinese side, up by 54.40% and 63.72% respectively over the same period of the previous year. China is currently the 2nd largest trade partner of Peru whereas Peru is China's sixth largest trade partner in Latin America.

The primary items that China exports to Peru are mechanical & electronic products, high and new technological products, textile products and garments, etc. while China's imports are mainly fish flour and mineral products. China has long faced an unfavorable balance of trade with Peru, which has been increasingly widening in recent years. China's trade deficit from 1998 to 2006 totaled US\$ 6,662 million.

Chart 3.1 Bilateral Trade in Goods



Source: the Ministry of Commerce.

**Table 3.1 Chinese-Peruvian trade in main category in 2006
 (thousands of US\$)**

	Exports	Imports
Category 1	626	76,205
Category 2	5,154	550,976
Category 3	7,320	2,059,645
Category 4	139,792	21,386
Category 5	31,018	592
Category 6	17,072	32,523
Category 7	159,578	19,385
Category 8	48,955	136
Category 9	180,728	148,608
Category 10	418,278	217
Total	1,008,523	2,909,672

Note: The products are classified mainly on the basis of the classification standard of Chinese customs.
 Category 1 includes Chinese customs' Class 1 – Alive animals and animal products; Class 2: vegetable products; Class 3 – animal/vegetable fats, oils and waxes, prepared edible fats.
 Category 2 includes Chinese customs' Class 4 – Prepared foodstuffs, beverages, spirits, vinegar, tobacco and manufactured tobacco products.
 Category 3 includes Chinese customs' Class 5 – Mineral products.
 Category 4 includes Chinese customs' Class 6 –Products of the chemical and allied industries; Class 7 – plastics and articles thereof; rubber and articles thereof.
 Category 5 includes Chinese customs' Class 8 –Raw hides and skins, leather, furskins and articles thereof.
 Category 6 includes Chinese customs' Class 9 –Wood and articles of wood, wood charcoal, cork, wickerwork; Class 10 –cellulosic material, waste paper, paper, paperboard and articles thereof.
 Category 7 includes Chinese customs' Class 11 – Textiles and textile articles.
 Category 8 includes Chinese customs' Class 12 – footwear, headgear, umbrellas, feathers and articles made therewith, artificial flowers, articles of human hair; Class 13 – Mineral material products, ceramic products, glass and glassware; Class 14 – natural or cultured pearl, precious stones, precious metals.
 Category 9 includes Chinese customs' Class 15 – Base metals and articles of base metal.
 Category 10 includes Chinese customs' all other miscellaneous products.

Peru

During the last years, Peru has placed the promotion of international trade as one of its main priorities. As a result, Peruvian global trade, exports plus imports, reached US\$ 39,052 millions in 2006. It is important to highlight that, for the 2002-2006 period, the trade balance has showed an increasing surplus, explained by the improvement of Peru's terms of trade.

The following table shows, on the one hand, that the amount exported during 2006 reached US\$ 23,779 millions, showing a trend with growth rates of over 35% since 2004, and with an average rate of 33% for all the period in analysis. On the other hand, Peruvian global imports also showed a positive trend, with annual growth rates of around 20% as from 2004. Consequently, Peru's trade balance reached US\$ 8,429 millions in 2006 representing the fifth consecutive year of trade surplus.

Peru's Foreign Trade 2002-2006
(millions of US\$)

Trade Flow	2002	2003	2004	2005	2006
Exports	7,665	8,995	12,716	17,273	23,779
Imports	7,515	8,440	10,130	12,543	15,312
Trade Balance	150	555	2,586	4,730	8,467
Trade Volume	15,180	17,435	22,846	29,816	39,091
Growth rate %		2003	2004	2005	2006
Exports		17.4%	41.4%	35.8%	37.7%
Imports		12.3%	20.0%	23.8%	22.1%

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

Peru directs its exports mainly to three regions: America, Europe and Asia. In first place, America represents on average 51.4% of Peru's exports. Within this group, Peru's most important partners are the United States, Chile and Canada. In second place, Europe demands on average 27.9% of Peru's exports. Within this group, Peru's most important partners are Switzerland, Spain, Germany and the United Kingdom. In third place, Asia represents 19.6% of exports. Within this group, exports appear very concentrated in China and Japan, being the former Peru's second export destination among all trading partners.

Peruvian Exports by Region 2002-2006
(millions of US\$)

Region	2002	2003	2004	2005	2006	Average % Particip. 02-06
Africa	35	33	54	66	121	0.44%
America	3,436	4,152	6,554	9,939	12,104	51.38%
Asia	1,454	1,588	2,502	3,306	4,920	19.55%
Europe	2,678	3,119	3,502	3,829	6,503	27.87%
Oceania	39	58	57	67	48	0.38%
Rest of the World	24	45	47	66	83	0.38%
Total	7,665	8,995	12,716	17,273	23,779	100.00%

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

It is important to mention that, among these three main destinations, both America and Asia have shown a very dynamic expansion in recent years, displaying an annual average growth rate of 37.0% and 35.6%, respectively, for the 2002-2006 period. The exports destined for Europe, in contrast, show some degree of stability, with relatively low growth rates, with the exception of year 2006.

Peruvian Exports' Growth Rates by Region 2002-2006
(millions of US\$)

Region	2003	2004	2005	2006	Annual Average Growth 02-06
Africa	-5.0%	63.9%	22.2%	82.5%	36.50%
America	20.8%	57.9%	51.6%	21.8%	37.00%
Asia	9.3%	57.5%	32.1%	48.8%	35.60%
Europe	16.5%	12.3%	9.3%	69.8%	24.80%
Oceania	50.3%	-0.8%	17.2%	-28.4%	5.70%
Rest of the World	86.2%	4.4%	41.1%	25.5%	36.20%

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

As mentioned above, within the Asian Region, Peru's two main trading partners are China and Japan, representing together about 70% of the Peruvian exports to this market. However, in the last five years, China's average participation has more than doubled Japan's share.

**Peruvian Exports to Asia
(millions of US\$)**

Trade Partner	2002	2003	2004	2005	2006	Average 02-06	%
China	598	676	1,245	1,871	2,269	1,332	48.3%
Japan	374	390	554	606	1,231	631	22.9%
Rep. of Korea	168	176	203	227	548	265	9.6%
Chinese Taipei	110	147	242	301	420	244	8.9%
India	22	19	50	79	102	54	2.0%
Hong Kong, China	31	30	29	46	42	36	1.3%
Thailand	26	27	31	25	65	35	1.3%
Indonesia	25	23	22	36	30	27	1.0%
Philippines	14	11	9	7	45	17	0.6%
Singapore	7	16	11	5	5	9	0.3%
Malaysia	9	6	12	9	7	9	0.3%
Others	70	67	93	94	156	96	3.5%
Total Asia	1,454	1,588	2,502	3,306	4,920	2,754	100.0%

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

Even so, China's relevance as a Peruvian trade partner has not always been the same. Its leadership as the main Peruvian export market in Asia began to emerge during the second half of the nineties. During the period between 1996 and 2006, the annual average growth rate of Peruvian exports to China was 18.5%. This shows a sustained trend of increases that were temporarily stopped between 1997 and 1998 when the Peruvian export level to Asia decreased in 50.1% because of the strong financial crisis that hit markets in Asia and the Niño Phenomenon (1998) which negatively affected Peru's exporting performance.

Previously, during the 1980-1985 period, after experimenting an accelerated growth (30.5%) in the first year, Peruvian exports to Asia decreased considerably through the next four years. At that time, Peruvian exports to China, NIE-4⁶⁸ and other Asian economies showed constant growth rates along with a low share in total exports. Then, between 1986-1990, Peruvian exports to Asia followed again a swinging performance, as they first showed an average growth of 28.9% between 1987 and 1989, but later experimented a huge fall until 1991.

It was not until the first half of the nineties that Peru recorded an export boom towards the Asian market. During this period, Peruvian exports to each of its main destinations registered a sustained growth and historically high rates, of 12.7% to Japan, 19.7% to NIE-4, and 50.5% to China and ASEAN-4⁶⁹. As a result of this growth, in 1996, exports to China exceeded the level destined to Japan.

During the first year of the 1996-2000 period, exports towards the Asia Region followed an increasing path not seen since the early nineties, which was interrupted during the period between 1997 and 1998, caused by the aforementioned crisis. The recovery process started in 1999, and consolidated during the present decade.

During the 2001-2006 period, Peru recorded an massive growth of its exports to Asia at an annual average growth rate of 30.6%, which was even higher than the observed in previous years. Exports sent to NIE-4 also followed an increasing path until the end of this period, while the gap between Peruvian exports to China and Japan kept growing. Nowadays, Peruvian exports to China represent 9.5% of the total exports to the world; making China the second most important trade partner to the country.

⁶⁸ Newly Industrialized Economies (NIE-4) includes Korea, Hong Kong, Chinese Taipei and Singapore.

⁶⁹ This document considers ASEAN-4 as Thailand, Malaysia, Indonesia and the Philippines.

Peruvian exports to China for the 2002-2006 show a high concentration in two sectors which represent together 94.5% of the exported total. The first sector corresponds to metals, which adds 63% of the total exports to China. Inside this group, the most demanded products are copper minerals and its concentrates, lead minerals and its concentrates, and copper cathodes. It is relevant to mention that within this sector, the demand is highly concentrated in few products.

**Peruvian Exports to China by Sectors
(millions of US\$)**

Sector	2002	2003	2004	2005	2006	Average 02-06
Agriculture excluding Fish	1.6	3.6	18.3	17.5	44.3	17.0
Fish and Fishing Products	325.3	284.3	440.9	595.8	453.9	420.0
Petroleum Oils	0.1	0.0	0.1	17.1	99.8	23.4
Wood, Pulp, Paper and Furniture	1.0	2.5	8.1	19.5	44.8	15.2
Textiles and Clothing	8.7	9.0	12.5	16.1	12.8	11.8
Leather, Rubber, Footwear and Travel Goods	-	0.2	0.4	0.3	0.9	0.3
Metals	259.8	374.7	759.2	1,194.6	1,602.2	838.1
Chemical & Photographic Supplies	0.4	1.3	5.0	9.1	10.0	5.2
Transport Equipment	-	-	0.0	0.1	0.5	0.1
Non-Electric Machinery	0.9	0.5	0.0	0.3	0.1	0.4
Electric Machinery	0.0	0.0	0.0	0.1	0.0	0.0
Mineral Products, Precious Stones & Metals	0.0	0.0	0.1	0.0	0.1	0.0
Manufactured Goods n.e.s	0.0	0.0	0.0	0.1	0.0	0.0
Total	597.6	676.2	1,244.6	1,870.6	2,269.4	1,331.7

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

The second most demanded sector corresponds to Fish and Fish products, with a share of 32% of the total exports to China. The product with the highest demand is fishmeal, representing 97% of the sector exports, making it even more concentrated than the metal sector.

Other relevant sectors are Agriculture excluding fish; Wood, Pulp, Paper and Furniture; and Textiles and Clothing, with an annual average participation of 1.28%, 1.14% and 0.89% respectively, for the 2002-2006 period.

Regarding Peruvian imports from China, the demand is not as concentrated as in the case of exports. Nevertheless, there are some outstanding sectors which show significant import flows, such as Electric Machinery (23.1% of the average imported total for 2002-2006), Non-Electric Machinery (16.4%), and Textiles and Clothing (13.0%).

**Peruvian Imports from China by Sectors
(millions of US\$)**

Sector	2002	2003	2004	2005	2006	Average 02-06
Agriculture excluding Fish	4.4	5.3	5.9	7.5	12.4	7.1
Fish and Fishing Products	0.0	0.1	0.2	0.3	0.5	0.2
Petroleum Oils	0.0	0.0	0.0	0.0	0.0	0.0
Wood, Pulp, Paper and Furniture	10.2	13.0	17.4	27.0	41.3	21.8
Textiles and Clothing	85.7	114.7	72.8	127.7	185.6	117.3
Leather, Rubber, Footwear and Travel Goods	40.3	45.7	55.3	68.1	85.5	59.0
Metals	21.8	28.5	39.5	57.8	190.6	67.6
Chemical & Photographic Supplies	53.1	65.0	88.5	127.0	170.2	100.8
Transport Equipment	16.0	23.6	34.5	44.9	72.6	38.3
Non-Electric Machinery	51.3	88.0	130.6	187.1	283.4	148.1
Electric Machinery	84.2	142.8	205.5	264.2	349.9	209.3
Mineral Products, Precious Stones & Metals	28.7	42.8	33.7	45.1	58.5	41.8
Manufactured Goods n.e.s	68.8	76.5	85.7	102.8	133.2	93.4
Total	464.4	646.0	769.6	1,059.5	1,583.6	904.6

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

It is also important to mention that, for the all the years included in the period under analysis, Peru has showed a trade surplus with China, which accounted for US\$ 686 millions in the year 2006. However, this surplus does not show in all trading sectors, but mainly in the ones of primary goods, such as Agriculture excluding Fish; Fish and Fishing Products; Petroleum Oils; and Metals. The largest trade deficit appears in the Electric Machinery sector, adding US\$ 350 millions on the year 2006.

3.2 Trade in Services

China

In 2006, China's imports and exports in service trade amounted to US\$ 191,750 million, an increase of 22.1% over 2005. Among them, the exports amounted to US\$ 9.20 billion, an increase of 23.7% over 2005, representing 8% of the global total exports in service trade, the third place in the world's service trade exports in 2006; the imports amounted to US\$ 100,830 million, an increase of 20.3% over 2005, accounting for 6.4% of the global total imports in service trade; China has a trade deficit of US\$ 8910 million, down by 3.9% from 2005, largely due to the increase of trade surplus in tourism, computer and information service, and other business service, etc. Germany, the U.S. and China were the top three exporters of service trade in the world in 2006.

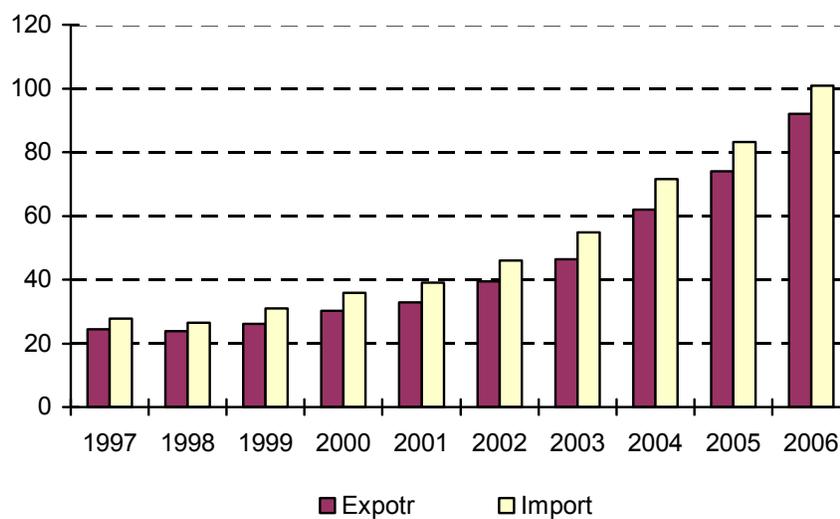
China started to operate the business of engineering project contracting with Peru in 1986. As of the end of 2006, China had concluded contracts of engineering project contracting, labor service cooperation and design consulting with a total value of US\$ 338 million, which realized a turnover of US\$ 397 million, taking up only 1.3% of the total US\$ 30 billion turnover of China's engineering projects with foreign parties in 2006. China has only carried out a small number of contracting, labor service and design consulting businesses in Peru, and China's presence in other areas of service trade in Peru is also limited to a small scale.

Table 3.2 China's trade in services (E/I)
(billions of US\$)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total amount	Export	24.5	23.88	26.17	30.15	32.9	39.38	46.38	62.06	73.91	92
	Import	27.73	26.47	30.97	35.86	39.03	46.08	54.85	71.6	83.17	100.83
	Difference in amount (E-I)	-3.23	-2.59	-4.8	-5.71	-6.13	-6.7	-8.47	-9.54	-9.26	-8.83
Transport	Export	2.94	2.3	2.42	3.67	4.64	5.72	7.91	12.07	15.43	21.02
	Import	9.94	6.76	7.9	10.4	11.32	13.61	18.23	24.54	28.45	34.37
Tourism	Export	12.07	12.6	14.1	16.23	17.79	20.39	17.41	25.74	29.3	33.95
	Import	8.13	9.21	10.87	13.11	13.91	15.4	15.19	19.15	21.76	24.32
Other services	Export	7.68	6.21	6.91	7.08	7.28	8.76	15.06	15.95	16.89	19.69
	Import	5.25	5.44	6.59	6.12	5.74	4.98	6.46	8.48	9.39	11.26

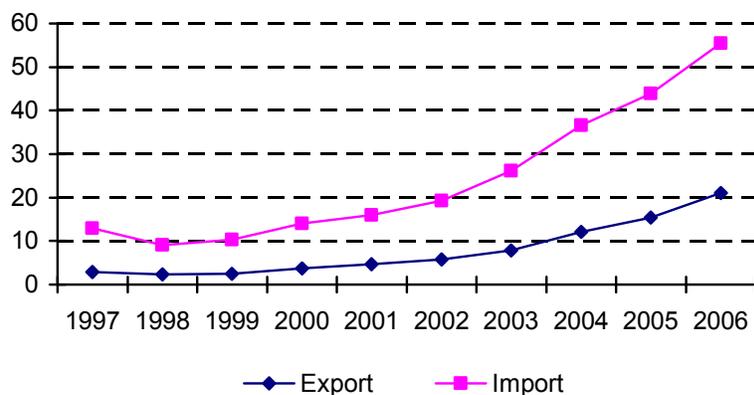
Source: State Administration of Foreign Exchange.

Chart 3.2 China's services Export and Import (1997-2006)
(billions of US\$)



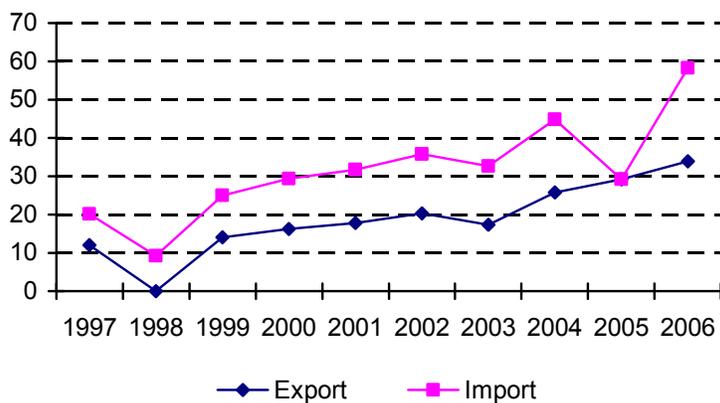
Source: State Administration of Foreign Exchange.

Chart 3.3 Trade in Transportation Services (1997-2006)
 (billions of US\$)



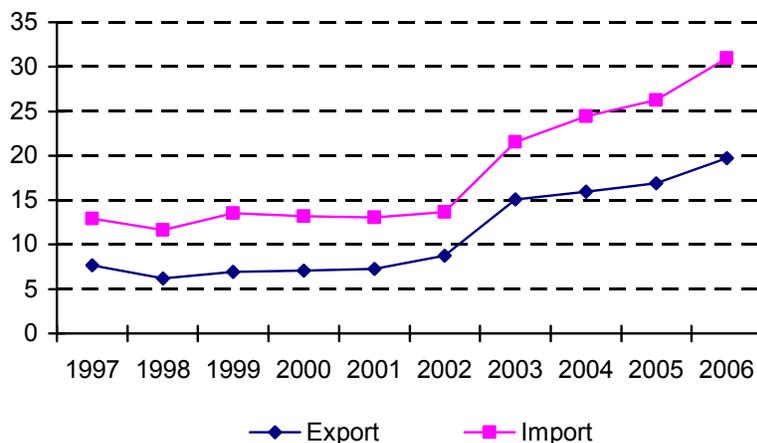
Source: State Administration of Foreign Exchange.

Chart 3.4 Trade in Travel Services (1997-2006)
 (billions of US\$)



Source: State Administration of Foreign Exchange.

Chart 3.5 Trade in Other Services (1997-2006)
(billions of US\$)



Source: State Administration of Foreign Exchange.

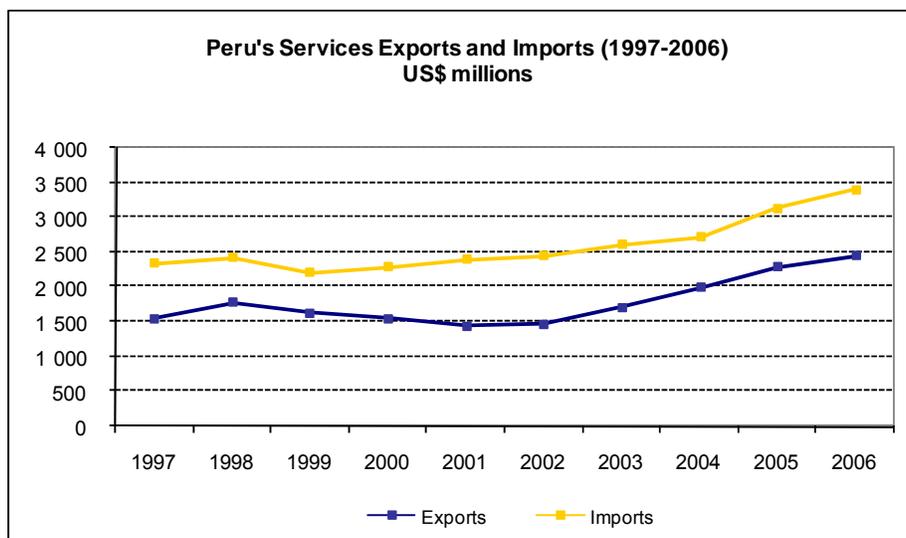
Peru

The participation of services in Peru's GDP has kept relatively steady during the period between 2000 and 2006. During these years, services represented around 55.0% of the GDP⁷⁰. In 2006, the main services activities, in terms of their contribution to the GDP, were retail trade; transport and communications; governmental services; and restaurants and hotels.

During that same year, imports of commercial services, measured from the classification of the Balance of Payments (BOP), reached US\$ 3,400 million, while exports registered US\$ 2,451 million, with a deficit of US\$ 949 million.

Despite a slight fall in exports of services between 1999 and 2002, trade in services in Peru has showed an upward trend from import and export sides for the last 10 years. This growth is explained by market reforms and commercial openness that started in the early nineties.

⁷⁰ Source: National Institute of Statistics and Informatics, please visit <http://www.inei.gob.pe/>.



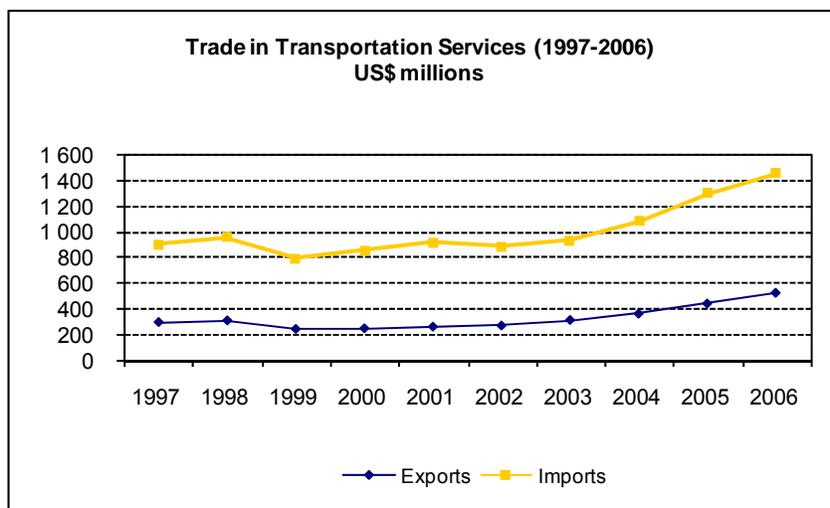
Source: BCRP, www.bcrp.gob.pe

Regarding the exporting side, the Travel sector was the largest and represented 56% in 2006. Transportation and Other Services follow with shares of 21% and 15% in 2006, respectively. In the importing side, the Transportation sector represented 43% followed by Other Services (24%) and Travel (22%).

Transportation⁷¹ exports showed a steady evolution at the end of the nineties and then registered a clear upward trend, going up from US\$ 294 million in 1997 to US\$ 525 million in 2006. In contrast, Transportation imports have experienced a fast growth, from US\$ 902 million in 1997 to US\$ 1,460 million in 2006. These performances explain to a great extent the higher deficit on the services balance.

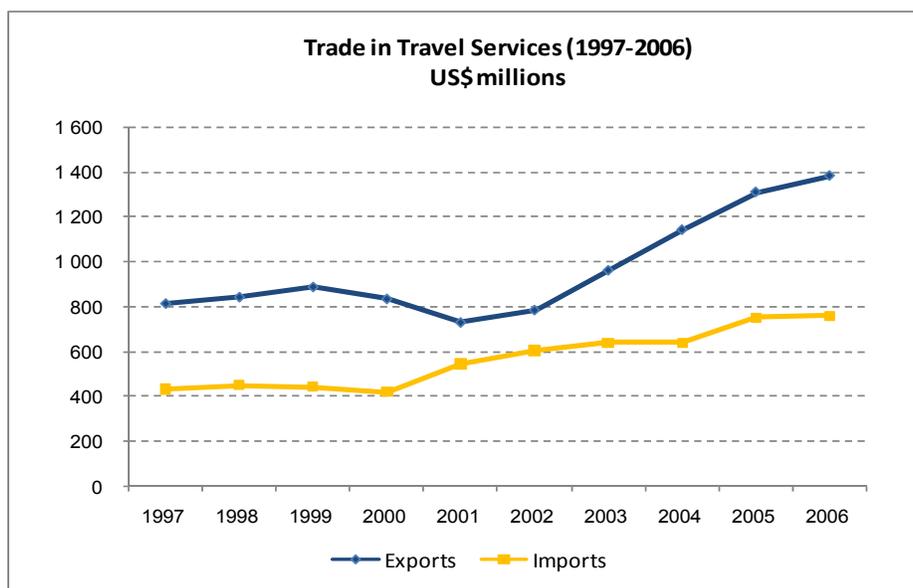
Specifically, the freight transportation subsector, which registered an increase of 168% between 1997 and 2006, accounts for almost 70% of imports reaching US\$ 1,077 million in 2006. The passenger transport and other subsectors registered increases over 40% and 55% in their imports for the period of analysis and accounted for US\$ 245 million and US\$ 137 millions in 2006, respectively.

⁷¹ Transportation is the process of carrying people and objects from one location to another as well as related supporting and auxiliary services. Passenger services cover the transport of people. It covers all services provided in the international transport of nonresidents by resident carriers (exports) and that of residents by nonresident carriers (imports). Also included are passenger services carried out within an economy by nonresident carriers. Freight services include the loading on board or the unloading of goods from carriers if contracts between owners of goods and carriers require that the latter provide that service. The subsector Other mainly includes port expenses of ships and airships, and commissions of transports.



Source: BCRP, www.bcrp.gob.pe

Travel⁷² Services is the only sector that registers a commercial surplus mostly explained by the strong growth of exports. These flows have shown an annual growth rate of 13% since 2001, and reached a value of US\$ 1,381 million in 2006, after an up-and-down pace between 1997 and 2001. Import flows maintained a more steady evolution with values ranging from US\$ 423 millions in 1997 to US\$ 760 million in 2006.

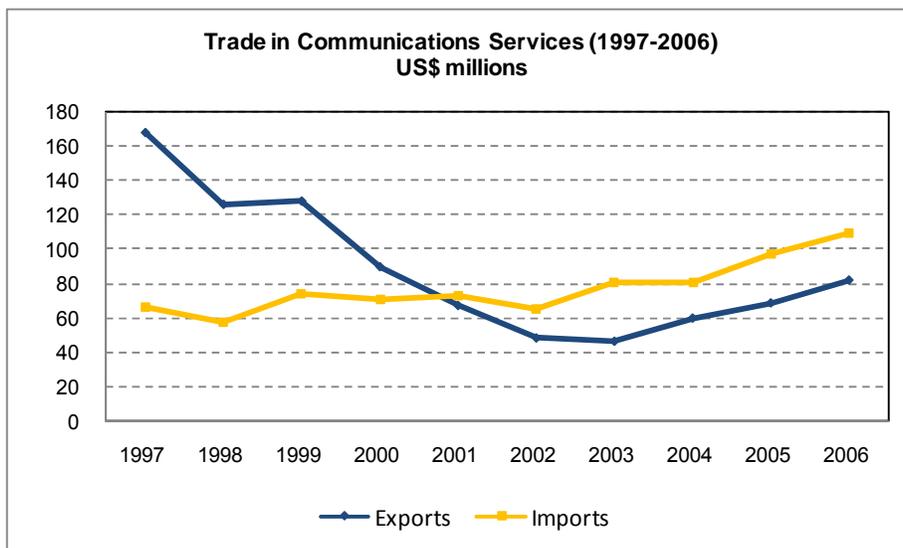


Source: BCRP, www.bcrp.gob.pe

The evolution of the arrival of Chinese residents to Peru is a good proxy on the increased importance of the Peruvian exports of travel services to China. According to the General Directorate of Immigration and Naturalization (DIGEMIN), from 2001 to 2006, the number of residents in China coming to Peru rose from 2,813 to 7,865 persons, which represents a growth rate of 179.6%, higher than the total growth rate of people coming into Peru (58.3%).

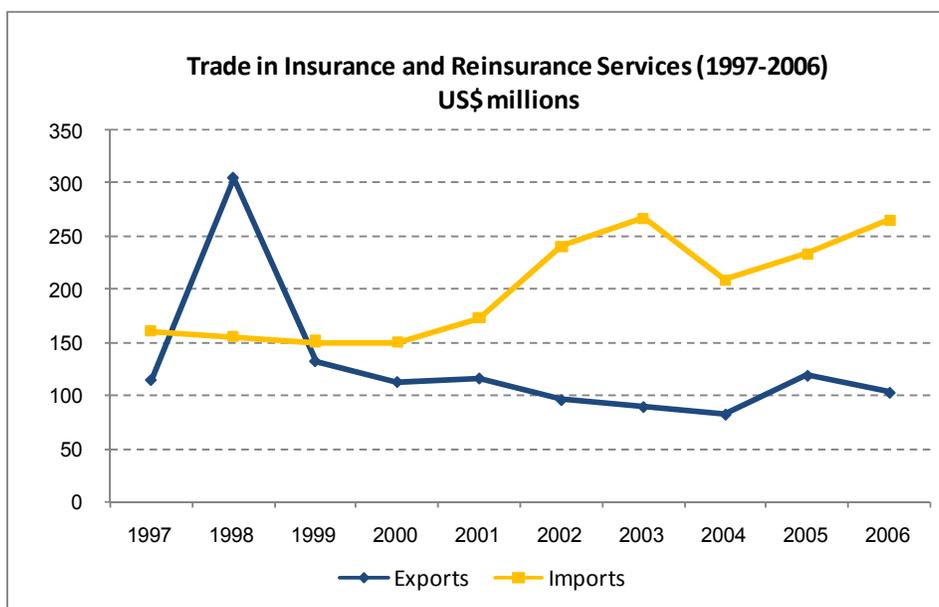
⁷² It includes goods and services acquired from an economy by the travelers in that economy for its own use during visits of less of a year with enterprise or personal aims. Examples of these are: lodging, meals and transport (inside of the visited economy).

The Peruvian imports of Communication services maintained a relatively stable trend between 1997 and 2002, with values between US\$ 67 and US\$ 80 million. Since 2003, it experienced a strong growth, reaching a total of US\$ 109 million in 2006. In contrast, the Peruvian exports in this sector strongly decreased sharply until 2003, going from US\$ 168 millions in 1997 to US\$ 46 million in 2003. After that year, exports in this sector started its recovering and reached a value of US\$ 82 million in 2006.



Source: BCRP, www.bcrp.gob.pe

Exports of Insurance and Reinsurance Services have presented a slightly decreasing trend during the analyzed period and reached a total of US\$ 103 million in 2006, very similar to its value in 1997 (US\$ 114 million). On the other hand, Peruvian imports on this sector display a positive trend in the analyzed period. This flow increased from US\$ 160 million to US\$ 265 million and registered an annual growth rate of 6%, which explains Peru's trade deficit in this sector.



Source: BCRP, www.bcrp.gob.pe

Finally, the sector Other⁷³ has shown a large but vaguely decreasing deficit during the period of analysis. Exports registered a total of US\$ 160 million and US\$ 361 million for years 1997 and 2007, respectively; and an annual average growth rate of 9%. Additionally, imports had an annual average growth rate of 0.4% and totaled US\$ 777 millions and US\$ 806 millions for the same years, respectively.

3.3 Bilateral Investment

China

Economic cooperation between China and Peru has a late start but a fast growth. Peru is currently one of China's biggest investment targets in Latin America. By the end of 2006, Peru has invested 152 projects in China with the agreed-upon investment valued at US\$ 159 million, and the actual inflow of investment valued at US\$ 34.06 million, covering a range of sectors such as electronics, real estate, automobile spare parts, and textiles, etc. China has increased its investment in Peru at a brisk pace over recent years. By the end of 2006, China has directly invested in Peru about US\$ 600 million, with most of its investments flowing into the sectors of trade, textile and mineral resource exploitation.

China's Capital Steel Group and China National Petroleum Corporation (CNPC) have set up some big businesses in Peru, and gained remarkable economic returns. The Capital Steel Group purchased 98.4% equities of the original Peru Ferric Mineral Company with US\$ 118 million in February 1992. CSC then set up the CSC-Peru Ferric Mineral Ltd., which is a successful example of Chinese invested company in mining in Peru. It also discovered copper mineral reserves in Husta region, to the North of Markena in 1997, which have great potential for exploitation value. CNPC set up its Peruvian subsidiary under its China-American Petroleum Development Company, which carries out projects in Peru. In the joint-venture, CNPC invested its technology, equipment, laborers and cash flows.

China and Peru signed several government agreements in 2005, such as the Cooperation Understanding Memorandum for Investment Promotion, the Agreement for Promotion of Cooperation of Private Investments, and the Cooperation Understanding Memorandum for Further Cooperation in Exploration, Exploitation of Petroleum and Natural Gas, and in Oil Refining and Chemicals. China will promote the investments and technological cooperation with Peru in development and export of natural gas. CNPC will invest US\$ 83 million in Peru to explore energy. If this agreement can be successfully implemented, which has the duration of 40 years, the investment in jungles in Southeast of Peru may reach US\$ 1 billion, and Peru will become the net energy export country since 2009.

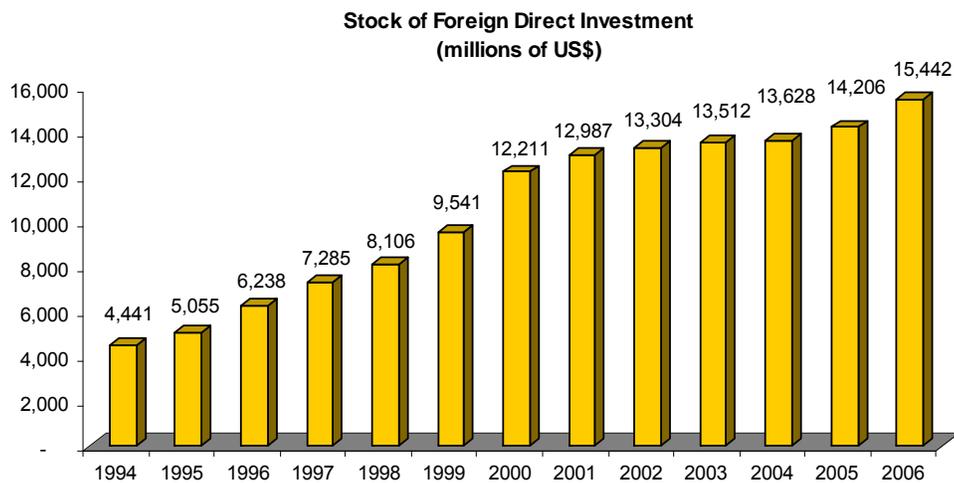
Peru

Numerous international groups from all regions of the world maintain a presence in Peru. Such foreign direct investment (FDI) comes mainly from both European and North American countries. In addition, in recent years South American countries have registered increasing investment inward flows to Peru. As of December 31, 2006, Spain and the UK are the main sources of investment for Peru making up 48.23% of investment stock, while the first 10 countries originate 88.9% of accrued investment.

As to the sectors receiving FDI, 32.22% of investments were destined to the communications sector, mainly made in base telephony in the past decade. The industry sector accumulates 14.91%, and finance and mining sectors reach 12.08% and 18.66%, respectively. Additionally, a sizable portion of these foreign investments is related to natural resources, public services, banking, tourism and infrastructure. This process is fostered by companies' internationalization strategies. In the case of investments originating from Asia, Africa and

⁷³ It includes governmental, financial and computer services as well as royalties, equipment rent and business services, among others.

Oceania, the most important are related to mining, hydrocarbons and also large corporations providing machinery and electrical goods.



Source: PROINVERSIÓN

According to official statistics from the Peruvian Private Investment Promotion Agency (PROINVERSIÓN), the stock of FDI in Peru totaled US\$ 15.4 billion at the end of 2006, while Chinese FDI stocks in Peru accounted for US\$ 122.16 million, mostly focused in mining⁷⁴. Most of this stock registered at PROINVERSIÓN is explained by the purchase of Hierro Peru (state-owned producer of iron) by Shougang Corporation in 1992. This places China as Peru's 15th global investor and 2nd Asian investor (9th global and 1st Asian if ordered by Head Office FDI).

Currently, Peru is attracting Chinese investments mainly in hydrocarbons and mining sectors. In the former case, China National Oil and Gas Exploration and Development Corporation is extracting oil in some lots allocated in the forest. Regarding the latter, Chinalco offered US\$ 792.2 million to purchase Peru Copper in order to get the rights to operate the Toromocho project, a rich deposit in copper and zinc.

⁷⁴ See <http://www.ProInversión.gob.pe>. It is important to mention that FDI statistics are undervalued since investment registration is not mandatory.

**FDI Stock by Main Countries – December, 2006
(US\$ millions)**

Country	FDI Stock by Origin Country	%	FDI Stock by Head Office	%
Spain	4,732.1	30.6%	5,071.4	32.8%
United Kingdom	2,716.0	17.6%	496.3	3.2%
United States	2,715.5	17.6%	2,722.3	17.6%
Netherlands	820.3	5.3%	-	0.0%
Panama	812.3	5.3%	213.1	1.4%
Chile	528.7	3.4%	1,018.2	6.6%
Mexico	452.2	2.9%	1,251.1	8.1%
Brazil	336.0	2.2%	341.0	2.2%
Colombia	335.4	2.2%	243.5	1.6%
Canada	280.2	1.8%	756.6	4.9%
Switzerland	273.2	1.8%	924.4	6.0%
Japan	232.6	1.5%	233.2	1.5%
Uruguay	163.8	1.1%	-	0.0%
Italy	158.9	1.0%	-	0.0%
China	122.2	0.8%	253.5	1.6%
Singapore	120.0	0.8%	-	0.0%
Belgium	114.3	0.7%	-	0.0%
Total	15,441.9	100.0%	15,441.9	100.0%

Source: PROINVERSIÓN

Finally, it is also important to mention that Peru has subscribed agreements for the promotion and protection of investments (BITs) with 30 countries in America, Asia and Europe.

3.4 Tariff Level Comparison Between China and Peru

China

Table 3.3 China's Tariff Level

Classification of Products	Average applied tariff in 2006
Animal & Animal products	7.6
Vegetable Products	14
Animal or Vegetable Oil and Fat	12.9
Foodstuff & Beverage	18
Mineral Products	2.8
Chemical Products	8.1
Plastics & Plastic Products	9.9
Leather, Fur skins & Articles	16.1
Wood and Wood Products	6.9
Paper products	3.3
Textile and Apparels	10.4
Footwear, Hats & Umbrellas	18
Products of Mineral Materials	13.6
Jewel and Precious Metal	10.3
Base Metals & Articles Thereof	7.2
Telecoms, Electronics & machinery	8.8
Transportation Equipment	6
Precision Instruments	14.3
Miscellaneous articles	11

According to its WTO commitments, China has committed bounded tariff on all commodities, reduced the tariff rates remarkably, and abolished most non-tariff measures to further opening up the market. In 2007, the average tariff rate of China is 9.8%, of which, the average tariff rate for agricultural products is 15.2%, and the average tariff rate for manufacturing products is 8.95%. Now, China only exercises the administration of tariff quota on grains (wheat, rice and maize), cotton, vegetable oils, edible sugar, wool and chemical fertilizers, etc.

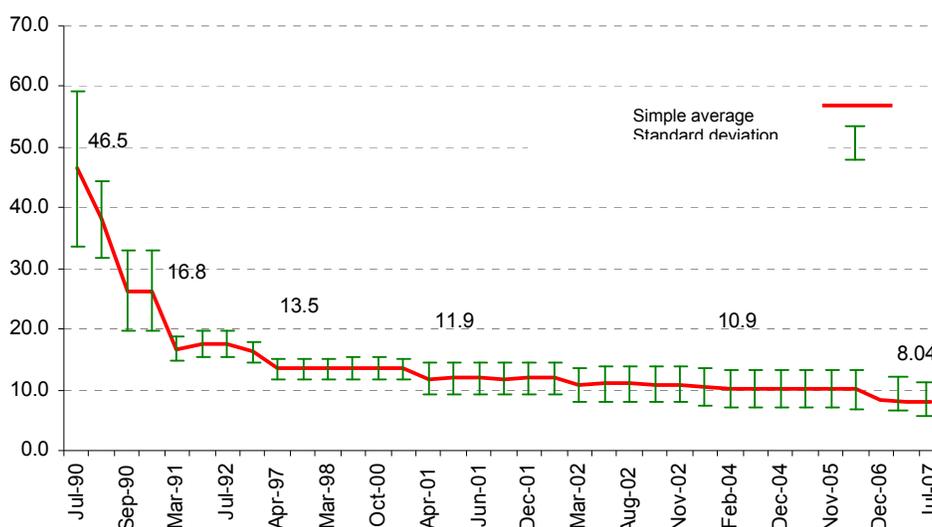
In terms of tariff distributions in 2006, zero-tariff products of China account for 8.5% of the total number of 8-digit tariff headings, and the number of high tariff products with tariff rates greater than 15% is decreasing, with the proportion falling to 16.2%. In terms of tariff structures, the sectors such as agricultural products, transportation equipment, textiles and apparels, handcraft works and machinery equipment, etc. maintain high average tariff rates. The tariff reduction commitments of China made at the WTO accession have basically been fulfilled.

Peru

Peru applies only two types of import duty rates: MFN rates and preferential rates. Preferential rates are applied to imports originated in countries and regions with which Peru has concluded reciprocal preferential trade agreements, whereas MFN rates are applied to imports from all other partners, without taking into account whether they are members of the WTO. All tariffs are bounded and ad valorem.

Furthermore, Peru has a moderate overall average applied tariff of 8.04% (or 5.04% if weighted by average imports for the 2004-2006 period), as at July 2007, with over 60 per cent of Peruvian imports entering at a 0% tariff rate. As the following table shows, Peru has been gradually lowering its tariffs since the early nineties, and has done two recent significant reductions, one in December 2006 and another July 2007, when its tariffs were reduced to only five levels of dispersion: 0%, 12%, 17%, 20%, and 25%⁷⁵. Tariffs of 20% and 25% only apply to agricultural and textile goods.

Evolution of the Average Tariff and its Dispersion (1990-2007)



Source: SUNAT
 Prepared by: MINCETUR/VMCE/OGEE

⁷⁵ There is one additional level of 10% for only one subheading: Other yellow dent corn (10059011).

The following tables show the dispersion of Peruvian tariffs by tariff lines and by production sectors:

Dispersion of Peru's Applied Tariff Rate by Tariff Lines (July 2007)

Applied Tariff	Tariff Lines	%	Avg. Imports 04-06 (US\$ millions)	%
0%	3,202	43.56%	7,802.3	61.70%
10%	1	0.01%	178.0	1.41%
12%	3,014	41.00%	3,920.2	31.00%
17%	27	0.37%	31.2	0.25%
20%	1,045	14.22%	695.6	5.50%
25%	62	0.84%	18.4	0.15%
Total	7,351	100.00%	12,645.7	100.00%
Average	8.04		5.04	

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

Dispersion of Peru's Applied Tariff Rate by Production Sectors (July 2007)

Sector	Average Applied Tariff (July 2007)
Agriculture excluding Fish	13.31
Fish and Fishing Products	11.92
Petroleum Oils	1.30
Wood, Pulp, Paper and Furniture	9.12
Textiles and Clothing	17.24
Leather, Rubber, Footwear and Travel Goods	8.79
Metals	6.55
Chemical & Photographic Supplies	4.43
Transport Equipment	3.24
Electric Machinery	4.99
Non-Electric Machinery	2.05
Mineral Products, Precious Stones & Metals	5.80
Manufactured Articles, n.e.s	7.45
Total average	8.04

Source: SUNAT

Elaboration: MINCETUR/VMCE/OGEE

3.5 Analysis of Competitive and Complementary Industries (Model Calculation)

China

A. Introduction of Main Indexes

The key indexes in measuring the export competitiveness and complementarity of industries include RCA, RPC, RIX, RIM and TSC, etc. Table 3.4 sets out the calculation methods and description of these indexes.

Table 3.4 Trade Indexes

Commercial Index	Formula	Description
Reveal Comparative Advantages(RCA)	$(X_{ih}/x_i)/(W_{ih}/W)$	Compares the importance of a specific sector or good within the total exports of a country, in relation to the weight of such sector or good in global trade; where the numerator represents the share of good h in the exports of country i, and the denominator indicates the contribution of good in global trade.
Relative Purchase Capacity(RPC)	$(M_{ih}/M_i)/(W_h/W)$	Allows to identify the sectors where the countries poses a disadvantageous position in global trade; where the numerator represents the share of good h in the imports of country i, and the denominator indicates the contribution of good in global trade.
Relative Importance of Exports(RIX)	$(X_{ijh}/X_{ih})/(X_{ij}/X_i)$	Compares the importance of a specific sector or good h with in the exports of country i to country j, in relation to the weight of the exports from country i to country j in the total exports of country i
Relative Importance of Imports(RIM)	$(M_{ijh}/M_{ih})/(M_{ij}/M_i)$	Compares the importance of a specific sector or good h within the imports of country i from country j, in relation to the weighth of the imports of country from country j in the total imports of country i.
Trade Specific Coefficient(TSC)	$(X_{ih}-M_{ih})/(X_{ih}+M_{ih})$	Describe country i is a net exporter or net importer in good h

The calculation is based on the customs' six-digit HS codes. The following is a brief description of some important results of calculation.

B. Results of RCA and RPC Calculation

China's data on these two indexes is available from China Customs' statistics, and the world's import and export data from COMTRADE global trade database.

- Analysis of RCA Results

Comparing with COMTRADE database and Chinese exports, 5222 products at six-digit HS level could be found in both sides. Among all 5222 products, there are 1940 with export competitiveness index above 1. It can be found that these 1940 products are distributed in every sector.

Among 32 major products exported from China, there are 19 with RCA index value above 1, including textiles, trunks and suitcases, and small-sized mechanical and electronic products like digital automatic data processing machines & units. Only one of 20 energy raw material products has a RCA index value above 1(bituminous coal 270112). Among the products with RCA index value below 1, traffic control equipment, duplicating machines, semi-tractor engines, and hybrid integrated circuits have a relatively smaller value of RCA index value.

Table 3.5 RCA Indexes of Main Exported Commodities

HS	Product	Exports (million USD)	RCA
847149	Digital Adp Mac & Units,Entered As Systems, Nesoi	29902	2.28
847350	Pts Suitble Fr Use W Mac Of 2/More Head 8469-8472	28355	0.29
847180	Automatic Data Processing Units, N.E.S.O.I.	24953	1.85
852540	Still Image Video Cameras & Othr Video Camera Rec	23709	2.68
853080	Electrical Signaling Or Traffic Control Eqpt, Nesoi	17320	0.31
854260	Hybrid Integrated Circuits	11955	0.57
901410	Direction Finding Compass	11045	0.23
847190	Adp Mac&Unts Thereof;Mag/Opt Rder,Trnscrb,Proc Dat	9207	0.47
852290	Pts & Access F Sound/Video Reproducing,Record Appr	7493	4.08
852020	Telephone Answering Machines	6291	2.93
870120	Road Tractors For Semi-Trailers	5871	0.08
852691	Radio Navigational Aid Apparatus	5860	1.23

852821	Video Monitors, Color	5845	2.62
853521	Automatic Circuit Breakers > 1000 V But < 72.5 Kv	5342	0.03
850490	Pts For Elect Transformers Static Converters Indct	5282	1.06
640399	Footwear, Outer Sole Rub Etc & Leather Upper Neso	5082	3.33
852312	Magnetic Tape Unrecord Width > 4 Not Over 6.5 Mm	4425	0.01
611030	Sweaters, Pullovers Etc, Knit Etc, Manmade Fibers	4414	5.27
640299	Footwear, Outer Sole & Upper Rubber Or Plast Neso	4302	7.36
950430	Coin/Tokn Oper Games Ex Bwing Ally Eq; Pts & Acces	3891	0.12
847210	Duplicating Machines	3866	0.17
270112	Bituminous Coal, Not Agglomerated	3818	1.43
610910	T-Shirts, Singlets, Tank Tops Etc, Knit Etc Cotton	3804	2.92
420212	Trunks, Suitcases, Etc, Surface Plastic/Text Materials	3788	10.44
620462	Women's Or Girls' Trousers Etc Not Knit, Cotton	3646	3.25
847170	Automatic Data Processing Storage Units, N.E.S.O.I	3569	2.26
271011	Light Oils& Prep (Not Crude) From Petrol & Bitum	3487	0.34
851790	Pt Elect Appr F Line Telephony Or Telegraphy Etc.	3482	0.84
841581	Air Conditioning Mach Etc Incl Refrig Unit Etc	3168	2.89
392690	Articles Of Plastics, Nesoi	2984	1.25
850910	Vacuum Cleaners, Electromechanical Domestic	2942	4.12
271019	Oil (Not Crude) From Petrol & Bitum Mineral Etc.	2919	0.19

- Analysis of RPC Calculation Results

Similar with the RCA method, 1392 out of 5218 products have RPC index values above or equal to 1. Most of these 1392 products are aquatic products, mineral products, textile raw materials, furnish and equipment. The following table shows the RPC indexes of Chinese major import products. 27 of the top 30 products have RPC indexes above 1. The three products with RPC index value below 1 are crude oil (270900), other oil (271019), and passenger vehicle with an engine displacement from 2500 ml to 3000 ml.

Table 3.6 RPC Indexes of Main Imported Commodities

HS	Commodities	Imports(million USD)	RPC
854221	Digital Monolithic Integrated Circuits	56906.38	4.33
270900	Crude Oil From Petroleum And Bituminous Minerals	47860.53	0.82
901380	Optical Devices, Appliances And Instruments, Nesoi	27666.44	11.52
854229	Monolithic Integrated Circuits, Other Than Digita	17437.47	3.18
852990	Pts,Ex Antenna,For Trnsmssn,Rdr,Radio,Tv,Etc Neso	16257.84	3.45
260111	Iron Ore Concen Nesoi & Non-Agglomerated Iron Ores	15917.51	7.45
847330	Parts & Accessories For Adp Machines & Units	15685.01	1.29
847170	Automatic Data Processing Storage Units, N.E.S.O.I	11418.29	2.52
271019	Oil (Not Crude) From Petrol & Bitum Mineral Etc.	10224.6	0.77
120100	Soybeans, Whether Or Not Broken	7777.374	6.03
854260	Hybrid Integrated Circuits	6680.504	3.5
853400	Printed Circuits	6568.682	3.48
847989	Mach & Mechanical Appl W Individual Function Neso	6521.8	3.02
880240	Airplane & Ot A/C, Unladen Weight > 15,000 Kg	5605.154	1.31
291736	Terephthalic Acid And Its Salts	5209.32	10.91

740311	Refined Copper Cathodes And Sections Of Cathodes	4309.076	2.49
260300	Copper Ores And Concentrates	3662.899	3.38
290531	Ethylene Glycol (Ethanediol)	3527.289	7.57
520100	Cotton, Not Carded Or Combed	3192.72	5.88
740400	Copper Waste And Scrap	3181.105	5.86
852290	Pts & Access F Sound/Video Reproducing,Record Appr	3148.272	4
390210	Polypropylene, Pr Fms	3020.145	3.58
290250	Styrene	2989.842	4.9
901390	Pts Of Liq Crystal Device, Laser&Oth Optical,Nesoi	2834.628	8.69
850780	Storage Batteries Nesoi	2774.203	4.61
281820	Aluminum Oxide, Except Artificial Corundum, Nesoi	2593.422	4.44
390330	Acrylonitrile-Butadiene-Styrene (Abs) Copolymers	2579.319	6.04
854140	Photosnsitve Semicndctr Dvice Inc Phtvltc Cell Etc	2565.263	2.23
870323	Pass Veh Spk-Ig Int Com Rcpr P Eng >1500 Nov 3M Cc	2549.457	0.24
390120	Polyethylene Having A Spec Gravity Of 0.94 Or More	2511.796	2.82

Table 3.7 Products with higher RPC

HS	Commodities	RPC
30332	Plaice Except Fillets, Livers And Roes, Frozen	15.1
261220	Thorium Ores And Concentrates	14.62
261710	Antimony Ores And Concentrates	12.85
901380	Optical Devices, Appliances And Instruments, Nesoi	11.52
71410	Cassava (Manioc) Fresh Or Dried, W/Nt Pellet	11.38
900662	Photo Flashbulbs, Flashcubes And The Like	10.92
291736	Terephthalic Acid And Its Salts	10.91
391530	Waste, Paring And Scrap Of Vinyl Chloride Polymers	10.9
470710	Waste, Scrap Unbleach Kraft, Corrugatd Paper/Pprbd	10.9
530490	Sisal Oth Text Fib Gen Agave Tow Waste Nt Sp Othe	10.86
854040	Data/Graphic Display Tubes,Color, W/ Pitch < 0.4 M	10.85
810790	Cadmium And Articles Thereof, Nesoi	10.64
530121	Flax, Broken, Or Scutched	10.23
290313	Chloroform	10.18
261000	Chromium Ores And Concentrates	9.77
910812	Watch Movements, Battery, Opto-Electronic Displ Only	9.76
260500	Cobalt Ores And Concentrates	9.75
845522	Cold Rolling Mills Except Tube Rolling	9.71
520542	Ct Yr N Sw Td > 85% Wt Ct M/Cb Cmb > 14Nm & N > 4	9.57
550992	Yrn N Swg Th Syn Stp Fb N Rtl SI Oth Yrn Mx Cotton	9.41
911019	Rough Movements Of Watches	9.23

901390	Pts Of Liq Crystal Device, Laser&Oth Optical,Nesoi	8.69
251511	Marble And Travertine, Crude Or Roughly Trimmed	8.38
30360	Cod Except Fillets, Livers And Roes, Frozen	8.33
510111	Wool, Not Carded Or Combed, Greasy, Shorn	8.26
844400	Machines Extruding, Drawing Etc Manmade Textiles	8.09
391510	Waste, Paring And Scrap Of Ethylene Polymers	8.06
721913	Fr Ss 600Mm Ao W Hr Cls 3-Un 4.75Mm Thck	8.01
410330	Swine Raw Hided/Skins,Nt Pretan,Frh Or Salted, Etc	7.97
720918	Flat-Cold-Rld Ir,Stl,Coils,600Mm Wide,<0.5Mm Thick	7.87

Marine products and mineral products account for a large share in the products with higher RPC index value. In addition to aquatic products, mineral products, primary raw materials, some spare parts of mechanical and electronic products, including unspecified LCD and optical devices, appliances and instruments (901380) and rough movements of watches (911019), have a high RPC index, too.

- **Analysis of RIX and RIM Results**

a) RIX Index

China's exports are mainly textiles, steel products, chemicals and medicines, mechanical and electronic products, etc. The results of RIX index calculation indicate that those sectors have higher RIX index (further details in Table 3.7).

Table 3.8 Products with higher RIX Indexes

HS	Commodities	RIX
300331	Medicaments Containing Insulin, No Antibiotics Etc	961.06
283711	Cyanides And Cyanide Oxides Of Sodium	232.64
330190	Concentrates Etc Of Essential Oils, Nesoi	160.57
720853	Fr Ios Nal 600 Ao Hr Nt C/P/C/ClS 3-Un 4.75Mm Thck	158.48
370210	X-Ray Film In Rolls, Sens, Unex, No Paper Etc	148.80
521111	Wov Cot Fab, Unbl Pl Wv Un85%Cot Mmf Ov200G/M2	133.05
370239	Phot Film No Sprocket Holes,Nt Ov 105Mm,In Rolls	122.44
521141	Wov Cot Fab <85% Cot Mixd Mmf Yn Dy Pl Wv >200G/M2	111.61
720854	Fr Irr/Nal Stl 600Mm Ao Hr Nt C/P/C/ClS Un 3Mm Thk	107.38
845939	Boring-Milling Mach Remove Met N Numerical Control	101.48
300431	Medicaments Cont Insulin, No Antibiotics, Dosage	96.16
722790	Bars And Rods Oth Alloy Stl, Hot-Rld, Irreg Coils	79.30
700521	Nonwrd Glss Clrd Opc Flshd Or Srfc Grnd N Ab/Rf Ly	71.61
293371	6-Hexanelactam (Epsilon-Caprolactam)	56.35
520922	Wov Cot Fab, 85% Cot, Bl 3-Or4-Th Twill Ov 200G/M2	50.66
720840	Fr Ios Nal 600Mm Ao Hr Nt C/P/C/ClS Pptrns In Rel	50.41
551432	Wv Fb Pol Sf <85% S F M/Ms Ct >170G/M2 Ydf 3-4T P	46.17
701720	Lab, Hyginc, Pharm Glswr W Lin Coef Nov 5X10-6 Nes	44.55
841869	Refrigerating/Freezing Equipment, Nesoi	44.40
841710	Ind Or Lab Furnnaces, Heat Treat Ore, Met Etc, N E	40.78
292423	2-Acetamidobenzoic Acid And Its Salts	40.11
283531	Sodium Triphosphate (Sodium Tripolyphosphate)	39.90

480920	Self-Copy Paper, In Rolls Or Sheets Over 36Cm Wide	35.77
720852	Fr Ios Nal 600Mm Ao Hr Nt C/P/C/Cls 4.75-10Mm Thck	34.03
291521	Acetic Acid	33.81
480255	Paper Nesoi, Nov 10% Fib Mech Pr, 40G/M2Nov150G/M	31.46
732591	Grinding Balls A Sim Artic For Mills, Cst, Ios Nes	30.18
350510	Dextrins And Other Modified Starches	29.88
521142	Wov Cot Fab, Denim, Un 85% Cot Mmf Over 200 G/M2	29.73
284130	Sodium Dichromate	28.36

As shown in the list, the products with higher RIX index are mainly medicines, chemicals, equipment manufacturing machines and textiles, etc.

b) RIM Index

Among China's imports from Peru, the products with higher RIM index are mainly mineral products and aquatic products, and almost all the top ten products in terms of RIM are related to these two products. For example, chloride oxides and chloride hydroxides of copper (282741) has a highest RIM index of 200.74, followed by flour, meal & pellet of fish crustaceans, a major item imported by China from Peru, with a RIM index of 157.52. Generally, Peru's competitiveness as compared with China rests in the resource products.

Table 3.9 Main RIM Indexes

HS	Commodities	RIM
282741	Chloride Oxides And Chloride Hydroxides Of Copper	200.74
230120	Flour Meal & Pellet Of Fish Crustaceans Etc Inedib	157.52
160590	Mollusks, Etc., Prepared Or Preserved	134.62
150420	Fish Fats & Oils (Not Liver), Fract, Not Modified	118.81
510539	Fine Animal Hair, Carded Or Combed, Nesoi	93.71
261610	Silver Ores And Concentrates	90.43
261390	Molybdenum Ores And Concentrates Not Roasted	87.7
260700	Lead Ores And Concentrates	73.3
30749	Cuttle Fish & Squid, Froz, Dri, Salted Or In Brine	62.48
121291	Sugar Beet, Fresh Or Dried, Whether Or Not Ground	60.3
511000	Yarn Coarse Animal Hair Put Up Or Not Retail Sale	54.38
30270	Fish Livers And Roes, Fresh Or Chilled	41.06
260300	Copper Ores And Concentrates	39.29
790700	Articles Of Zinc, N.E.S.O.I.	35.92
520210	Cotton Yarn Waste (Including Thread Waste)	31.17
320300	Coloring Matter Of Vegetable Or Animal Origin	30.45
260112	Agglomerated Iron Ores	17.11
30420	Fish Fillets, Frozen	16.06
160413	Sardines/Sardinella/Brisling Prep/Pres, Not Minced	16.06
280490	Selenium	16.05
121220	Seaweeds & Other Algae Frsh Or Dried W/Not Ground	15.46
30739	Mussels, Frozen, Dried, Salted Or In Brine	15.21
80610	Grapes, Fresh	11.81
260800	Zinc Ores And Concentrates	11.05
520299	Cotton Waste, Nesoi	11.02
510810	Yarn, Fine Animal Hair, Carded, Not Retail Pk	10.97
520543	Ct Yr N Sw Td > 85% Wt Ct Ml/Cb Cmb > 43Nm & N > 5	10.41
510820	Yarn, Fine Animal Hair, Combed, Not Retail Pk	9.4
30759	Octopus, Frozen, Dried, Salted Or In Brine	9.37

440799	Nonconiferous Wood Nesoi, Sawn, Sliced Etc, Ov 6M	9.03
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- **Analysis of TSC Results**

According to China Customs' statistic, 5159 products at 6-digit HS level have trade flows in 2006. Among these 5159 products, there are 3164 products with a TSC index higher than 0, 1977 lower than 0, and the remainder equal to 0. There exists no clear demarcation in sectoral distribution between the products with a TSC index above 0 and those below 0.

The major products with TSC index valued at 1 are some farm products and textiles, whereas the products with TSC index valued at -1 include, in addition to resource products, mechanical and electronic products and high tech products for which China enjoys no competitiveness or which China has not manufactured, e.g. gasoline vehicles with engine displacement above 3000 ml (870324), and helicopters with unladen weight in excess of 2000 kilograms (880212).

- **Analysis of the Chinese Export Supply to Peru**

We compare China's RCA indexes and Peru's RPC indexes. If China's RCA about a subheading is higher than 1 while Peru's RPC is higher than 1, then the HS code is expressed in gray in the table.

From the table, we can find that the commodities that China has potential supply and Peru has potential demand are mostly concentrated on chapter 28, 29, 52, 73, 82, 84, 85. It means that in chemical industry, textile material of cotton, metal products, and mechanical products, China's exports and Peru's imports are strongly complementary. An FTA might stimulate China's exports in these sectors.

Table 3.10 Complementarities Table between China's Export Supply and Peru's Demand

CHA	RCA China				RPC Peru					CHA	
1						10511	10210				1
2					21099	20622	20712	20629	20727		2
3	30559	30729	30759	30379	30191	30269	30339				3
	30614	30749		30791	30343	30349	30374				
	30710	30751			30375	30563	30623				
4	40221	40299	40390	40410	40490	40590	40620	40819			4
5			50400	51110							5
7	71232	71332		71231	71310						7
	71239	71490	71290	71333	71340						
8			80810	80620	80940	80820	81320				8
9		90910	90610	90230	90620	90930	90411	90700	91040		9
10			100590	100110	100300	100630					10
				100830	100190	100400	100640				
11			110812	110290	110520	110813	110900				11
				110422	110710	110814					
12			120220	120710	120810	120925					12
				120720	120921	120991	120750	120922			
13				130190	130220	130213	130239				13
14	140490			140190							14
15			150500	151211	151610	150200	150790	151710	151800		15
			151550	151499	151620	150710	151110	151790	152110		
16	160430	160590	160414								16
	160520	160540									
17				170111	170199	170211	170219	170290	170410	170490	17
18									180500		18
19	190300			190110	190190						19

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20	200979		200870	200410	200710	200860					20
21			210310	210111	210112	210130	210210	210220			21
				210230	210330	210610	210690				
22			220290	220710	220840						22
23	230800		230110	230240	230400	230670	230990				23
25	251319	251910	250590	252921	250510	251320	252400				25
	251400	251990	251010		250810	251830	253020				
	253010	252310	252810		251200	252210	253090				
26								261610	262190		26
27	271311		271220	270112							27
28	282611	284390		270400	270900	271019	271113	271210	271290		28
	282620	283090	283660	281119	282919	283330	283720	280300	281390	283323	
	282690	283324	283692	281511	282990	283429	283911	280440	281520	283421	
	282734	283325	283699	281640	283010	283524	284020	280540	281530	283522	
	282735	283326	283800	282010	283110	283531	284030	280620	281830	283526	
	282739	283327	283919	282110	283190	283539	284161	280800	282090	283640	
	282751	283340	283990	282619	283210	283610	284910	280920	282490	283670	
	282759	283410	284170		282630	283230	283620	281122	282550	283711	
	283030	283510	284180		282710	283311	283630	281310	283220	284011	
	284990	283523	284920		282749	282720	283321	284120	284130	284700	
	283525	284610	283529		282810	282731	283329		285000	284110	
29	291522	291529	292143	292010	290341		291732	293420	290312		29
	292119	292142	293319	292241	290342	293721	291734	293690	290323		
	291540	292144	293331	292242	290361	293731	291735	293929	290410		
	291620	292159	293352	292310	290542	293930	291890	293942	290512		
	291634	292221	293354	292511	290820	294110	292112	293961	290515		
	291635	292222	293361	292620	290890	294140	292151	293962	290516		
	291711	292229	293369	293010	291241	291539	292211	290230	290519		
	291713	292239	293610	293311	291242	291550	292213	290244	290532		
	291720	292243	293723	293372	291421	291560	292320	291260	290541		
	291811	292419	293810	293621	291511	291570	292610	291411	290544		
	291812	292429	293890	293622	291535	291611	292910	291412	290545		
	291813	292520	293949	293623	291619	291612	293030	291521	290911		
	291815	292700	294000	293624	291631	291614	293040	291531	290943		
	291821	292990	294120	293625	291632	291615	293332	291532	290944		
	291822	293212	294130	293626	291639	291714	293353	291533	290949		
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291900	293293	293299	293629	291816							
30	300432	300440	300450	300640	300660	300670	300220				30
	300230	300290	300410	300420							
31	310100	310210	310530	310490	310510	310559	310560	310490			31
	310221	310230	310250	310260	310420	310430	310590	310510			
	310559	310560	310590								
32	320720	320416	320411	320500	320611	320619	320210	320420	320110		32
	321310	320417	320412	320641	320414	320620	320290	320490	320120		
	320643	320415	320413	320500	320611	320619	320630	320710			
	320740	320890	321000	321100	321210	321511	321519				
33	330741	330111	330112	330124	330210	330290	330300	330410	330420		33
	330430	330510	330590	330610	330620	330690	330720	330790	330491		
34	340119	340211	340212	340213	340219	340220	340290	340311	340391		34
	340490	340510	340520	340530	340540	340590	340700	340399	340410		
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36	360200	360300	360500								36
37	370256	370254	370320	370110	370120	370130	370220	370239	370243		37
				370244	370251	370390	370510	370790			
38	380690	381210	380130	380290	380400	380590	380820	380840	380890		38

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	382479		380210	380520	380810	381700	380910	382410	382440		
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	392321		391290	392220	392091	391610	390950			391729	
	392340		391739	392329						391731	
	391732	391740	391910	391990	392010	392020	391000	391190	391231		
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		401310	401390	401019	401692	401150	401694	401161	400219	400249	
	400591	400700	400821	400911	400912	400921	400922	400931	400932	400400	
	400941	400942	401011	401012	401013	401031	401032	401034	401035	400520	
	400941	400942	401011	401012	401013	401031	401032	401034	401035	401036	
	401039	401140	401163	401169	401193	401194	401211	401212	401219	401290	
	401410	401519	401590	401699							
41								411410		41	
42	420222	420330	420212						420229		
	420231	420500	420299						420610		
	420321	420310	420329								
43	430390									43	
44	441219	442010		440310	440690	441031	441032	441039			
	441293	442090		441111	441121	441139					
	441300	442110									
	441400	442190									
45								450490		45	
46	460199	460210	460290							46	
47							470321	470329	470720		47
48	482360	480100	480255	480256	480257	480258	480261	480300	480411		
	482390	480421	480429	480431	480441	480451	480459	480511	480512		
		480519	480524	480525	480591	480620	480630	480820	480830		
			480254	480910	482110	482320	482340	482370			
			482020	481610	481620	481630	481840	481890	481930		
49	491000			490191	490199	490600	490700	490890	491199		49
50	500720	500790	500200	500390							50
51	511230	511300	510529	510539	510121	510219					51
52	520548	520919	520641	520949	520514	520959	520524	521031	520821	520100	
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	551349	551319	551644	551439	550390	551211	551342	551614	550130	550630	
	551411	551323	551691	551429	550810	551311	551421	551621	550410	550951	
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	551423	551441	551432								

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56	560890		560391	560729	560750	560819		560221	560394		56
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	580429	581010	580122	580620					580710		
	580500	581099	580136	581091					580790		
	580610	580810	580421	581092	580430						
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				590700	591000	591120	591131	591132	591190		
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	610811	611231	610990	611599	611090	611710	611212				
	610821	611241	611011	611610	611120	611720	611219				
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	630619	630419	630790	630691							
64	640610	640520	640320	640319		640220	640192	640510			64
	640691	640590	640340			640299	640620				
65	650400	650510				650100	650691				65
	650590	650610				650699	650700				
66	660199	660200	660320								66
68	681091				680430			680422	681110	681310	68
	681410				681190			680690	681260	681599	
	681591				681290			680911	681270		
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	691490				690220	690790		691090	690890	690320	
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	701939		701200	701820							
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72				722530	722540	722550	722592	722693			
73	731600	732310	732510	730300	730650	730792	730890	731414	731450	730210	73

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	731812	732393	732619	730429	730711	730799	731210	731419	732391	730240	
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	741121	741820	741510							741012	74
	741122	741991	741210							741910	
75									750511	750521	75
76	760719	761010	761691	760429	761410	761490	761519		760421	761290	76
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79			790310	790390							79
81	810210	811100	810411	811300						810920	
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	810296	811292									
	810320	811299									
82	820551	821290					821420	820540	820220	820713	
	821193	821194		821510	820110	820190	820412	821000	820240	820719	
	820559	821195		821520	820130	820210	820510	821192	820291	820830	82
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	820600				820411	820310			821591	821220	
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	845221	842490	846722	846781	840732	842382	844520	841382	841013	840219	
	845240	842520	846729	847021	840790	842390	844790	841391	841090	840290	
	845410	842542	846799	847029	841012	842410	845011	841440	841199	840420	
	845899	842549	846880	847050	841381	842519	845012	841459	841221	840490	
	845929	842612	846890	847150	841392	842531	845019	841460	841229	840510	
	846090	842619	846920	847290	841420	842790	845140	841480	841239	840590	
	846150	843050	846930	848180	841780	842840	845229	841490	841311	840690	
	846591	843319	847010	848210	841821	843041	845290	841520	841330	840810	
	846592	844841	847030	848320	841830	844140	845420	841610	841340	840890	
	846596	845090			841861	844351	845819	841620	841360	840999	
	841810	841850	841869	841899	841920	841931	841932	841710	841720	841790	
	841939	841950	841989	841990	842111	842112	842119	842121	842122	842123	
	842129	842131	842191	842199	842220	842230	842240	842290	842320	842330	
		843139	848220	844330	845180	842833	847780	843840	844842	842389	84
		843141	848230	844359	845190	842911	847910	843860	844849	842481	
		843142	848250	844400	845230	842920	847920	843880	844851	842511	
		843143	848280	844511	845310	842940	847982	843890	844859	842641	
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		843221	848330	844519	845380	842952	848060	844110	845110	842699	
		843359	848340	844530	845390	843049	848110	844180	845129	842720	
		843360	848360	844540	845430	843061	848130	844210	845130	842810	
		843410	848390	844590	846019	843069	848140	844312	845150	842832	
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				847730	843820	847490	843780	844820	844833	846792	
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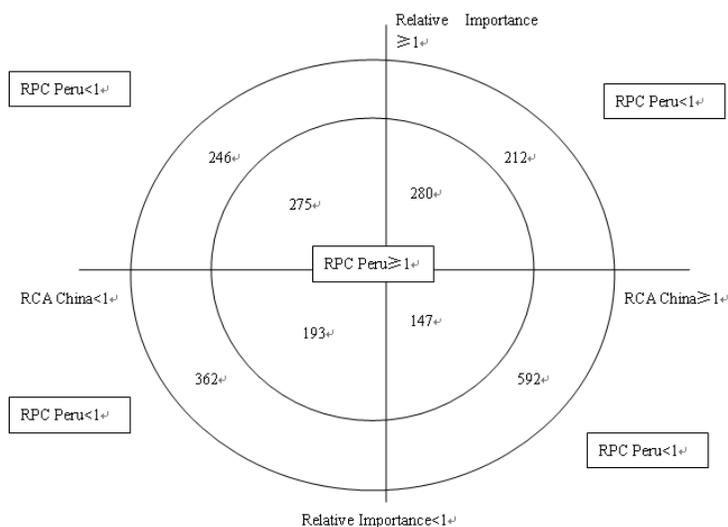
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	851010	851810	852540	853321	850211	851730	853929	851539	850134	850423	
	851020	851821	852691	853340	850220	851750	853931	851580	850153	850433	
	851030	851829	852712	853400	850410	851822	853932	851621	850164	850434	
	851120	851830	852721	853641	850610	851850	854420	851780	850213	850710	
	851210	851840	852729	850980	850940	852190	854511	852039	850239	850740	
	851529	851890	852732	854451	851230	852390	854519	852311	850240	850920	
	851610	851921	852821	851711	851310	852520	854590	852330	850421	851110	
	851629	851929	852822	852290	851390	852713	854620	852431	853339	853620	
	851631	851999	852830	853224	851511	852719	854790	852440	853510	853649	
	851632	852020	852910		851633	852731		853210	853521	853720	
	851660	852033	852990		851640	852739		854470	853530	853910	
	851671	852090	853110		851650	852812		854520	853540	854210	
	851672	852110	853180		851679	852813		854690	853590	854459	
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86				860120	860900	860210	860290	860400	860699	860729	86
87	871200	871680	871110	871494	870110	871310	871492	871496		870120	87
	871390	871690	871190	871499	871120	871419	871493	871495	871500	870210	
			870410	870421	870422	870423	870520	870530	870540	870600	
							870880	870893	871411	871631	
88								880390	880212	88	
89					890400				890710	890790	89
90	900653	901910	900580	901530	900490	902511	900792	901110	901600	900620	90
	900662	902890	900590	901730	901180	902519	900921	901480	901812	900711	
	900669	903020	900640	901790	901720	902580	900922	901520	901831	900720	
	900691	903031	900890	900912	901780	902830	901010	902000	901832	901850	
	900699	903300	900991	902121	902212	902213	902221	902300	902480	902590	
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91	910591	911320	910820		910291	910519				910529	91
	910599	911410	910812		910310	910610					
	910690	911420			910390						
	910811	911430									
92	920410	920992	920290	920910		920190	920920				92
	920420	920994	920510	920999		920710					
93								930200	930610	930621	93
94	940179	940520	940350	940592	940130	940429					94
	940180	940540	940360	940599	940210	940530					
	940320	940550	940390		940410						
	940330	940591									
95	950490	950390	950699	950629	950100	950380				950430	95
	950510	950410	950710	950631	950210	950662					
	950590	950420	950730	950639	950360	950720					
	950619	950440	950790								
96	960390	961320	961380					960622	961519	960831	96
	960630	961390	960500		960720	960321	960990	960711	961590	961100	
	960839	961420			960810	960329	961220	960719	961620	961210	
	960840	961490			960820	960350	961511		960629	961610	
	960850	961800			960910	960621	961700	960200	960400	960610	

- Chinese Export Supply to Peru

The graphic 3.6 shows the Chinese supply ability to Peru. There are 2307 kinds of products, which have RCA indexes of China, RPC indexes of Peru, and RIX indexes of China. From the graph, there are 427 kinds of products with RCA index of China higher or equal to 1 and RPC index of Peru less than 1. Among these products, 147 kinds of products have an RIX index less than 1. It means that once the FTA is signed, the exports from China to Peru of these 147 products might have a bit increase. In a detailed analysis, it can be found that besides a

few agricultural products, the textile, steel and electromechanical products take a great share of all these products.

Chart 3.6 Analysis of the Chinese Export Supply to Peru



- Analysis of Chinese Import Demand

Similar with above tale, the HS codes of which China’s RPC is higher than 1 and Peru’s RCA is higher than 1 are expressed in gray in the middle of the table. It can be found that 80 products are in the gray area. The copper products, chemical products and cotton are all included in this category. It is similar with the above table except that fewer mechanical and electronic products are in the gray area.

Table: 3.11 Complementarities Table of China’s Imports Demand and Peru’s Export Supply

CHA	RPC China			RCA Peru				CHA
1	10310		10512	10511	10632	10639	10690	1
2	20649						20725	2
3	30319		30380	30760	30490	30799	30110	3
	30374	30791	30759	30751	30749	30741	30250	
	30379	30559	30563	30611	30613	30624	30721	
		30729	30270	30321	30349	30375	30420	
4					40291	40700	40819	4
5	50800			50590		51191	51199	5
6							60499	6
7	71390		70310	70810	70890	70920	71010	7
	71410			71022	71040	71080	71120	
				71220	71290	71333	71339	
8	80240	81090	81190	80121	80122	80290	80300	8
	81340		81400	80440	80450	80520	80610	
9				90111	90420	91030	91040	9
10	100110	100300					100890	10
	110610	110813	110814	110290	110423	110620	110812	
	120100	120740	121230		120991	120999	121130	
12					120799	121190	121220	12

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13					130214	130219	130239	13
14	140110						140410	14
15	151190	151329			150420	151229	151590	15
	151530					150410	152000	
16				160239	160413	160414	160415	16
					160416	160420	160590	
17						170111	170410	17
18					180320	180400	180632	18
19						190219	190531	19
20			200190	200290	200551	200560	200570	20
			200590	200891	200899	200939	200980	
21							210410	21
22	220820							22
23				230120	230210	230230	230610	23
						230800	230990	
25	250300	251512	253090	250100	250200	250900	252010	25
	251311	252400	252890	252810	250840	251110	252310	
	251511	252510			252321	252329	252620	
26	260200	260900		260111	260300	260800	262030	26
	261000	261390	260112	260700	261610		261690	
27	270111	270740		271112			271011	27
	271320	271490		271113			271019	
28	280120	281122		280450	281000	284329	280110	28
	280461	281820		280490	282550	281121	280540	
	280480	282110		280700	283525	281511	280610	
	283711	282735		281512	281700	282410	282490	
	283719	283324		283326	283329	283990	284020	
	284019	283510			282741	283322	283325	
29	290230	290513	290611	291412	291620		290410	29
	290322	290517	290711	291521	291712		292242	
	290323	290519	290810	291570	291720		293010	
	290420	290532	290943	291611			293991	
	290512	290545	291411	291612				
	291900	292213	292419	291732				
	292910	293040	293331	291739				
31	310260	310430	310530				310100	31
	310420	310520	310551					
32	320190	320414	320611	320720	321519		320300	32
	320210	320416	320641	320810			320500	
	320412	320490	320649	320990	320290			
	321000	321100	321210	321290				
33				330790	330190	330499	330113	33
34	340213	340391	340490				340510	34
	340311	340399	340590					
35	350610	350691	350699					35
36						360300	360200	36
37	370243	370244	370710					37
38	380110	380993	381121	381230	382311	382420	380290	38
	380991	381010	381129	381400	382370		382319	
	380992	381090	381190	381519	382490			
39	390110	390410	390720	390940	391731	392020	390512	39
	390120	390421	390730	390950	391990	392330	392010	
	390130	390422	390740	391000	392043	392350		
	390190	390440	390750	391110	392051			
	390210	390450	390791	391290	392061			
	390290	390530	390799	391510	392062			
390319	390610	390920	391530	392069				

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	390390	390690	390930	391590	392091			
	392092	392099	392112	392113		390521		
40	400122	400299	400911	401610			400610	40
	400239	400700	401013				401169	
41	410150	410441	410712	411200	410190	410411	410229	41
	410210	410449	410719	411310	410221	410419	410692	
	410310	410711	410799	411320	410530	410510		
	411390	411410	411510	410622	410621	410632		
42							420610	42
43	430180	430220	430219	430400		430390	440724	43
44	440399	441129	440726		440729	440799	440890	44
					441214	441219	441213	
47	470321	470730	470720			441292	440920	47
	470710	470790	470730					
	470321	470710	470790					
48	480240	480441	480519	480990		482020	480530	48
	480429	480511	480630	481151		482030	481810	
	481630	482110	482312	482319			481930	
49	490600	490890			490191	490591	491110	49
51	510111	510529	511111	511190	510710	510219	510129	51
	510121	510720	511119	511211	511290	510539	510320	
	511219	511220	511230		510990	510910	510820	
52	520100	520533	520631	520833	521131	520210	520411	52
	520511	520542	520632	520839	521132	520522	520526	
	520512	520621	520642	520842	521139	520524	520527	
	520521	520622	520831	520843	521141	520531	520528	
	520532	520623	520832	520851	521151	520541	520543	
	520932	520951	521041	520911	521214	520612	520544	
	520939	521031	521042	520912	521223	520841	520546	
	520941	521032	521049	520919	520853	520921	520547	
	520949	521039	521051	520931	520859	520922	520548	
		520823	520822	521142	520790	520959	520613	
53	530310	530620	530890	530919	530929			53
54	540110	540231	540233	540241	540243		540620	54
	540249	540251	540261	540262	540752			
	540761	540769	540772	540773	540781			
	540782	540792	540822	540823	540832			
55	550110	550310	550320	550490	550810	550130	550620	55
	550932	550942	550961	550962	550969	550330	551110	
	550991	550992	551012	551020	551219	550630	551120	
	551299	551321	551323	551329	551331	550999	551341	
	551333	551339	551411	551421	551423		551513	
	551429	551519	551599	551692				
56	560122	560290	560391	560394	560229	560811	560600	56
	560129	560312	560393	560790	560410	560819	560750	
58	580121	580190	580620	580790			580500	58
	580122	580421	580632	581100				
	580125	580610	580710					
59	590310	590800	591190	590390	591120			59
60	600191	600330	600410	600490		600533	600121	60
	600523	600532	600590	600610			600521	
	600621	600622	600623	600624			600522	
	600631	600632						
61	611790			610331				61
	611691	610110	610210	610220	610322	610342	610421	
	611710	610422	610431	610441	610442	610451	610452	
		610462	610510	610520	610610	610620	610711	

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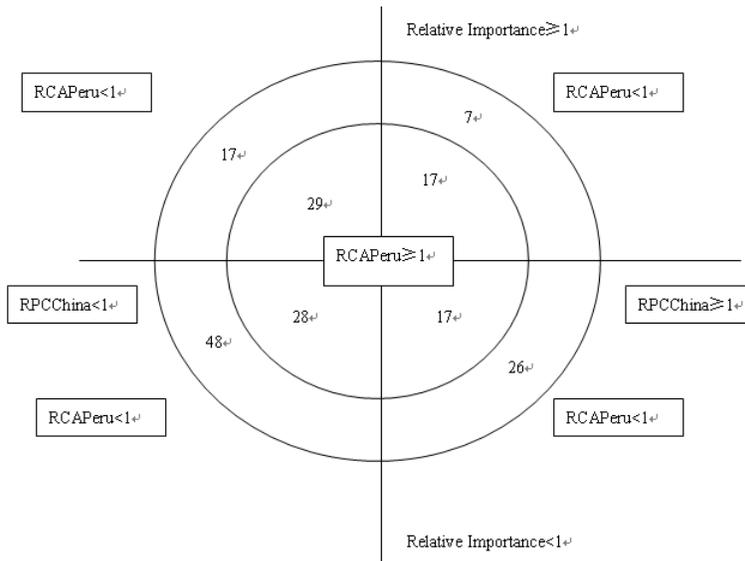
		610721	610821	610831	610891	610910	610990	
		610721	610821	610831	610891	610910	610990	
		611019	611020	611120	611420	611430	611591	
62	621790	620211	620343	620422	620520	620610	620630	62
			620791	620821	621131	621141	621420	
63				630120	630130	630190	630533	63
64	640620	640691	640699			640110	640192	64
65							650692	65
68	680430					681290	680221	68
	681599					681310	681490	
69	690290	690310	691410			691090	691390	69
70	700239	701190	701590	701959	702000	700992	700100	70
	701110	701400	701919	701990			700721	
71	710420	711011				710310	710691	71
	711590			710812	711319	711411	711719	
72	720449	720926	721070	721640	721933		721041	72
	720529	721012	721090	721730	721934		721420	
	720839	721049	721190	721790	721935		721621	
	720854	721061	721399	721914	722012		721622	
	722090	722100	722230	722300	722540		722830	
	722691	722694	722699	722990			722880	
73	730421	731290	730459	731822	732020	732394	731300	73
	730429	731589	730690	731823		732591	731441	
	730441	731821	730792	731824		732611	731442	
74	740400	740729	740921	740940	741521	740200	740120	74
	740610	740822	740929	741011	741529	740311	740312	
	740721	740911	740939	741012	741533	740321	740710	
	741539	741991			740811	740819		
	741999		740821	740829	740919	741510		
75	750610	750890						75
76	760200	760611	760612	760691		760519	761210	76
	760719	761610						
78	780300	780600			780110	780191	780199	78
79	790400			790111	790120	790112	790700	79
				790390			790500	
80	800120	800300					800110	80
	800700	800500						
81	810194	810920			810720	810790	810600	81
	811240				811292	811010	811020	
82	820720	820730	820810	820890	821194		821410	82
83	830160	830810	831000	831120	831130	830170	831190	83
	840219	841229	841451	841932	842220	840410	840212	
	840290	841231	841480	841939	842230	844319	848490	
	840490	841239	841610	841950	842320	844329		
	840690	841319	841620	841989	842430	844351		
	840810	841350	841710	842010	842489	844359		
	840890	841370	841780	842099	842511	844512		
	841090	841381	841790	842119	842531	844520		
84	841221	841430	841931	842129	842539	844530		84
	846490	845310	847730	844540	842542	848210		
	846592	845320	847759	844610	842619	848240		
	846593	845380	847780	844621	842810	848250		
	846594	845420	847810	844711	842832	848280		
	846599	845430	847910	844720	842833	848310		
	846620	845530	847981	844790	842839	848340		
	846693	845699	847982	844820	843050	848410		
	846694	845720	847989	844831	843352	846249		

	846820	845811	847990	844839	843420	846291		
	846890	845899	848041	844842	843510	846310		
	847141	846039	848049	844851	843710	846390		
	847149	846040	848071	844859	843860	846420		
	847170	846090	848079	845130	843880	848420		
	847330	846150	848120	845140	843920	848510		
	847350	846190	848130	845150	843999	847439		
	847410	846221	848140	845180	844110	847480		
	847420	846239	848180	845290	844140	847529		
	847710	847720	844180	844230				
85	850110	850511	851830	853340	853720	850690	850740	85
	850151	850519	851890	853390	853810		852453	
	850153	850520	852290	853400	853890		854340	
	850164	850730	852320	853521	853932			
	850212	850780	852390	853529	853939			
	850213	850790	852439	853530	853990			
	850300	851430	852530	853590	854011			
	850423	851440	852990	853610	854050			
	850431	851490	853210	853641	854081			
	850434	851529	853222	853650	854110			
	850440	851580	853229	853669	854129			
	850450	851810	853321	853690	854140			
	850490	851829	853331	853710	854150			
	854419	854190	854451	854229	854411			
854449	854221	854520	854260	854790				
854710	854319	854620	854270	854320				
86	860721	860791	860800				860120	86
90	900110	900640	901790	902410	902780			90
	900190	900999	901812	902480	903020			
	900211	901210	901813	902610	903039			
	900290	901380	902212	902690	903040			
	900590	901580	902230	902720	903083			
	903089	903149	903289					
	903090	903180	903300					
903110	903281							
91	910400	910990	911180	911440	911490			91
92	920992							92
93							930630	93
94							940370	94
95	950299	950639					950662	95
96	960621	960629	960719	960899		960711	960810	96
	960622	960630	960720				960820	

- **China's Import Demand from Peru**

The graph shows the China's potential demand from Peru. A product of which Peru's RCA is higher than 1, China's RPC higher than 1 while the RIM is less than 1 is the one that China has potential demand from Peru. In this graph, the up area of quadrant 4 presents such products. There 17 subheadings in this area include snails, boron, wool, cotton, brass, zinc and zinc alloys etc. That mean agriculture products and raw materials are Chinese major potential demand from Peru.

Chart 3.7 Chinese Import demand from Peru



Peru

A. Introduction of Main Indexes

This section presents an analysis based on the calculation and comparison of trade indexes in order to evaluate the characteristics of the actual and potential trade flows between Peru and China, as well as the complementarity between their export supply and import demand. For this analysis, the Revealed Comparative Advantages Index (RCA) and the Relative Purchase Capacity Index (RPC) are calculated for both partners, as well as the Relative Importance Index (RI) and Trade Specific Coefficient (TSC), whose formulas are explained in the table below:

Trade Indexes

Commercial Index	Formula	Description
Revealed Comparative Advantages (RCA)	$(X_{ih}/X_i)/(W_h/W)$	Compares the importance of a specific sector or good within the total exports of a country, in relation to the weight of such sector or good in global trade; where the numerator represents the share of good h in the exports of country i, and the denominator indicates the contribution of good h in global trade.
Relative Purchase Capacity (RPC)	$(M_{ih}/M_i)/(W_h/W)$	Allows to identify the sectors where the countries possess a disadvantageous position in global trade; where the numerator represents the share of good h in the imports of country i, and the denominator indicates the contribution of good h in global trade.
Relative Importance of Exports (RIX)	$(X_{ijh}/X_{ih})/(X_{ij}/X_i)$	Compares the importance of a specific sector or good h within the exports of country i to country j, in relation to the weight of the exports from country i to country j in the total exports of country i.
Relative Importance of Imports (RIM)	$(M_{ijh}/M_{ih})/(M_{ij}/M_i)$	Compares the importance of a specific sector or good h within the imports of country i from country j, in relation to the weight of the imports of country i from country j in the total imports of country i.
Trade Specific Coefficient (TSC)	$(X_{ih}-M_{ih})/(X_{ih}+M_{ih})$	Describes if country i is a net exporter or net importer of good h.

Source: "Estudio sobre las Oportunidades y Sensibilidades de una Potencial Negociación Comercial entre Perú y China" and MINCETUR
Elaboration: MINCETUR/VMCE/OGEE

If one of the parties shows comparative advantages on a specific subheading⁷⁶, while the other has a high RPC on the same product, then it could be said that the relationship is one of complementarity, as the first party is efficient supplying the product that the latter requires.

In the same way, if the RIX or RIM is higher than 1 for a specific product, we can say that such product is, on average, relatively more important than the rest within the trade flows between Peru and China, which serves as an indicator to determine the priorities for a potential negotiation between both parties.

Additionally, to give more emphasis to the trade between Peru and China, **regional RCA and RPC indexes** have been calculated instead of regular ones⁷⁷. In such sense, in the case of the indexes calculated for Peru, instead of Peruvian global trade, we have considered as the total sample the exports or imports that took place between Peru and the Asian Region⁷⁸. For China, on the other side, the indexes have been calculated taking into account only the trade with Latin America⁷⁹. Therefore, the new formulas would be as follows:

⁷⁶ If the RCA is higher than 1, then the country possesses comparative advantages at a world level for good h, as it represents a higher percentage in country's i exports than in global trade. The same applies for the RPC index.

⁷⁷ RRCA and RRPC indexes were calculated for the 2002-2005 period, as there is no available data for total global trade for year 2006. RIX and RIM indexes were calculated for year 2006.

⁷⁸ The following economies are considered as part of the Asian region: China, Chinese Taipei, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore and Thailand.

⁷⁹ The following economies are considered as part of Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Regional RCA and RPC Indexes

Commercial Index	Formula	Description
Regional RCA	$(X_{irh}/X_{ir})/(M_{rh}/M_r)$	Compares the importance of a specific sector or good within the exports of country i to region r, in relation to the weight of such sector or good within the total imports of region r.
Regional RPC	$(M_{irh}/M_{ir})/(X_{rh}/X_r)$	Compares the importance of a specific sector or good within the imports of country i from region r, in relation to the weight of such sector or good within the total exports of region r.

Elaboration: MINCETUR/VMCE/OGEE

Regional indexes reflect in a more precise manner the complementarity relationships that exist between both parties, as it shows in a more realistic way the actual and potential trade that would benefit from a FTA between Peru and China. If we considered global trade instead, the results would be influenced by the intrinsic trade relations between China and its mayor trading partners, as well as the ones between Peru and Latin American countries.

For the analysis, the only products considered were the ones that complied with the next conditions:

- a) For Peruvian exports:
 - show average trade flows higher than US\$ 10,000, for the 2002-2006 period, with the Asian Region, or
 - show trade flows higher than US\$ 20,000, for year 2006, with the Asian Region.
- b) For Peruvian imports:
 - show average trade flows higher than US\$ 100,000, for the 2002-2006 period, with the Asian Region, and
 - maintain an average MFN applied tariff higher than 0%.

Under such conditions, the analysis was done on the following sample:

Sample of Products included in the Complementarity Analysis

Peruvian Exports Sample	Peruvian Exports with 2002-2006 average > 10,000 or 2006 ≥ US\$ 20,000
# of Subheadings	386
Trade Peru - World (% 2002-2006 avge.)	18.87
Trade Peru - Asian Region (% 2002-2006 avge.)	99.96

Peruvian Imports Sample	Peruvian Imports with 2002-2006 average > 10,000 or 2006 ≥ US\$ 20,000
# of Subheadings	2,634
Trade Peru - World (% 2002-2006 avge.)	19.68
Trade Peru - Asian Region (% 2002-2006 avge.)	99.85

Source: SUNAT and MINCETUR

Elaboration: MINCETUR/VMCE/OGEE

In such line of thought, tables that reflect the complementarity between Peru and China for each chapter of the Harmonized System were elaborated. In such way, they would serve as a guide that appears as an easy way to identify such products in which each country has special interests, rather as an exporting good or for importing purposes.

Additionally, graphics were built showing, at a 6 digit level of the Harmonized System, the potential complementarity and relative importance of trade flows between Peru and China, from the exporting perspective as well as the importing one. These graphics consist of a Cartesian coordinated system with 4 quadrants (sections) that relate both trade indexes, and are intended to identify the exporting and importing opportunities that are being taken into

account and the ones that not, as well as the products that may be sensitive to the commercial openness brought by a potential FTA.

B. Peruvian Exporting Perspective

- Complementarity between the Peruvian Export Supply and the Chinese Demand

This first part of the analysis is based on 386 products that Peru exported to the Asian Region for average values over US\$ 10,000, for the 2002-2006 period, or values over US\$ 20,000 in 2006. These products represent an exported total of US\$ 2,657 million and cover almost all trade with such region.

For this sample of products, a Complementarity Table was built at a 6 digit level of the Harmonized System, and shows the particular relationships for each product between Peru and China. When a subheading exported by Peru has an Regional RCA (RRCA) higher than 1, while China has an Regional RPC (RRPC) higher than 1 in the same subheading, then it could be said that they maintain a complementary relationship (subheadings with gray background in the middle of the table) for such product. In the case that Peru keeps comparative advantages in a specific subheading, but China does not maintain a significant relative purchase capacity, such products are indicated on the left side of the table. On the contrary, if Peru does not show comparative advantages in a subheading in which China has a high RRPC, such subheading is indicated on the right side of the table.

Complementarity Table between the Peruvian Export Supply and the Chinese Demand

CHA	RRCA PERU					RRPC CHINA					CHA
03	030110	030199	030371		30270	030376	030380			030379	03
	030374	030375	030420		030510	030520	030559				
	030490	030619	030729		030741	030749	030751				
	030759	030791			030799						
05	051199				051191						05
06	060499										06
07	070920	071290	071333	071339	071490						07
08	080122	080290	080300	080450						081110	08
	080520	080610	081190								
09	090111	090300	090420								09
10	100590	100890									10
11	110620	110630									11
12	120991	120999	121190							121220	12
13	130190	130219	130239								13
14	140410										14
15	150410	150420	151590							151610	15
16	160415	160419				160590					16
19	190190	190219	190590								19
20	200290	200570	200590	200899	200939	200980					20
21	210390										21
22	220210	220290	220820								22
23	230800					230120					23
24										240120	24
25	250200	250610	251690								25
	252890	253090									
26	261610				260300	260700	260800		260111	260112	26
						260900	261390		260200	261710	
28	281700	282741	283324	284020		280450	280490			281000	28
29	293100										29
30	300490										30
32	320300	320500				320290					32

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33	330113										33
35	350510										35
38	380820										38
39	390190	390740	390760							391590	39
41	410510	411390			410120	410210			410190	410411	41
									410419	410441	
42	420222										42
43										430219	43
44	441214					440920		440729	440799	440890	44
49	490199										49
50	500790										50
51	510219	510710	510720		510320	510539				510111	51
	510810	510910	510990		510820	511190				510129	
	511119	511219	511290							510529	
52	520512	520522	520523	520527						520100	52
	520532	520543	520544	520547						520300	
	520710	520790	520829	520849							
55	550961	551020						550130	550330	550630	55
58	581091										58
61	610120	610210	610230	610332	610343	610442					61
	610452	610510	610610	610711	610910	610990					
	611011	611019	611020	611030	611420	611430					
62	620111	620211	620331	620342							62
	620431	620452	620630	621142							
63	630120	630790									63
65	650590										65
68	680221	680229	680291	680299	681290						68
69	691390										69
70	700721										70
71	710420	710490	710691	711719	711790			710310		710399	71
72	720410	720430	720441					720449		721012	72
73	732510										73
74	740811	740821	740911		740120	740200	740311		740322	740400	74
	740919	741121	741300		740321	740710	740829			740939	
76	760519	761490								760200	76
78	780110						780200				78
79	790111	790112	790390	790500			790120				79
81	810790	811292				811010	811020			810720	81
82	820719										82
84	840212	841391	841440	842010	842230		845699			844630	84
	842940	843880	844190	845811	846693					844720	
	847490	847710	848030	848490							
85	850212	852540									85
90	901812										90
94	940180										94
95	950210	950341									95
96	960200	960820								960630	96

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The Peruvian exports to the Asian Region, with coincidences between Peru's RRCA and China's RRPC for Latin America, reached an average value of over US\$ 2,253 million, for the 2002-2006 period, with represents 84.8% of the total exports to this region. This group is composed by 39 subheadings, distributed among 15 chapters of the Harmonized System. The most representative chapters are 03 (Fish and crustaceans, mollusks and other aquatic invertebrates), 23 (Residues and waste from the food industries; prepared animal feed), 26 (Ores, slag and ash) and 74 (Copper and articles thereof), which are mostly primary goods of manufactures based on natural resources.

In terms of exporting values, subheading 260300 (Copper ores and concentrates) appears in first place, with exports over US\$ 732 million. Likewise, other products that stand out are the subheadings 230120 (Flours, meals and pellets, of fish or of crustaceans, mollusks or other aquatic invertebrates, unfit for human consumption), 740311 (Cathodes and sections of cathodes of refined copper), 260800 (Zinc ores and concentrates) and 260700 (Lead ores and concentrates).

Some of the main subheadings in which Peru displays high comparative advantages towards the Asian market, but yet China's RRPC from Latin America is still not significant are: 710691 (Unwrought silver), 790111 (Zinc, not alloyed, >=99.99% pure), 090111 (Coffee, not roasted, not decaffeinated), 150420 (Fats and oils and their fractions, of fish, other than liver oils, whether or not refined, but not chemically modified), 080610 (Grapes, fresh) and 320300 (Coloring matter of vegetable or animal origin, whether or not chemically defined). These products present themselves as new opportunities to be exploited in the Chinese market, as they are already being exported significantly to the region.

On the other hand, there are products in which China has a high relative purchase capacity from Latin America, but Peru has not developed high RRCA towards the Asian Region yet. Some of these cases are the subheadings 740400 (Copper waste and scrap), 440799 (Other wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm), 550130 (Synthetic filament tow, acrylic or modacrylic) and 510529 (Wool tops and combed wool). These are opportunities that Peruvian exporters should take advantage of, as there is actually a high demand for these goods in the Chinese market that is being attended by other Latin American countries, which may even have less of the conditions that Peru has for exporting them.

- **Peruvian Exportable Supply to China**

The following graphic shows, in a general way, the characteristics of the Peruvian exportable supply to China for the 386 products of the analyzed sample. Quadrant 1 (upper right), which includes 25 subheadings, is composed by those products in which Peru maintains significant comparative advantages in the Asian market and, besides, they present a high relative importance among the products exported to China. In this sense, they are products for which a preferential access to China should be mainly sought, especially for the 14 products in which this country presents a RRPC from Latin America greater than one and therefore, maintain a relation of complementarity with Peru.

Some of the products located in **Quadrant 1** that present a relation of complementarity with China are: Copper ores and concentrates (260300), Flours, meals and pellets, of fish or of crustaceans, mollusks or other aquatic invertebrates, unfit for human consumption (230120), Lead ores and concentrates (260700), Other molybdenum ores and concentrates (261390), Other cuttle fish and squid (030749), Mollusks and other aquatic invertebrates, prepared or preserved (160590), Non-coniferous wood continuously shaped along any of its edges, ends or faces, whether or not planed, sanded or end-jointed (440920) and Other fine animal hair, carded or combed (510539).

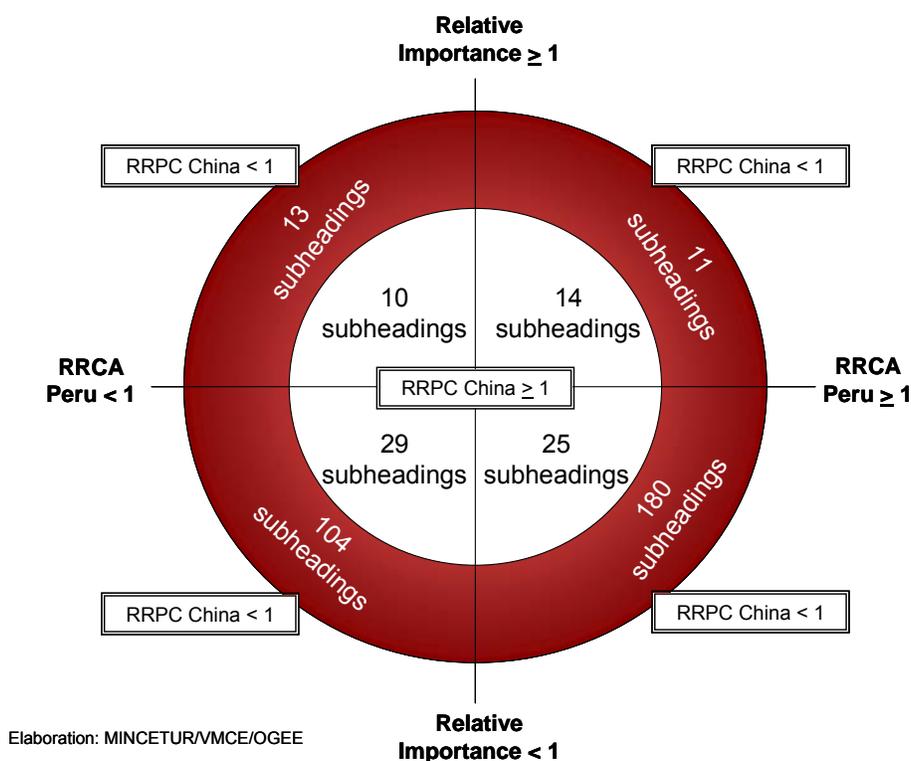
Quadrant 2 (upper left) corresponds to those products with a high relative importance for Peru in the Chinese market, despite not having a significant comparative advantage towards the Asian Region. They are products that, in many of cases, already have found a market niche, reason by which Peru should sought to consolidate their free access to China. Some outstanding products, because of the high purchase capacity that China presents from Latin America are: Iron ores and concentrates, agglomerated and non-agglomerated (260111 and 260112), Copper waste and scrap (740400), Aluminum waste and scrap (760200), Other tropical wood, sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm (440729) and Seaweeds and other algae, fresh, chilled, frozen or dried, whether or not ground (121220)

Quadrant 3 (lower left) includes 133 subheadings and is comprised by products with low RRCA and low to RIX for Peru, for which its priority would be lesser than that of the ones

mentioned previously. Nevertheless, in 29 of them, China shows a high relative purchase capacity from Latin America, which indicates that such products could be exploited to generate greater potential trade with this country. Among those products we have Other wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm (440799), Synthetic filament tow, acrylic or modacrylic (550130), Wool tops and combed wool (510529), Oxides of boron; boric acids (281000), Other fish, frozen (030379) and Cotton, not carded or combed (520100)

Finally, **Quadrant 4** (lower right) corresponds to those products that, in spite of presenting considerable comparative advantages towards the Asian market for Peru, do not present a high relative importance in Peru's trade flows towards China. Then it can be said that an opportunity exists for these products' exports to China to grow, especially for those 25 in which Peru presents a complementary relationship with this country. Some of these stand out products are Cathodes and sections of cathodes of refined copper (740311), Zinc ores and concentrates (260800), Unrefined copper; copper anodes for electrolytic refining (740200), Other mollusks and aquatic invertebrates, including flours, meals and pellets, fit for human consumption (030799), Other fish, dried, whether or not salted, but not smoked (030559), Combed yarn of fine animal hair, not put up for retail sale (510820) and Inorganic tanning substances; tanning preparations; enzymatic preparations for pre-tanning (320290).

Peruvian Exportable Supply to China



Among some of the products that Peru already exports to the Asian Region with a significant level of success but does not export to China we have:

Potential Peruvian Exports not being Exported yet to China

HS	Description	Peru Exports to Asian Region (Avge. 02-06)
030371	Sardines, sardinella, brisling or sprats, frozen	521,087
030490	Other fish meat (whether or not minced), fresh, chilled or frozen	607,771
030791	Other mollusks and aquatic invertebrates, including flours, meals and pellets, fit for human consumption, live, fresh or chilled	1,517,502
071080	Other vegetables, uncooked or cooked by steaming or boiling in water, frozen	1,041,494
071220	Onions, dried, whether or not cut or sliced but not further prepared	1,753,884
071290	Other vegetables and mixtures of vegetables, dried, whether or not cut or sliced but not further prepared	212,752
081190	Other fruits and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar or other sweetening matter	500,531
200980	Juice of any other single fruit or vegetable, not fortified with vitamins or minerals, unfermented and not containing added spirit	229,104
210390	Other sauces and preparations thereof; mixed condiments and mixed seasonings	313,439
300490	Other medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses or for retail sale	308,054
440799	Other wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm	2,346,601
490199	Printed books, brochures, leaflets and similar printed matter, nes	662,118
520100	Cotton, not carded or combed	601,276
520547	Combed cabled cotton yarn, with >=85% cotton, nprs, >94mn but <=120mn per single yarn	1,028,744
520548	Combed cabled cotton yarn, with >=85% cotton, nprs, >120mn per single yarn	1,917,654
610510	Men's or boys' shirts of cotton, knitted or crocheted	1,751,438
611019	Other sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted, of wool or fine animal hair	1,046,685
700721	Laminated safety glass for vehicles, aircraft, etc	244,240
710691	Unwrought silver (incl. silver plated with gold or platinum)	64,857,791
740312	Wire-bars of refined copper	2,573,651
740710	Bars, rods and profiles of refined copper	2,583,560
740811	Wire of refined copper, maximum cross-sectional dimension >6mm	754,172
740919	Plates, sheets and strip, of refined copper, uncoiled, >0.15mm thick	5,144,530
810600	Bismuth and articles thereof (incl. waste and scrap)	1,406,900
870410	Dumpers for off-highway use	524,926

Source: SUNAT

Prepared by: MINCETUR/VMCE/OGEE

C. Peruvian Importing Perspective

- Complementarity between the Peruvian Import Demand and the Chinese Supply

Following the same logic used for the exporting perspective, the analysis of current and potential Peruvian imports originating from China is based on a sample of 789 subheadings, for which Peru has registered average importing totals over US\$ 100,000 from the Asian Region, for the period 2002-2006. Additionally, they are products for which Peru displays a MFN applied tariff different from 0%. These products add a total imported average of more than US\$ 1,114 million, which represent 52.5% of the total imports from this region.

With regards to the individual subheading analysis, the methodology is similar to the one applied for the exports. If Peru presents a RRPC over 1 in an imported subheading, while China has a RRCA greater than 1, then it can be affirmed that a complementary relationship exists between them (gray subheadings in the middle of the graphic). When Peru maintains a RRPC greater than 1 in a subheading, but their counterpart does not present significant

comparative advantages, such products will be indicated on the left side of the graph. Otherwise, the subheading will be displayed on the right side of the graph.

After analyzing the 789-subheading sample, we obtained that coincidences between the Peruvian RRPC from the Asian market and the Chinese RRCA towards Latin America exist in 17.4% of the imported total, which represents a total value of US\$ 369 million. This value is composed by 171 products and is distributed in 38 chapters of the Harmonized System.

In addition, clusters of subheadings displaying complementarity can be appreciated in the following chapters of the Harmonized System: 55 (Man-made staple fibers), 61 (Articles of apparel and clothing accessories, knitted or crocheted), 62 (Articles of apparel and clothing accessories, not knitted or crocheted), 85 (Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles) and 96 (Miscellaneous manufactured articles); which include manufactures of different levels of technology.

Complementarity Table between the Peruvian Import Supply and the Chinese Supply

CHA	RRPC PERU					RRCA CHINA					CHA
03	030375					030379					03
08	080111										08
10	100630										10
15	151550	151620	151790								15
17	170230	170290	170410								17
18	180500										18
20	200820									200310	20
21	210390	210690				210310					21
24										240220	24
27	271019									270400	27
28	284910					281511	282810	283630	283919		28
29	291570	291732	291734			290420	293010				29
	291739	291890	292242							291719	292090
	293339	293391							293090	293100	293399
30	300220	300290	300410	300420							300590
	300432	300439	300440	300490							
32	320649	320820	321511								320300
	321519	321590									
33	330510	330610									330420
34	340120	340211	340220								340600
	340290	340391	340540								
35	350300										
36	360500										
37	370110	370120	370220	370244							370255
	370254	370320	370790								
38	380991	381121	381230								
	381600	381700	382490								
39	390690	390890	391721	391731	391732		391810			392321	392329
	391739	391740	391910	391990	392010		392210			392410	392490
	392020	392043	392049	392112						392530	392610
	392113	392119	392190	392310							392620
	392390	392590	392630								392640
40	400811	400821	400911	400921		401120	401212				401691
	400931	400941	400942	401110		401490	401511				401692
	401290	401410	401519	401693		401590	401694				
	401699										
41	411410										
42						420299		420212	420219	420221	420222
						420310		420229	420231	420232	420239

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								420292	420329	420330	
43											43
44	441033				440810		441400	441900	442010	442190	44
46					460290					460210	46
48	480255	480256	480591							481940	48
	480830	480920	481013	481019						482010	
	481029	481092	481141	481151						482050	
	481190	481620	481630	481840							
	481890	481930	482020	482110							
49	490199	490900	491199								49
52	520100	520512	520513		520821		520822	520831	520832	520839	52
	520522	520523			520922		520842	520932	520939	520942	
	520524	520526		521142	520959		521021	521031	521143	521149	
53										530929	53
54	540110	540241	540242		540233	540742		540752	540754	540761	54
	540243	540249	540262		540744	540753			540784	540792	
	540822				540769	540773				540793	
55	550921	550951			550810	550922	551211	551311		551219	55
	550953	551011			551312	551321	551412	551421		551341	
	551422				551511	551512	551614	551622		551623	
56	560392	560393	560394		560811						56
	560600	560750									
58	580620	580632			580122	580136				581091	58
	580710	580790			580421					581092	
59	590320	590390	590700		590210	590310					59
60	600410				600532	600632				600110	60
	600633				600634					600192	
61	611420										61
			610120	610130	610230		610333	610342	610343	610433	
			611011	610721	611019		610462	610463	610510	610520	
			611020	611090	611030		610620	610821	610822	610831	
				611430	611693			610832	610910	610990	
								611120	611130	611212	
62	620311			620112	620113		620192	620193	620292	620293	62
	620444			620211	620212		620312	620342	620343	620423	
	621220			620213	620323		620432	620442	620443	620452	
	621510			620332	620333		620453	620459	620462	620463	
				620433	620520		620469	620530	620590	620640	
				620630	620721		620690	620822	620892	620920	
				621111	621430			620930	621133	621143	
				621440	621520				621210	621710	
63	630510			630140	630240			630222	630231	630232	63
				630251	630291			630253	630260	630391	
				630492	630612			630533	630622	630790	
64				640391	640299		640219	640220	640291	640319	64
				640510	640590		640399	640411	640419	640520	
									640610	640620	
65								650590	650610	650699	65
66								660110	660191	660199	66
67									670210	670290	67
68	680510	680690	681290								68
69	690890				691110			690210	690220	691010	69
	691090				691200				691310	691390	
70	700711	701090		700510	700991	701329				700992	70
	701990			701339	701400	701810	702000			701399	
71					711420	711719				711790	71
72	720916	720917	721041							721720	72

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	721049	721070	721633								
	721640										
73	730630	730650	730690		731290	731431		730723	730890	731700	
	730820	731816	731821		731441	731581		731812	731814	731819	
	731822	731824	732010		731811	741910		732113	732393	732394	
	732020	732591			732391	732392			732399	732490	
					732410						
74									741220	74	
76	760820	761490			760421					761519	76
	761610				760429						
82	820140							820551	821000	821110	821191
	820890							821193	821300	821420	821510
										821520	821599
83	830230	830810		830130	830140			830110	830210	830242	830249
	830990			830520	830590			830250	830300	830510	830629
										830630	830890
84	841350	841381	841391	841460		841829					841451
	841790	841810	841821	841830		842410					841459
	841919	841939	842123	842131		845011					841869
	842139	842199	843139	843141							841911
	843390	843810	844720	847490	847982						845012
	848130	848310	848330	848340	848350						845019
	848360	848390	848410	848490	848510						845210
	848590										848180
85	850422	850423		850610	850940			850110	850211	850650	850680
	850710	851110		851650	851679			850720	850730	850740	850780
	851140	851150		852110	852712			850910	850980	850990	851310
	851180			852719	852731			851610	851629	851631	851632
	851190			852739	852812			851640	851660	851671	851672
	852729			852813	852830			851890	851999	852033	852090
	852821			853922	854420			852190	852290	852713	852721
	853720			854590				852732	853661	853921	853929
	854430								853931	853932	853939
87	870321	870322	870323	870324		871120				870831	871200
	870331	870332	870333	870829						871310	871500
	870891	871130									871680
90	900211	901832		900140	900150	900490				900311	900319
	902890				900640	900653				900410	900651
91					901831	902830				900659	902511
				910211	910219	910299					
				910390	910519	910529			910212	910229	910291
92				920510	920590					910310	910511
				920710	920994						910521
94										920600	920790
											920999
	940310				940150			940130	940161	940169	940171
	940390				940370			940179	940180	940320	940330
					940599			940360	940380	940430	940490
95								940510	940520	940530	940540
											940550
	950430				950100			950210	950320	950341	950349
					950330			950350	950370	950380	950390
96					950360			950410	950490	950510	950590
					950440			950629	950651	950669	950670
					950662					950691	950699
96	960610			960621	960711	960720		960321	960329	960330	960330
	960629			960810	960820	960910		960340	960390	960719	960719
				961100	961210	961511		960840	960990	961310	961310
					961590	961620		961320	961380	961519	961519

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Among the complementary subheadings presented in the table, some of the most notable for their import value are: 852731 (Radio receivers with sound recording/reproducing apparatus), 871120 (Motorcycles with reciprocating engine of capacity 50-250cc), 852812 (Color TV receivers), 401120 (New pneumatic tires, of rubber, of a kind used on buses or trucks) and 845011 (Fully-automatic washing machines, capacity=<10kg). None of these goods is produced in Peru stating the complementary relationship existing between both countries.

Nevertheless, the sample also includes products which are sensitive to be imported to Peru, since opening their trade may result on a negative impact to the national industry. For these products, it is recommended to negotiate longer liberalization periods or alternatives to liberalization in order to allow the local producers to generate advantages and greater competitiveness before opening trade between both parties. Some examples are the Textiles and Apparel and Footwear sectors, which raise sensibilities due to their labor intensive nature. In this sense, and using the Peruvian customs tariff as a reference of the goods with local production and with sensibility to Chinese imports, the following table presents the products that show the greatest sensibilities, aside from the sectors previously mentioned:

Sensitive Products from Imports originated in China

Chapter	Description	Examples of Sensitive Products
17	Sugars and sugar confectionery	Sugar confectionery (including white chocolate), not containing cocoa
20	Preparations of vegetables, fruit, nuts or other parts of plants	Mushrooms of the genus <i>Agaricus</i> , prepared or preserved; Pineapples, otherwise prepared or preserved
21	Miscellaneous edible preparations	Soy sauce; Other sauces and preparations thereof; mixed condiments and mixed seasonings
29	Organic chemicals	Dithiocarbonates (xanthates)
30	Pharmaceutical products	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses or in forms or packings for retail sale
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	Paints and inks
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	Beauty or make-up preparations
35	Albuminoidal substances; modified starches; glues; enzymes	Prepared glues and other prepared adhesives
39	Plastics and articles thereof	Articles of plastic
50 - 63	Textiles and apparel	Articles of apparel and clothing accessories
64	Footwear, gaiters and the like; parts of such articles	Footwear
70	Glass and glassware	Bent, edge-worked, engraved, drilled, enameled or otherwise worked glass; Safety glass, consisting of toughened or laminated glass
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewelry; coin	Imitation jewelry
72 - 73	Iron and steel and articles thereof	Articles of steel
83	Miscellaneous articles of base metal	Locks
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	Pumps; fans; freezers; water heaters
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	Generators

94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated sign illuminated nameplates and the like; prefabricated buildings	Seats
96	Miscellaneous manufactured articles	Buttons; pens

Prepared by: MINCETUR/VMCE/OGEE

- Peruvian Import Demand from China

The Quadrant Analysis for the importing perspective is focused in the comparative advantages that China possesses towards Latin America, set against the Peruvian relative purchase capacity from the Asian market; as well as the relative importance of China as a supplier of a specific product.

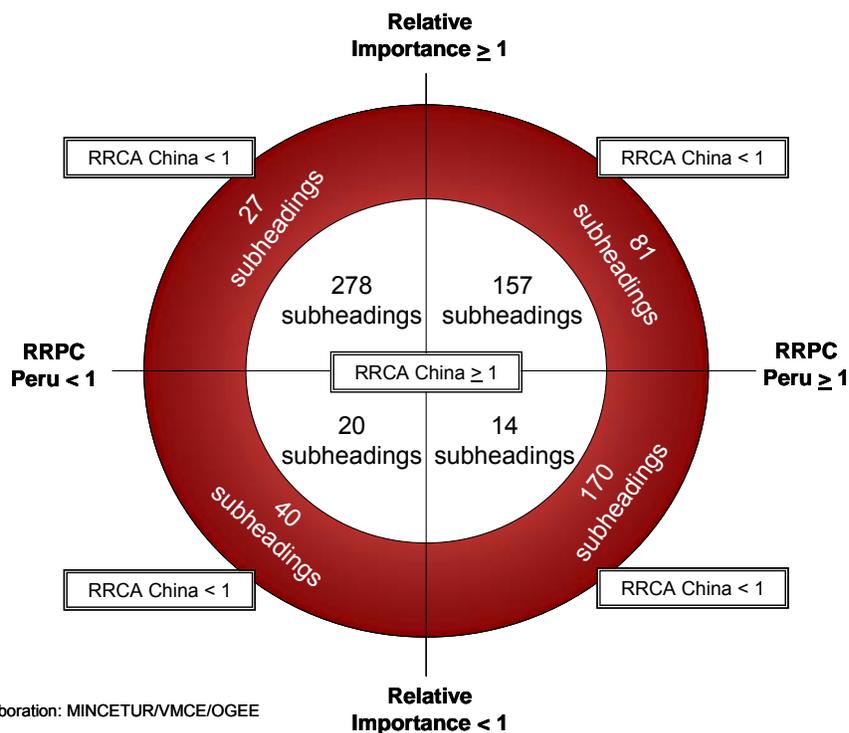
Quadrant 1 (upper right) includes the products in which Peru presents a high RRPC and, at the same time, considers China a relatively important supplier. China displays comparative advantages towards Latin America in 157 of these subheadings, some of which could start to be imported free of tariffs once a trade agreement is signed. Some important products, due to their relative importance and complementarity with the Peruvian demand are: Radio receivers (852731), Motorcycles with reciprocating engine of capacity 50-250cc (871120), Color TV receivers (852812), New pneumatic tires of a kind used on buses or trucks (401120), Microwave ovens (851650), among others.

Quadrant 2 (upper left) covers those products in which China is already a relatively important supplier, in spite of the fact that the Peruvian RRPC from the Asian Region is not high. Some of these cases may be of inputs or intermediate materials not produced domestically, for which to achieve free trade is convenient. Some of the stand-out products in this Quadrant, due to the Chinese advantages in Latin America are: Video recording or reproducing apparatus (852190), Toys (950390), Other appliances such as taps, cocks and other valves (848180) and Discharge lamps (853931).

In **Quadrant 3**, we can find the products for which Peru does not perceive China as a relatively important associate yet nor presents a high RRPC from the Asian Region, so they would present a lesser priority than the ones in the other quadrants. Nevertheless, it should not be disregarded that among these products there may be some important inputs not being imported from China or to be required in the future when new productive processes develop. Some notable products in this Quadrant are: Coke and semicoke of coal (270400), Structures and parts of structures of iron or steel (730890) and Mounted brake linings for motor vehicles (870831).

Finally, **Quadrant 4** includes the subheadings in which Peru presents a high RRPC, but the relative importance of China as the supplier is low or moderate. In this case, Peru could take advantage of an agreement with China to place it as the supplier of the products that Peru requires and/or does not produce to satisfy its internal demand. Some of the main subheadings in this quadrant, because of the complementary relationship with China, are: Tyre cord fabric of high tenacity yarn of nylon or other polyamides (590210), Tyre cord fabric of high tenacity yarn of nylon or other polyamides (551511), Slide fastener parts (960720) and Articles of graphite or other carbon for electrical purposes (854590).

Peruvian Import Demand from China



D. Results of TSC for Peru

The TSC index was calculated for Peru’s global trade for the average trade flows between 2002 and 2006. Among the products that were traded during that period, 924 showed a TSC index higher than 0, while 4124 presented a TSC index lower than 0.

The products with a positive index are mainly agricultural, mineral and textile and apparel goods, notwithstanding the presence of some products with a higher value added. In the other hand, most products with a TSC lower than 0 are manufactures of high or medium technology, in which Peru does not possess comparative advantages.

4 IMPACTS OF TRADE AND INVESTMENT LIBERALIZATION

This chapter evaluates the economic impact of a possible Free Trade Agreement between Peru and China by using two Computable General Equilibrium (CGE) Models⁸⁰ and two Partial Equilibrium Models: for Peru, the GTAP and the SMART model, and for China the IMMPA and the PE model. The modeling results strongly support the propositions advanced throughout this Joint Study; i.e. that both Peru and China will gain from a Free Trade Agreement.

A Free Trade Agreement between Peru and China would involve the elimination of tariffs on substantially all trade between these countries and would ensure that non-tariff measures do not act as obstacles to bilateral trade. Particularly, a comprehensive FTA would mostly contribute to increase bilateral trade through commonly agreed trade facilitation measures, namely customs procedures, rules of origin, and SPS, which will reduce transaction and administrative costs. In other words, a direct correlation between the size of the gains and the scope and ambition of any FTA outcome can be expected.

The analysis of the economic impact of the FTA between Peru and China, developed in the following sections, will focus only in the impact of tariff elimination⁸¹, because of the lack of adequate equivalent measures for non-tariff barriers (except in the case of China's PE model, that also consider the removal of quantitative restrictions)

4.1 Liberalization of Bilateral Trade in Goods

4.1.1 Analysis Based on Computable General Equilibrium Model (CGE)

China

A. Model Introduction

In the modeling process, we have made reference to the IMMPA (Integrated Macroeconomic Model for Poverty Analysis) that the World Bank built for Brazil to do poverty analysis, and have made major changes to such model according to China's circumstances. There are seven blocks in this model: production block, income and distribution block, ultimate domestic demand block, trade block, labor market block, private capital and macro closure block, and price and GDP definition block. CGE model is based on the input and output data, and China's National Statistics Bureau prepared its input-output statement once every five year, so we use as the basic data the latest input-output statement of 2002.

B. Analysis of Impacts on Macro Economy

We make a general assumption here: under the simulated circumstance, both countries cut down their average tariff rates by 100%. The result shows:

The actual GDP will grow by 0.04%⁸². Due to the increase of 0.06% in price, the nominal GDP goes up by 0.1%. Resident consumption will grow at a rate of 0.16%; investment will grow at a rate of 0.08%; export will grow at 0.56%, with a rise after down period while import will grow at 1.08%, with a decline after a rise. The labor demand will rise by 0.06%. The fiscal revenue and the disposable incomes of rural residents and urban residents will increase a little.

⁸⁰ A CGE model is an abstraction that is complex enough to capture the essential features of an economic situation, yet simple enough to be tractable. In other words, it is a computable representation of a country or a group of countries that describes artificially the consumers, producers, government and rest of the world. The equilibrium of the model must keep exact concordance with the base year data; and after a parameter modification, it has to be re-adjusted in order to find the new equilibrium.

⁸¹ We consider as tariffs all ad-valorem rates, specific rates, and mix rates applied by both countries.

⁸² The outcome of GDP is the average value from 2006 to 2015, and others in this sector have the same meaning.

Table 4.1 Macro-impact of China-Peru FTA by Dynamic CGE Model
 Unit: %

	2009	2012	2015
GDP	0.038	0.038	0.038
Consumption	0.162	0.162	0.162
Investment	0.088	0.086	0.082
Export	0.558	0.57	0.586
Import	1.074	1.076	1.068
Fiscal Revenue	0.28	0.276	0.27
Labor Demand	0.048	0.048	0.042
Price level	0.06	0.06	0.058
Disposable Income	Rural	0.256	0.252
	Urban	0.32	0.322

N.B. The outcomes in the table are all about real item and the percentage change of simulation scenario against base scenario.

C. Impacts on Foreign Trade

- Exports

Except for fishery and forestry, China-Peru FTA will promote agricultural export from China, with the exports up by 0.84% in grain growing sector and by 0.32% in stock breeding sector. But such effects will decline gradually. Forestry exports will remain relatively stable, down by 0.72%, and fishery exports will drop by 1.64%. China's export of food manufacturing and tobacco processing, and textiles will increase by 0.82% and 0.42% respectively. Export of electronic and communication equipment manufacturing, and transportation equipment manufacturing will rise by 1.06% and 0.92% respectively. China's mineral exports will suffer a certain adverse impact. Exports in ferrous metal mining and dressing, and non-ferrous metal mining and dressing will drop by 0.28% and 0.82% respectively.

- Imports

Import of Mining and agriculture products will increase. Imports in ferrous metal mining and dressing, non-ferrous metal mining and dressing, and oil and gas exploitation will increase by 1.32%, 1.12%, 0.58% and 0.9% respectively. China's import of fishery and forestry products will increase by 1.04% and 0.24% respectively. Additionally, the imports in papermaking, oil processing, metalwork and metal smelting will show a modest increase.

D. Impacts on Major Industries

- Agricultural, Forestry and Fishery Products

China's exports in forestry and fishery will decrease, and its imports will increase as Peru has certain advantages over China in these two sectors. Consequently the added value of the two sectors will be influenced adversely, with the added value of forestry down by 0.28% (relatively stable) and that of fishery down by 0.76%. That adverse effect will mount up when time goes on. Affected by the reduced added value, labor demand in forestry will drop by 0.15%, and that in fishery will drop by 0.03%.

- Mineral Resources and Energy

In mining sector, the overall cost of mining sector will drop, and its added value will thus increase due to the decline in price of imported resources as a result of reduced tariff rates. The added value of ferrous metal mining and dressing, non-ferrous metal mining and dressing, and oil and gas exploitation will increase by 0.64%, 0.36% and 0.38% respectively, indicating a rise after a decline. The labor demand in these three sectors climbs up by 0.15%, 0.06% and 0.03% respectively. Oil and gas exploitation remains stable in the growth of labor demand.

- Textile, Apparel and Footwear

According to the results of the simulation scenario, the China-Peru FTA will have only inconsiderable effects in enhancing China's textiles and garments sector. The added value of textiles will rise by 0.16%, with labor demand up by 0.02%; the added value of garments and other fiber products manufacturing sector will rise by 0.12%, with labor demand up by 0.02%. Therefore, the added value and the labor demand of these two sectors will remain in stable movement.

- Petrochemical and Chemical Industries

Due to the effect of the decreased tariff rate, the price of imported raw materials of Petrochemical industries will be lower, inducing the decreasing of cost, therefore the added value and labor demand will increase somewhat. But, Peru only has a very limited share in China's total trade, so the positive influence is relative slender.

- Other Industries

The added value in the transportation equipment manufacturing sector, the electronic and communication manufacturing sector, metalwork, apparatus and instruments sector, and stationery and office supplies manufacturing sector increases by 0.96%, 0.81%, 0.5% and 0.32% respectively, each having a movement of rising after a decline; employment in these sectors grows by 0.09%, 0.08%, 0.04% and 0.03% respectively, indicating a stable movement.

Peru

A. Model Structure

A standard version of the GTAP model, developed by Purdue University, will be used for this purpose. This is a static, multi-region and multi-sector model, which assumes perfect competition in all markets and constant returns to scale in all functions of production. It estimates the gains of trade that arise from a more efficient allocation of resources and from the variation in terms of trade. Nevertheless, it does not capture other important effects that Free Trade Agreements have over the economies, like effects on factor accumulation (as labor or capital), as well as dynamic long term effects on total factor productivity.

Therefore, two other features to the model were incorporated. First, in order to have a more realistic assumption for developing countries, instead of assuming that all markets operate in perfect competition; wage rigidities in the unskilled labor market were introduced. Second, the possibility to accumulate or not accumulate capital by keeping the real rate of return to capital fixed and letting the stock of capital to grow or to diminish after a policy shock, was added.

The quality of the results that are obtained from CGE models will depend on the model specification as well as on the data bases employed. Therefore, in terms of data, the version 6 of the GTAP data base, benchmarked in 2001 was used as starting point. The 87 regions and 57 sectors from the GTAP data base have been regrouped in the regions (11) and sectors (15) listed in the charts below.

Then, because of the significant changes that Peru and China had experienced between 2001 and 2006, data on bilateral trade and tariffs was updated to get estimates for 2005 and 2006, using information from a range of sources, principally the Peruvian Customs Agency (SUNAT), the Chinese Customs Office, and the WTO Integrated Data Base.

Regions	
1	Peru
2	China
3	United States
4	European Union (25)
5	Canada
6	Chile
7	Rest of FTAA
8	Rest of South America
9	Asia
10	Rest of Andean Community
11	Rest of the World

Source: GTAP database version 6

Sectors	
1	Agriculture
2	Chemical, rubber, plastic products
3	Electric, Non Electric Machinery and Transport Equipment
4	Fishing
5	Flours, meals and pellets of fish
6	Leather products
7	Metal Products
8	Others
9	Petroleum and Mineral Products
10	Textiles
11	Vegetables, fruit, nuts
12	Wearing apparel
13	Wood and Paper products
14	Fats and Oils and their fractions of fish
15	Services

Source: GTAP database version 6

Once the data has been updated, two key facts emerge from it. First, tariff rates in Peru on most merchandise imports from China were below 12% in 2006. However, imports of leather products, wearing apparel, textiles and vegetable fruits and nuts were clear exceptions, being subject to much higher protection than other imports. Second, even though China's average tariff rate to Peruvian imports was around 1%, some of the tariffs applied to agricultural products; vegetables, fruits and nuts; fishing; wearing apparel and others; were higher than 11%.

Bilateral Tariffs weighted by imports

Sectors		Chinese tariffs	Peruvian tariffs
1	Agriculture	24.01	9.08
2	Chemical,rubber,plastic products	8.68	4.36
3	Electric, Non Electric Machinery and Transport Equipment	6.76	4.40
4	Fishing	11.40	11.98
5	Flours, meals and pellets of fish	2.00	12.00
6	Leather products	7.02	17.45
7	Metal Products	2.90	7.53
8	Others	17.17	11.69
9	Petroleum and Mineral Products	0.14	5.53
10	Textiles	7.03	17.74
11	Vegetables, fruit, nuts	14.54	24.98
12	Wearing apparel	15.90	19.43
13	Wood and Paper products	0.02	11.37
14	Fats and Oils and their fractions of fish	12.00	0.00
Average		1.00	7.55

Source: IDB WTO, SUNAT, China Customs

B. Scenarios

The following two scenarios were evaluated:

- The first one simulates the immediate removal of tariffs in all goods traded between both countries.
- The second one simulates the elimination of tariffs in all goods imported by China from Peru, and the elimination of tariffs in all goods imported by Peru from China, with the exception of some Peruvian sectors that experienced adverse effects after the replication of the first scenario.

C. Macroeconomic Impacts

After the simulations, the outcomes suggest that, with the implementation of the Peru-China FTA, real GDP and welfare for both economies would rise above the baseline in both scenarios.

Particularly, in the Peruvian case, real GDP and welfare would be at least 0.70% and 0.53% higher, and these results would increase to 0.80% and 0.66% if Peru excludes from the tariff elimination schedule some products as textiles, wearing apparel and leather products.

As a result of the GDP increases, the employment rate, the stock of capital and the investment rate would expand above 0.51%, 0.85% and 0.06% correspondingly.

In terms of trade flows, the model shows that world trade and bilateral trade would increase. It means that trade creation will exceed trade diversion in both countries, and thus, a positive impact on economic welfare will take place. On the Peruvian side, aggregate exports to the world and to China would increase by at least 1.93% and 5.40%, respectively; and aggregate imports from the world and from China would increase by at least 1.89 and 30.11%.

Apparently, Peruvian exports by partner would increase in all cases; while Peruvian imports from China will increase and Peruvian imports from other Peruvian trading partners would decrease. In other words, part of Peruvian imports from the rest of the world would be substituted by Chinese imports.

This exercise also suggests that Peru's trade balance and tariff revenue would worsen in both scenarios. In the first case, due to greater tariff elimination, the assumption of a fixed exchange rate will generate a much faster increase of Peruvian imports over Peruvian exports, and this will produce an slightly increase on the trade balance deficit.

Macroeconomic Impacts of Peru-China Free Trade Agreement

Macroeconomic Indicators	First Scenario	Second Scenario
1 Welfare (Equivalent Variation in US\$ Mills/GDP)	0.53%	0.66%
2 Available Income per capita	0.60%	0.74%
3 Real GDP (variation%)	0.70%	0.80%
4 Trade Balance (US\$ Mill/ GDP)	-0.02%	-0.01%
5 Imports (var%)	3.09%	1.93%
6 Exports (var%)	3.05%	1.89%
7 Domestic Consumption (var%)	0.08%	0.43%
8 Taxes Revenue (US\$ Mill/GDP)	-0.30%	-0.18%
9 Investment (US\$ Mill/GDP)	0.06%	0.14%
10 Employment	0.51%	0.81%
11 Stock of Capital	0.84%	1.04%

Source: CGE Simulations

D. Sectoral Impacts

In this section, the focus will be on the sectoral impact of a FTA between Peru and China. The Peruvian sectors that would win or lose from an FTA will be identified, taking into consideration a full liberalization scenario and a non-full liberalization scenario.

In the first scenario, the sectors that would benefit the most are: Fats and oils and their fractions of fish; petroleum and mineral products; fishing; flours, meals and pellets of fish, among others. And, the sectors that would lose the most are: leather products, textiles, wearing apparel, metal products, among others.

Particularly, some potential winners as chemical rubber and plastic products, as well as fats and oils and their fractions of fish will increase their total exports between 6.34% and 141.84%, and will considerably expand their exports to China in 78.75% and 174.96%; respectively.

On the other hand, some potential losers like leather products, textiles and wearing apparel, would increase their imports from China considerably, while diminishing their imports from other countries, and also withdrawing their local production.

In the second scenario, comparing the first outcomes, with the scenario that excludes the liberalization of some products, the model shows that the sectors that would benefit most are the aforementioned, and textiles. By the other side, the sectors that would lose most are metal products; electric non machinery and transport equipment; and others.

Particularly some potential winners such as chemical rubber and plastic products, as well as, fats and oils and their fractions of fish will increase their total exports between 4.77% and 139.85% and will considerably expand their export to China in 76.04% and 169.23%. Some special attention in the second scenario deserves the textile sector, whose total exports would increase around 4.04% and their exports to China would expand in 68.15%.

On the other hand, some potential losers like metal products; electric, non electric machinery and transport equipment; and others; would increase their imports from China considerably, diminishing their imports from other countries, and also withdrawing their local production.

Sectoral Impact on Peruvian Total Production (Var%)

Sectors		First Scenario	Second Scenario
1	Agriculture	0.71%	0.99%
2	Chemical,rubber,plastic prods	0.94%	1.02%
3	Electric, Non Electric Machinery and Transport Equipment	-0.48%	-0.52%
4	Fishing	1.55%	2.02%
5	Flours, meals and pellets of fish	1.41%	1.39%
6	Leather products	-6.25%	0.82%
7	Metal Products	-1.15%	-1.09%
8	Others	-0.32%	-0.04%
9	Petroleum and Mineral Products	1.94%	1.23%
10	Textiles	-2.52%	1.38%
11	Vegetables, fruit, nuts	0.67%	0.94%
12	Wearing apparel	-1.18%	0.62%
13	Wood and Paper products	0.22%	0.43%
14	Fats and Oils and their fractions of fish	5.87%	6.02%
15	Services	0.39%	0.74%
Total		0.46%	0.80%

Source: CGE Simulations

Sectoral Impact on Peruvian Exports (Var%)

Sectors	First Scenario		Second Scenario	
	Total Exports	Exports to China	Total Exports	Exports to China
1	1.80%	274.84%	0.44%	269.18%
2	6.34%	78.75%	4.77%	76.04%
3	4.35%	75.00%	2.87%	72.37%
4	0.53%	29.17%	0.15%	29.17%
5	3.43%	8.51%	2.59%	7.68%
6	7.62%	79.65%	5.64%	76.11%
7	3.95%	27.91%	3.04%	25.58%
8	2.94%	200.00%	1.48%	180.00%
9	2.86%	3.56%	1.63%	2.41%
10	6.13%	71.81%	4.04%	68.15%
11	0.44%	64.29%	-0.03%	63.19%
12	3.26%	212.50%	1.56%	206.25%
13	2.51%	2.69%	1.36%	1.53%
14	141.84%	174.96%	136.85%	169.23%
15	1.12%	1.18%	0.39%	0.44%
Total	3.05%	6.54%	1.89%	5.40%

Source: CGE Simulations

Sectoral Impact on Peruvian Imports (Var%)

Sectors	First Scenario		Second Scenario	
	Total Imports	Imports from China	Total Imports	Imports from China
1 Agriculture	0.97%	69.82%	1.64%	71.19%
2 Chemical, rubber, plastic prods	0.76%	28.80%	1.51%	29.81%
3 Electric, Non Electric Machinery and Transport Equipment	2.35%	29.61%	2.75%	30.16%
4 Fishing	1.69%	35.29%	2.30%	35.29%
5 Flours, meals and pellets of fish	0.11%	0.00%	0.71%	0.00%
6 Leather products	55.16%	98.03%	-0.24%	-0.27%
7 Metal Products	4.74%	39.86%	4.97%	40.19%
8 Others	10.75%	61.65%	11.55%	62.86%
9 Petroleum and Mineral Products	1.46%	58.08%	1.31%	57.96%
10 Textiles	24.48%	123.11%	0.38%	0.33%
11 Vegetables, fruit, nuts	1.80%	128.99%	2.00%	128.99%
12 Wearing apparel	61.12%	116.05%	-0.16%	-0.18%
13 Wood and Paper products	1.63%	88.79%	2.35%	90.20%
14 Fats and Oils and their fractions of fish	-0.80%	0.00%	0.43%	0.00%
15 Services	0.03%	-0.05%	0.62%	0.57%
Total	3.09%	47.82%	1.93%	30.11%

Source: CGE Simulations

E. Impacts on Major Industries

- Agricultural, Fruit, Forestry and Fishery Products

In 2006, Peruvian exports of **agricultural products** to China reached US\$ 1.6 million, representing only 0.17% of Peruvian agricultural exports. Whole hides and skins, and giant maize from Cuzco, represents 86.89% of Peruvian agricultural exports to China. On the other hand, Peruvian exports of **vegetables and fruits** to China reached US\$ 1.9 million, representing only 0.23% of Peruvian vegetables and fruits exports. Fresh grapes, mangoes and mangosteens and other fruits and nuts, uncooked or cooked by steaming or boiling in water (like strawberries, tomatoes) represents 94.78% of Peruvian sectoral exports to China.

During these years, Peru has been specializing in high-price growing products, like vegetables and fruits, and is currently the leading country in asparagus and dry red pepper (*paprika*) exports; products where China's demand has been augmenting. Therefore, there is a strong potential of growth in both sectors, and Peru should take advantage of their counter-seasonal production in some of its products. Peru should also gain from its position in the southern hemisphere, where some of its products, can percolate into the Chinese market a month ahead of its southern hemisphere neighbors.

China's average tariff rate to Peruvian imports is around 24.01% for agricultural products and 14.54% for vegetables, fruits and nuts; and the modelling results suggests that their complete removal would increase Peruvian agricultural exports to China in 69.82% and vegetable and fruits exports to China in 128.99%.

However, the full benefits of tariff reductions will be materialized only if there is a significant reduction in non tariff barriers, such as, import quotas, SPS and licenses, as well as clear and transparent customs procedure disciplines. Thereof, the best way of allowing an FTA to reach its full potential, is through ensuring that non-tariff measures do not act as obstacles to bilateral trade.

Peruvian exports of **woods and paper products** to China registered US\$ 45.8 million, in 2006, representing 12.9% of Peruvian exports in this industry. But the main of its exports (96.80%) were concentrated in low value-added wood products, like strips and friezes for parquet flooring, not assembled, and other wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6mm.

Peruvian exporters have not been able to place in the Chinese market higher value-added wood products, it seems that Chinese prefer to import un/semi finished wood in order to add value in China. Because of that, ad-valorem tariff faced of by Peruvian wood exports are only around 0.02%, and the estimations obtained with the CGE model, suggest that with the FTA, Peruvian wood exports to China would increase in 2.68%. Perhaps, a deep understanding in trade facilitation processes would contribute to develop joint opportunities in this industry and boost these modest results.

Peruvian **fishery products** could be divided in 3 categories: fishing products, flour meals and pellets of fish, and fats and oils and their fractions. In 2006, their exports to China, represent 12.24%, 37.49% and 5.13% of the Peruvian total exports by each industry (jointly they reached US\$ 492 million).

Particularly, Peruvian “fishmeal” has an excellent reputation in China, it is considered among the best in the world, and China imported well over US\$ 1,143 millions in 2006. Consequently, Peru should take advantage of their well-known reputation in fishery and should penetrate with other fishery products that have significant potential to improve, like: fats and oils and their fractions of fish other than liver oils, clams, other crustaceans, other live fresh or chilled fishes, among others.

China’s average tariff rate to Peruvian fishery imports are: 11.40% for fishing products, 2% for flour meals and pellets of fish, and finally 12.00% for fats and oils and their fractions of fish. Taking account that, the model outcomes suggest that, Peruvian exports of fats and oils and their fractions of fish would increase considerably (174.96%), followed by the Peruvian exports of fishing products exports (29.17%) and flour meals and pellets of fish (8.51%).

- **Mineral Resources and Energy**

Peru is a mining country and as a result, Peruvian **petroleum and mining products** are the most important exports to China (almost 75%). In 2006 they reached US\$ 1,702 million, representing 9.85% of Peruvian mining exports. The most important products exported to China are: copper ores and concentrates; lead ores and concentrates; petroleum oils and oils obtained from bituminous minerals, crude; molybdenum; tin; zinc; among others.

Peru and China share a complementary economic bilateral relationship in this sector and the tariffs faced by Peruvian mining exports are very low (0.14%), but it seems that, the elimination of this apparently un-meaningful tariff would contribute mining exports to grow in 3.56%.

In order to improve this result, Peru and China should take advantage from their complementarities and enhance their trade relations in mining sector through the allocation of more investments in this industry, through joint ventures agreements, among others.

- **Textiles, Wearing apparel and Leather Products (including Footwear)**

In 2006, bilateral trade in textiles, wearing apparel and leather products, records a clear trade surplus in favor of China of US\$ 222 million. China is one of the main suppliers of these products, representing 36.81% of total Peruvian imports in those sectors. The most important products imported from China are: other dyed knitted or crocheted fabrics of synthetic fibers, denim, other footwear covering the ankle, other footwear covering the ankle but not the knee, and trousers, bib and brace overalls, breeches and shorts for women or girls made of cotton, among others.

The textile and wearing apparel sectors, as well as the leather industry, constitute some of the most important industries in Peru and have a great repercussion in the economy. Their performance based on the possession of excellent raw material, expertise and experience, places them like potential sectors with high expectations for the development of the country. In the last years, those industries have experienced a remarkable growth in their production mostly in the non-domestic side; their extraordinary performance has led them in the top of

the ranking of non-traditional Peruvian exports. Also, these industries are labor-intensive and occupy directly more than 400,000 workers.

The economic impact of an FTA between Peru and China suggests that, the elimination of Peruvian tariffs on textiles, wearing apparel and footwear will generate a significant increase in Chinese bilateral exports and because of that, some losses in these industries will be observed.

Particularly, leather, textiles and wearing apparel imports from China will grow in 98.03%, 123.11% and 116.05%; contrary, the Peruvian production per industry will shrink in -6.25%, -2.52%, and -1.18%, respectively; generating the reallocation of resources in other industries.

Comparing these results with the ones derived from the second scenario (were those sectors are excluded from the tariff elimination process), it seems that, the great benefits for Peru will be reached if Peru choose to maintain their tariff barriers in textiles, wearing apparel and leather products.

Nevertheless, it is necessary to point out, that Peru and China have certain complementarity in some textiles and wearing apparel products, and Peru should endeavor to position its finished textiles and wearing apparel products in the “upscale segment” of China.

- **Other Manufacturing Industries, Chemicals**

These manufacturing industries include chemicals, rubber and plastic products; metal products; electric, non electric machinery and transport equipment; and other manufactures. In each of them, bilateral exchange with China has shown a clear surplus in favor of China of US\$ 1,108 millions in 2006.

Peruvian trade with the world has revealed similar patterns. Peruvian manufacturing imports from the world reached US\$ 8,598 million, while Peruvian manufacturing exports to the world reached only US\$ 1,046 million. It means that Peruvian trade balance, has a deficit of US\$ 7,552 million.

In general terms, we find that China -as the fourth largest manufacturing country in the world-, exhibits comparative advantages in the manufacturing area; while Peru exhibits a strong purchase capacity. And, as most of these products are used as intermediate or capital goods for other industries, it could be said that is more efficient to import them from an efficient supplier (China) instead of fabricate them locally.

However, this complementarity relationship is not true for all of them. Some Peruvian metal products should compete with Chinese metal products, and because of that, the former industry will diminish their production. The model outcomes suggest that these shrink will be around 1.15%.

F. Conclusion

In conclusion, due to the comparative advantage and complementarities shown by both countries, the model outcomes suggest that both countries will benefit from an FTA. The great benefits, in GDP and welfare, will be reached if Peru excludes from the liberalization process some industries like textiles, wearing apparel and leather products. In that case, the real GDP and the welfare will grow in 0.80% and 0.66% from the baseline. Nevertheless, the great benefits, in exports and imports, will be reached if Peru applies the full liberalization scenario. In that case, the exports and imports will grow 3.05% and 3.09% respectively.

4.2 Model Analysis on Trade Creation, Trade Diversion and Sensitive Industries

China

A. Introduction of Partial Equilibrium Model

- Introduction of Partial Equilibrium Model (PEM)

In order to make a quantitative analysis on the influence of establishing the China-Peru FTA, a PEM model is created to act as the cornerstone of the analysis. Different from the CGE model that focuses on calculating the benefit effect of the trade policy; this model focuses on the influence on the price, and demand of the imported products due to the tariff reduction.

According to the assumptions of PEM, if the FTA Agreement is signed by China and Peru, both of the countries will reduce the import tariff based on the Agreement (to realize zero-tariff step by step); remove the non- tariff barrier such as the quantity limitation; further open the market. Such measures will have the following two effects in the short term:

Trade Creation effect: China's demand for products imported from Peru will increase since the import price is lower than before for the sake of the preferential tariff reduction.

Trade Deviation effect: after China carries out the preferential tariff reduction for the imported products from Peru, because the price of the products imported from Peru is lower than that from other countries, China's demand for some of the products will be deviated from other countries to Peru.

The details are explained as the follows:

$$\text{Trade Creation: } d_{TC} = \frac{IM_{PERU} * E_M * t}{1+t}$$

$$\text{Trade Deviation: } d_{TD} = \frac{IM_{PERU} * IM_{REST} * E_S * t}{1+t}{IM_{PERU} + IM_{REST} + \frac{IM_{PERU} * E_S * t}{1+t}}$$

Where, d_{TC} is the value of trade creation, d_{TD} is the value of trade deviation, IM_{PERU} is the CIF value of products imported from Peru by China, IM_{REST} is the CIF value of the same products imported from the rest of world, E_M is China's domestic price elasticity for the imported goods, E_S is the elasticity of substitution between the goods imported from Peru and goods imported from the rest of world, t is the initial customs tariff plus the non-tariff barrier .

$$E_M = \frac{d_Q / Q}{d_p / p}$$

The first formula is actually the transfiguration of the price elasticity formula ($E_M = \frac{d_Q / Q}{d_p / p}$), while the second formula is concluded through complicated calculation that has the following two special conditions:

When $E_s = 0$, i.e., when there is no substitute relation between two types of imported products, other countries will not be affected by the preferential tariff reduction between China and Peru.

When $E_s = \infty$, i.e., the substitute elasticity between two types of imported products is infinite, other countries will be seriously affected by the FTA. Once the FTA is implemented, all the products originally imported from other countries will be imported from Peru. The PEM model is based on the trade structure and trade scale between China and Peru in 2003, while the duty is based on the duty rate stipulated in the Duty Charge Rule for the Most Preferential Countries announced officially by China that year. Because most of the products imported from Peru are within the import quota, all the duty rates used here were very low.

Both IM_{PERU} and IM_{REST} come from the statistics provided by Chinese customs, and t comes from Customs Tariff of Import and Export of the People's Republic of China 2006. Some of the specific duties are converted into the ad Valorem duty according to the relation between the quantity and the value.

The elasticity data E_M are estimated by us. From 1994-2003 Chinese Customs Bulk Products Import Quantity/Price Statistics Table (thereafter referred as "Statistics Table"), we can get the quantity and unit price of the imported products. Then logarithm of the quantity and unit is calculated and constant is added, at last the result is concluded through the regression analysis via the method of least square. For those products that are not included in the Statistics Table, a weight is granted to the elasticity by referring to the similar products categories. E_s is based on the countries substitute elastic data provided by GATP and converted via Armington arithmetic operators. Similar to all the other quantitative analysis on the elasticity, the elasticity data here is only a rough estimate. The conclusion from the PEM model calculation shows that, in the major trade sectors, to some extent, the FTA does have the trade creation effect and trade deviation effect. For more details, please see Table 4.2.

Table 4.2 Trade Creation Value and Trade Deviation Value for Major Categories Unit (US\$ 1,000)

Category	China's Total Import	China's Import from Peru	China's Import from other countries	Trade Creation Value	Trade Deviation Value	Ratio of Trade Deviation in Import from Peru (%)	Ratio of Trade Deviation in Import from other countries (%)	Ratio of Trade Creation in Import from Peru (%)
Category 1	1135989.46	76100.3	1059889.21	2970	6738.57	0.0885	0.0064	0.039
Category 2	1404769.19	550976	853793.44	8909.42	11410.42	0.0207	0.0134	0.0162
Category 3	71561056.55	2059645	69501411.79	0.47	0.62	0	0	0
Category 4	2958572.7	21386.1	2937186.66	1715.95	1081.96	0.0506	0.0004	0.0802
Category 5	778082.32	591.61	777490.7	40.96	27.55	0.0466	0	0.0692
Category 6	4045213.2	32523.1	4012690.07	0.45	0.71	0	0	0
Category 7	4388496.31	19384.6	4369111.76	1334.24	750.55	0.0387	0.0002	0.0688
Category 8	101342.77	136.43	101206.35	3.54	4.58	0.0335	0	0.026
Category 9	13079766.13	148608	12931158.29	2841.56	3584	0.0241	0.0003	0.0191
Category 10	20157676.3	217.25	20157459.06	7.64	9.73	0.0448	0	0.0352
Total	119610964.9	2909568	116701397.3	17824.23	23608.69	0.0081	0.0002	0.0061

Note: The conclusion of the table is calculated on the basis of China-Peru 2006 trade data and the tariff is the MFN tariff of 2005 of China. The products are classified mainly on the basis of the HS 6 digits of Chinese customs. The items that China has no imports from Peru are not calculated and the imports of China are not equal to the real Chinese imports.

Category 1 includes Chinese customs' Class 1 – Alive animals and animal products; Class 2: vegetable products; Class 3 – animal/vegetable fats, oils and waxes, prepared edible fats.

Category 2 includes Chinese customs' Class 4 – Prepared foodstuffs, beverages, spirits, vinegar, tobacco and manufactured tobacco products.

Category 3 includes Chinese customs' Class 5 – Mineral products.

Category 4 includes Chinese customs' Class 6 –Products of the chemical and allied industries; Class 7 – plastics and articles thereof; rubber and articles thereof.

Category 5 includes Chinese customs' Class 8 –Raw hides and skins, leather, furskins and articles thereof.

Category 6 includes Chinese customs' Class 9 –Wood and articles of wood, wood charcoal, cork, wickerwork; Class 10 –cellulosic material, waste paper, paper, paperboard and articles thereof.

Category 7 includes Chinese customs' Class 11 – Textiles and textile articles.

Category 8 includes Chinese customs' Class 12 – footwear, headgear, umbrellas, feathers and articles made therewith, artificial flowers, articles of human hair; Class 13 – Mineral material products, ceramic products, glass and glassware; Class 14 – natural or cultured pearl, precious stones, precious metals.

Category 9 includes Chinese customs' Class 15 – Base metals and articles of base metal. Category 10 includes Chinese customs' all other miscellaneous products.

B. General Analysis on the Trade Creation and Trade Diversion

The trade creation value totals US\$ 17.82 million, approximate to 0.61% of Peru's exports to China in 2006. The trade diversion value totals US\$ 23.61 million, equal to 0.81% of Peru's exports to China in 2006, which, as compared with the value of China's imports from other countries, is insignificant enough to be ignored.

Zero-tariff arrangement between both countries in sectors of agriculture, fishery, food, chemistry textiles and related raw materials manufacture, and base metals and related products manufacture will have a bigger trade creation effect (exceeding US\$ 1 million). Peru's export of relevant products to China will increase to a certain extent. A swift increase will occur in peltry, leather, fur and related products imported from Peru, too.

China's import of mineral products from Peru accounts for 70.79% of China's total import from Peru. However, the trade creation and diversion is insignificant enough to be ignored.

Especially, as three products with the trade value added over US\$ 1 million, fish flour and meals, refined copper cathodes, and sections of cathodes and cuttlefish & squid (frozen, dried, salted or in brine), will get the created-trade-value of US\$ 8.65 million, US\$ 2.15 million and US\$ 1.83 million respectively. For the same period, China's import of these three products totals US\$ 1080 million, US\$ 4310 million and US\$ 170 million respectively. Therefore, China's market of cuttlefish and squid will face a certain degree of challenge from the imports of those products after the implementation of free trade agreement.

From the above analysis, trade creation mainly happens in fishery, textile product and base metal production.

C. Analysis of impact on industries

- Fishery and relevant industries

Peru is a major aquatic products exporter and is the largest fish flour and meal exporter. In 2006, China imported US\$ 544.43 million from Peru. So the trade creation effect about this product only takes 1.6% of China's total imports. As to cuttlefish & squid, the trade creation is US\$ 1.83 million. In 2006, China imported US\$ 53.28 million from Peru. So the impact of trade creation on fishery is small.

- Textile

The figure in the table shows that the trade creation and trade deviation about textile products are US\$ 1.33million and US\$ 0.75 million respectively. That means although China is a major textile products exporter, China and Peru have complementarities in textile products. Peru's exports of textile will increase by more than 10%. Peru's textile industry will benefit from the possible China-Peru FTA.

- Base Metal Production

The major trade creation in base metal production happens to refined copper cathodes with a trade creation of US\$ 2.15 million. In 2006, China imported US\$ 114.64 million of refined copper cathodes from Peru and Chinese total import in 2006 was US\$ 5216.02 million. The potentially increased imports from Peru take 2.2% of the total imports. Chile, Australia and Mongolia are China's major importers of this product. The impact of trade creation is quite limited.

D. Impact on Other Import Markets of China

Agricultural products, aquatic products, food and beverage, chemicals, base metal and related products are those affected most due to the Trade Diversion Effect. The trade diversion in such four types of products accounts for 0.64%, 1.34%, 0.04% and 0.03% respectively of China's total import from abroad. Except the fourth category of products, the trade diversion value of all other products is lower than 1%. So, China-Peru FTA will have limited impact on other import markets of China.

Peru

A. Introduction of Partial Equilibrium Model

Partial equilibrium models can serve as a complement of the general equilibrium analysis aforementioned. The formers, are criticized because they do not take account the economy-wide effects of policy changes like inter-industry effects, or exchange rate effects, that the latter do. Nevertheless, they are very useful because they have the advantage of working at a very fine level of detail, in some cases, at a tariff line level.

In this section, the Trade Policy Simulation Model developed by the UNCTAD, will be used to provide information on the direct trade effects of bilateral tariff elimination between Peru and China.

The main assumptions in this model are:

- On the export supply side. - The degree of responsiveness of the supply of export to changes in the export price is infinite (the export supply elasticity is infinite). In other words, the market adjusts only through quantity.
- On the demand side. – The modelling approach is based on the assumption of imperfect substitutions between different import sources (Armington assumption). It means that the representative agent maximizes its welfare through a two stage optimization process. First, given a general price index, the agent chooses the level of total consumption on a “composite good”. The relationship between changes in the price index and the impact on

total consumption is determined by a given import demand elasticity. Then, within this composite good, the agent allocates the chosen level of consumption among the different “varieties” of the good, depending on the relative price of each variety. The extent of the between-variety allocative response to change in the relative price is determined by the Armington substitution elasticity.

Two different effects are calculated:

The trade creation effect (TC_{ijk}) is the increased demand in Peru for commodity “i” from China resulting from the price decrease associated with the assumed full transmission of price changes when tariff or non-tariff distortions are reduced or eliminated.

$$TC_{ijk} = M_{ijk} * \frac{E_m * dt_{ijk}}{(1 + t_{ijk})}$$

Where: M_{ijk} is equal to the imports of product “i” made by country “j” from country “k”, “j” refers to Peru and “k” refers to China; E_m is the elasticity of import demand with respect to domestic price; t_{ijk} is the initial tariff rate or non tariff distortion in ad-valorem terms applied by Peru to China’s imports and dt_{ijk} is the derivate of t_{ijk} ,

The trade diversion effect (TD_{ijk}) accounts the tendency of importers (Peru) to substitute goods from one source to another (China) in response to a change in the import price of supplies from China but not from the alternative sources. Thus, if prices fall in China there will be a tendency to purchase more goods from that country and less from countries whose exports are unchanged in price. Trade diversion can also occur not because of the change in the export price as such but because of introduction of preferential treatment for goods from one source (China) while treatment for goods from other sources remains unchanged. Again there could be simply a relative change in the treatment of the goods from different sources in the importing country by differential alterations in the treatment of different foreign suppliers.

$$TD_{ijk} = \frac{M_{ij \neq k} * M_{ijk} * dt_{ijk} * \sigma_{ijk, \neq k}}{M_{ij} * (1 + t_{ijk})}$$

Where: $M_{ij \neq k}$ is the value of Peruvian imports from non-preference-receiving countries; and $\sigma_{ijk \neq k}$ is the elasticity of substitution across import of good “i” from country “k” and all other countries ($\neq k$).

The Partial Equilibrium Model is benchmarked in 2005; it means that world and bilateral trade structure, as well as world and bilateral tariffs are based in this year. Information on elasticities came from World Bank estimates (see: Olarreaga and Nicita, 2006)

B. General Analysis on the Trade Creation and Trade Diversion

The main outcome of the partial equilibrium model is that the trade creation effect will be greater than the trade diversion effect.

Particularly, the PEM model suggests that the complete removal of Peruvian tariffs to China would generate a trade creation effect of approximately US\$ 275.3 millions. This means that, Peruvian imports from China will increase in 26.03%. The sectoral imports that will grow the most are: leather products (60.04%), wearing apparel (60.03%), others (39.06%), and wood and paper products (33.18%).

From those sectors, the sectors that will increase above US\$ 15 million are: leather products, wearing apparel and others.

In the case of leather products, 6 subheadings will increase above US\$ 1 million: handbags, whether or not with shoulder strap including those without handle, with outer surface of plastic sheeting or of textile materials; the others with outer surface of plastic sheeting or of textile materials; trunks and suitcase with outer surface of plastics or of textile materials; other footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials; other footwear with outer soles and uppers of rubber or plastics; and other footwear with outer soles of rubber, plastics, leather or composition leather, and uppers of leather.

In the case of wearing apparel, 4 subheadings will increase above US\$ 1 million: men's or boy's suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts made of cotton; women's or girl's suits, ensembles, jackets, blazers, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts made of cotton; articles of apparel; and men's or boy's suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts made of synthetic fibres.

On the other hand, the full liberalization would produce a trade diversion effect of US\$ 69 millions. This effect represents around 6.52% of Peruvian imports from China, and 0.60% of Peruvian imports from other countries.

C. Impact on Other Import Markets of Peru

Electric, Non Electric Machinery and Transport Equipment, leather products, textiles wearing apparel, and others; will be the most affected sector due to trade diversion effect. The effect in such sectors will account 1.03%, 9.31%, 2.12%, 8.02%, and 1.83% respectively of Peru's total import from other countries. In absolute terms, the greatest diversion will be experimented in the electric, on electric, machinery and transport equipment sector; where the diversion effect will reach US\$ 33 million. This will be followed by the effect on textiles (US\$ 7.6 million) and leather products (US\$ 3.9 million)

Trade Creation Value and Trade Deviation Value for Sector (US\$ 1000)

Sectors	Peru's Total Import	Peru's Import from China	Peru's Import from other countries	Trade Creation Value	Trade Diversion Value	Ratio of Trade Diversion in import from China	Ratio of Trade Diversion in import from other countries	Ratio of Trade Creation in import from China
1 Agriculture	1,281,286	5,203	1,276,083	510	704	13.53%	0.06%	9.80%
2 Chemical,rubber,plastic prods	2,404,055	147,871	2,256,184	31,339	9,171	6.20%	0.41%	21.19%
3 Electric, Non Electric Machinery and Transport Equipment	3,746,945	537,264	3,209,681	113,969	33,101	6.16%	1.03%	21.21%
4 Fishing	47,967	344	47,623	41	54	15.82%	0.11%	12.02%
5 Flours, meals and pellets of fish	51		51			0.00%	0.00%	0.00%
6 Leather products	88,937	46,815	42,122	28,390	3,921	8.38%	9.31%	60.64%
7 Metal Products	845,101	48,217	796,884	8,106	3,315	6.87%	0.42%	16.81%
8 Others	231,633	71,694	159,939	27,998	3,023	4.22%	1.89%	39.05%
9 Petroleum and Mineral Products	2,725,969	48,973	2,676,996	7,494	2,847	5.81%	0.11%	15.30%
10 Textiles	463,617	102,294	361,323	32,748	7,648	7.48%	2.12%	32.01%
11 Vegetables, fruit, nuts	73,512	830	72,682	157	72	8.69%	0.10%	18.95%
12 Wearing apparel	73,234	31,758	41,476	19,065	3,324	10.47%	8.02%	60.03%
13 Wood and Paper products	519,456	16,631	502,825	5,519	1,787	10.75%	0.36%	33.18%
14 Fats and Oils and their fractions of fish	-		-			0.00%	0.00%	0.00%
Total	12,501,763	1,057,894	11,443,869	275,338	68,969	6.52%	0.60%	26.03%

Source: SMART Model

4.3 Liberalization of Bilateral Trade in Services

China

Chinese government has issued relevant documents to promote the development of services sectors, aiming at deepening reforms, removing restrictions on market access, breaking monopoly, and enhancing market competition.

In 2006, trade in services (imports and exports) reached US\$ 192.8 billion, representing 9.9% of total amount of foreign trade. The most important export sectors were transport (34.1%), tourism (24.1%), and other services (11.2%) sectors. The most important import sectors were tourism (36.9%), transport (22.8%), and other services (21.4%) sectors.

There are direct impact and indirect impact on China's trade in services by China-Peru FTA. On the aspect of direct impact, bilateral trade in services will increase significantly, if bilateral governments could achieve agreements on such issues as restrictions on market access and national treatment, etc, to remove barriers to trade in services. On the aspect of indirect impact, increase of trade in services closely relates to trade in goods and direct investment. The possible China-Peru FTA would reduce tariff level, and remove non-tariff barriers of trade in goods. The trade in services will be subsequently increased by the increase of relevant trade in goods and investment, and by investment facilitation and improvement of investment dispute settlement. Therefore, it can be predicted that China-Peru FTA will promote bilateral trade in services.

Peru

In 2006, the services represented more than 55% of the Peruvian production, and the largest services sectors were retail trade; transport and communications; governmental services and restaurants and hotels. This economic activity is becoming increasingly important in the Peruvian exchange with the world. Particularly, in the last year, Peruvian trade in services (exports + imports) reached US\$ 5,851 millions, representing more than 15% of the total trade.

By the export side, the most important sectors were travels (56.3%) and transport (21.4%). By the import side, the most important sectors were transports (50.3%) and other services (27.7%).

But, there are a range of issues like restrictions on market access, restrictions on operating wholly foreign-owned services companies, minimum capital requirements, restrictions on the repatriation of funds, among others; that currently obstacle trade in services.

In order to liberalize the controls that affect the trade in services, the possible FTA between Peru and China should include this issue as an important component of the agreement.

In the CGE model, an equivalent measure for services restrictions to trade was not included, so the effects shown below are only the indirect effects in services derived from the liberalization of goods.

The outcomes show that, after a full liberalization of goods, the reallocation effect will produce a direct increase of bilateral trade in goods, and this indirectly will enhance the bilateral trade in services. Particularly, in the first scenario the results suggest that the bilateral flows of services from Peru will increase in 1.18% and Peru's imports of services will decrease in -0.05%. While in the second scenario the results suggest that the bilateral flows of services from Peru will increase in 0.44% and Peru's imports of services will increase in 0.67%.

4.4 Analysis on Impact of Liberalization of Bilateral Investment

China

A. Overall Impacts on Bilateral Direct Investments

China-Peru FTA will enhance the capacity to draw horizontal FDI of two countries. As the two countries are greatly distant, there is less possible to merge the existing FDIs in the two countries. Therefore, in general, the horizontal FDI from countries outside of the FTA will increase gradually after the establishment of the China-Peru FTA. It is especially true for Peru since a FTA will open the enormous Chinese market. In the other side, China has witnessed an increase in FDIs of US\$ 60 billion in recent years, with accumulated FDIs more than US\$ 400 billion. It is estimated that FDIs to China will rise with a FTA, however, it will have relatively limited impacts on China's overall utilization of foreign investments.

For bilateral horizontal direct investment in Peru and China, trade may substitute investment in some relatively simple processing products due to reduction of tariffs. However, FDIs in these areas are in small scale. For Peru's advantageous sectors, where FDIs are usually enormous, such as resources and energy sectors, investment will increase as a result of zero-tariff exercised by China on resources products, and investment facilitation under the FTA. Therefore, the horizontal FDI between China and Peru will go up in general.

Bilateral vertical investments will rise simultaneously. First, investment cost will be reduced significantly due to tariffs reduction on equipment and materials. Second, reduction of tariffs on re-export products will contribute to profit increases for investors.

In sum, a China-Peru FTA will have positive impacts on FDIs in both countries.

B. China's investment opportunities in Peru

The economic development of Peru and China are supplementary to each other. The rich natural resources and cheap labor force of Peru provide good investment opportunities to Chinese companies, especially in areas of mining, agricultural, forestry, fishery, textile, manufacture, ports, road construction, etc. Without advanced technology and sufficient funds for development, most of natural resources in Peru has yet been exploited and utilized, which in turn provides valuable opportunities for resource-intensive enterprises in China.

Peru

As discussed in chapter 3, there has been a significant increase in foreign investment in Peru and a more significant increase in foreign investment in China. Although these patterns have been reflected in the bilateral patterns of Chinese and Peruvian investment flows, they are relatively modest, compared with the other countries investment inflows and outflows.

The economic theory point out that, the increase of investment in an economy has a lot of spillover effects that affects positively their performance. Mainly, it would enhance the transfer of technology, the technological diffusion, and the activation of processes of learning by doing in the receptor economy.

But, due to the existing openness of the Peruvian foreign investment system, there would be no large effects attributable to the elimination of currently existing barriers, such as foreign investment controls or performance requirements by the Peruvian side.

So, the main effects will come from the improvement of the Peruvian economy positioning in Chinese investors plans; particularly among corporate firms that are currently investing abroad for purposes of supplying the Chinese market with processed natural resources.

However, Peru should encourage the Chinese investment in new key sectors for the Peruvian economy like energy and air and maritime transport, and not only in mining sectors. With it, the model modest outcomes for investment (0.06-0.14%) would be significantly enlarged.

4.5 Influences on Major Partners by China-Peru FTA

China

According to model analysis, China's exports to Japan, the U.S. and the EU will increase by 0.026%, 0.24% and 0.19% respectively, while China's import from them will go up by 0.31%, 0.61% and 0.28% respectively. The impact of China-Peru FTA on bilateral trade and investment between China and Latin American countries is relatively insignificant--- there are small effects on trade relationship between China and Chile, Brazil, and Argentina.

Peru

According to the CGE model analysis, Peruvian exports to all their trading partners will increase. Specifically, Peruvian exports to the U.S, EU and the Rest of Asia will increase by 2.3%, 2.0% and 1.7% respectively. In addition, Peruvian exports to the Andean Community, Chile and Rest of South America, will enhance by 2.6%, 2.4% and 2.14% respectively. In the case of Peruvian imports, the model shows that Peruvian imports from other countries different than China will decrease: Peruvian imports from U.S, EU and the Rest of Asia will diminish in 4.5%, 3.7% and 6.4% respectively; while Peruvian imports from the Andean Countries, Chile and Rest of South America will decrease by 2.6, 3.8 and 3.7%.

5 INFORMATION EXCHANGE ON OTHER ISSUES AND ECONOMIC COOPERATION

5.1 Intellectual Property Rights

China

Protection of intellectual property rights ("IPRs") has become an essential component of China's opening-up policy and socialist legal system reform. The formulation of laws and regulations in this field could be traced back to the late 1970s. Since then, China has joined many international conventions related to IPRs, and actively participated in activities initiated by relevant international organizations. Such practices have intensified exchanges and cooperation between China and other countries.

A. Industrial Property

- Trademark

The existing trademark legal system in China include the Trademark Law of the People's Republic of China, the Implementing Regulations of the Trademark Law of the People's Republic of China, and other relevant laws, administrative regulations and department rules. The objectives of these laws are to provide protection to right-holders by regulating trademark registration substance, procedure, and exclusive rights, in line with the international conventions and prevailing practices regarding intellectual property rights. In order to protect trademark owner's exclusive rights, China's Trademark Law contains not only civil and criminal liabilities but also provides administrative punishment for trademark infringers. The State Intellectual Property Office (SIPO) is responsible for trademark approval, and the Trademarks Bureau under the State Administration for Industry and Commerce (SAIC) is responsible for trademarks registration.

- Patent

In order to enhance the awareness of the general public on IPR protection, patent protection in particular, and to build up a sound social environment for promotion and commercialization of inventions, the National People's Congress approved the second revision of the Patent Law of the People's Republic of China on August 25, 2000. The revised patent law, which took effect on July 1, 2001, includes the following elements: (1) patent owners would have the right to prevent others from offering for sale the patented product without their consent (Article 11); (2) for utility model and design applications or patents, the final decision on re-examination and invalidation would be made by the people's courts other than for inventions that were patented prior to the amendment (Articles 41 and 46); (3) patent owners could, before instituting legal proceedings, request the people's court to take provisional measures such as to order the suspension of infringing acts and to provide property preservation (Article 61); and (4) conditions for granting a compulsory license would be further clarified.

- Protection of the undisclosed information

Article 10 of the Law of the People's Republic of China on Combating Unfair Competition, together with Article 219 of the Criminal Law of the People's Republic of China, regulates that a business operator must not infringe upon trade secrets. In compliance with Article 39.3 of the TRIPS Agreement, China would provide effective protection against unfair commercial use of undisclosed test or other data submitted to authorities in China as required in support of applications for marketing approval of pharmaceutical or of agricultural chemical products which utilized new chemical entities, except where the disclosure of such data is necessary to protect the public, or where steps have been taken to ensure that the data are protected against unfair commercial use. On May 18, 2006, the State Council promulgated the Regulation on the Protection of the Right to Network Dissemination of Information, effective as of July 1, 2006.

B. Copyrights and related rights

The Copyright Law of the People's Republic of China, which was promulgated in 1990, established the basic copyright protection system in China, together with the Implementing Rules of the Copyright Law (effective as of May 30, 1991), the Provisions on the Implementation of the International Copyright Treaty (effective as of September 25, 1992), and other related laws and regulations. In principle, this system is in compliance with international IPR treaties and practices. For the protection of copyright and neighboring rights, not only civil and criminal liabilities but also administrative liabilities have been provided in this system. Therefore, the infringing activities could be curbed in a timely and effective manner, and the legitimate rights of the right-holders could be protected.

To alleviate the difference between China's copyright laws and the TRIPS Agreement, amendments have been made to the Copyright Law, which include the following provisions: payment system by broadcasting organizations which use the recording products, rental rights in respect of computer programs and movies, mechanical performance rights, rights of communication to the public, and related protection measures, protection of database compilations, provisional measures, and measures of increasing the amount of legitimate compensation and preventing infringing activities. The Regulations for the Implementation of the Copyright Law, and the Provisions on the Implementation of the International Copyright Treaty have also been amended to ensure full consistency with China's obligations under the TRIPS Agreement.

C. Geographical indications

The relevant rules of the SAIC and the State General Administration of the People's Republic of China for Quality Supervision, Inspection and Quarantine provide some protection for geographical indications, including appellations of origin. The amendments to the trademark law have specific provisions on protection of geographical indications. China has committed to fully comply with relevant articles in the TRIPS Agreement on geographical indications.

D. Chinese policy regarding the main intellectual property treaties

China became a member of the World Intellectual Property Organization (WIPO) in 1980 and has been a member party in many Intellectual Property related agreements (table 5-1). In addition, China participated in the TRIPS negotiations during the Uruguay Round, and initialed the Final Act.

Table 5.1 China's Participation in international intellectual property agreements since 1980s

Time	International intellectual property agreements
1985	Paris Convention for the Protection of Industrial Property
1989	Madrid Agreement Concerning the International Registration of Marks; Treaty on Intellectual Property in Respect of Integrated Circuits
1992	Berne Convention for the Protection of Literary and Artistic Works
1993	Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms
1994	Patent Cooperation Treaty; Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks
1995	Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure; Madrid Agreement Concerning the International Registration of Marks
1996	Locarno Agreement on Establishing an International Classification for Industrial Designs

1997	Strasbourg Agreement Concerning the International Patent Classification
	World copyright convention , the international classification nisi pact for the goods and services, the international convention in protecting new species in plant , the intelligent property right pact that has something to do with trade under world trade organization

E. Enforcement of Intellectual Property Rights

In the aspect of legislation, China have issued or amended laws or regulations such as the Patent Law, the Copyright Law, the Trademark Law, and the Regulations for the Protection of Computer Software, etc., which have improved the legal system and provided a favorable environment for IPR protection.

In judicatory aspect, since 1992, special IPR courts have been set up in major cities such as Beijing and Shanghai. Many special tribunals have been established in the Intermediate People's Courts at all levels to solve IPR-related disputes . According to relevant laws and regulations in China, individuals and enterprises would be held responsible for all their IPR infringing activities, subject to civil and/or criminal liabilities.

As for the execution of the law, administrative authorities have tried every effort to strengthen anti-piracy work, enhancing public education in order to ensure that legal environment in China would be able to meet the requirements for enforcing the TRIPS Agreement.

During the 15th China-US Joint Commission on Commerce and Trade (JCCT) of 2004, China presented an action plan designed to address the IPR protection. Under this plan, China has committed to:

- Significantly reduce IPR infringement levels.
- Increase penalties for IPR violations by taking the following actions by the end of 2004: Subject a greater range of IPR violations to criminal investigation and criminal penalties; Apply criminal sanctions to the import, export, storage and distribution of pirated and counterfeit products; Apply criminal sanctions to on-line piracy.
- Crack down on violators by: Conducting nation-wide enforcement actions against piracy and counterfeiting – stopping production, sale and trade of infringing products, and punishing violators by increasing customs control and surveillance aainst import and export of infringing products.
- Improve protection of electronic data by: Ratifying and implementing the WIPO Internet Treaties as soon as possible; extending an existing ban on the use of pirated software in central governments and provincial agencies to local governments.
- Launch a national campaign to educate the public about the importance of IPR protection. The campaign will include press events, seminars and outreach through television and print media.
- Establish an intellectual property rights working group under the JCCT. Under this working group, the trade, judicial and law enforcement authorities in both sides will consult and cooperate on the full range of issues described in China's IPR action plan.

F. Evaluation of agreement on Intellectual Property Rights

According to the characteristics of bilateral trade between China and Peru, the intellectual property protection can be fulfilled under the frame of TRIPS.

Peru

Peru grants an adequate and effective protection of intellectual property rights (IPR) by a combination of international, regional and national legislation. Peru has already signed the main Treaties on Intellectual Property, such as TRIPS, Paris Convention, Bern Convention, Rome Convention, Geneva Convention for the Protection of Producers of Phonograms, Brussels Convention relating to the Distribution of Program-carrying Signals transmitted by Satellite, International Registry of Audiovisual Works and the Washington Agreement. Moreover, Peru has adhered to the WIPO Copyright Treaty (WCT), and to the WIPO Performances and Phonograms Treaty (WPPT). Since May 2005, Peru is signatory of the Lisbon Arrangement for the Protection of Appellations of Origin and their International Registration.

In this topic, the Peruvian law has two main statutes: the Intellectual Property Law and the Copyright Law, which were enacted in 1996. Both laws incorporate into a single domestic regulation, different international provisions, including those of the TRIPS Agreement⁸³. In fact, Peru reviewed its Intellectual Property Legislation before the WTO's Council for Trade-Related Aspects of Intellectual Property Rights at the end of the year 2000 and demonstrated successfully that IPR protection in the country is in accordance with the TRIPS Agreement.

INDECOPI is the institution that looks after the respect of the IPR in the country. Peru keeps working to develop a culture of respect and enforcement of Intellectual Property rights by participating in several activities to fight against piracy. INDECOPI's Copyright Office is member of the Central Command of the Commission to Fight against Smuggling and Piracy. Other two INDECOPI offices that keep an eye on the intellectual property rights are the Inventions and New Technologies and the Trademark Offices.

To defend IPR, Peru issued the Law 28289 in order to strengthen criminal sanctions related to the violation of these rights and have a more dissuasive effect to conduct piracy. This law also includes provisions on customs procedures to create a specific registry for the importation of optical disks and other raw material.

One of the most important topics of interest in IPR is related to the protection of traditional knowledge. In this regard, Peru published the Law for the Protection of Traditional Knowledge on August 10th, 2002. Indigenous people's traditional knowledge is safeguarded through this law. In addition, this law allows them to enjoy the benefits of holding ownership of their IPR.

In May 2004 the National Commission for Access Protection to Peruvian Biological Diversity and Traditional Knowledge of Indigenous Peoples was created. Its main purpose is to fight against bio piracy of Peruvian biological products and traditional knowledge of indigenous peoples⁸⁴.

Since its creation, this Commission has elaborated a preliminary list of genetic and biological resources, which includes the scientific name, family specie, and uses of the product. Likewise, the Commission has identified cases of bio piracy or alleged bio piracy in developed countries related to the following Peruvian products: yacon, sachu inchi, sangre de grado, maiz morado, lucuma, oca, olluco, mashua, colour cotton and maca. Many of these cases involved patent requests or patents already granted, which were developed or obtained from the use of a biological resource or traditional knowledge without the consent of the country of origin or the indigenous peoples' holders of this kind of knowledge.

⁸³ Also, Peru applies the IPR regulation enacted by Andean Community. In this case, the main legal framework consists on the Decisions 351 (copyright and related rights) and 486 (intellectual property), which were enacted in 1993 and 2000, respectively. Both decisions include substantial intellectual property laws and enforcement issues included in the TRIPS Agreement as well.

⁸⁴ According to the Peruvian Law, bio piracy is defined as the access and use of biological goods or traditional knowledge of indigenous peoples by third Parties, without the corresponding authorization and compensation to the Peruvian State as country of origin or Peru's Indigenous Peoples as holders of this knowledge, and against the principles established at the Convention of Biological Diversity.

In the same way, another Peru's main concern is related to the protection of geographical indications. The current regulation establishes two different kinds of geographical indications: 1) appellation of origin and 2) indication of source.

In the case of the appellations of origin, the Peruvian State is the owner of the appellations of origin and grants authorizations for their use. An appellation of origin is the geographical name of a country, region or locality which serves to designate a product originating therein, the quality and characteristics of which are due exclusively or essentially to the geographical environment, including natural and human factors.

Currently, Peru has recognized three appellations of origin: "Pisco" (traditional alcoholic beverage), "Maiz Blanco Gigante del Cusco" (special gigantic corn produced in Cusco) and "Chulucanas" (ceramics made in the Chulucanas area at Northern Peru).

Finally, the indications of source are related to any name, expression, image or sign used to indicate or evoke that the product originates from a determined country, region, location or place.

5.2 Movement of Business Persons

China

In accordance with the Law of the People's Republic of China on the Entry and Exit of Aliens, aliens who would like to enter into China shall apply for visas to the Chinese diplomatic missions or consular posts or other agencies abroad authorized by the Ministry of Foreign Affairs of the P.R.C. The entry of nationals of an economy having visa agreement with the Chinese Government shall be dealt with in accordance with the said agreement. In cases where an economy has special regulations regarding the entry and transit of Chinese citizens, the competent authorities of the Chinese Government may take corresponding measures contingent on the circumstances.

In specific situations, such as being invited to China to enter a bid or to formally sign an economic or trade contract or being invited to China for scientific or technological consulting services, and in compliance with the stipulations of the State Council, aliens may apply for visas to port visa agencies authorized by the Ministry of Public Security. Port visas can be obtained immediately. While in China, foreign businesspersons may apply for visas and residence permits to the Entry-Exit Administration Department of the local Public Security Organs. The processing time is 1-5 working days. The application fee is in the principle of equality.

Chinese visa is a permit issued to a foreigner by the Chinese visa authorities for entry into, exit from or transit through the Chinese territory. The Chinese visa authorities may issue a diplomatic, courtesy, service or ordinary visa to a foreigner according to his identity, purpose of visit to China and passport type. The ordinary visas consist of eight sub-categories, which are marked with Chinese phonetic letters (D, Z, X, F, L, G, C, J-1 and J-2 respectively).

A. Tourists

Aliens who come to China for sightseeing, visiting relatives or other private purposes should apply for Visa L. For a tourist applicant, in principle he shall evidence his financial capability of covering the traveling expenses in China, and when necessary, provide the air, train or ship tickets to the heading country/region after leaving China. For the applicants who come to China to visit relatives, some are required to provide invitation letters from their relatives in China.

An applicant who is invited to China on a visit, on a study or lecture, business tour, for scientific-technological and cultural exchanges, for short-term refresher course or for job-training, for a period of no more than six months should apply for Visa F. To apply for a Visa F, the invitation letter from the inviting unit or the visa notification letter/telegram from the authorized unit is required. Businesspersons holding visas F may stay in China for the period prescribed in their visas without obtaining further residence permits. A visa F can be extended indefinitely, with

each extension no more than 3 months and the total duration of stay no more than 1 year. Accompanying family members are subject to the same terms.

Aliens who transit through China should apply for Visa G. The applicants are required to show valid visas and on-going tickets to the heading countries/regions.

Train attendants, air crewmembers and seamen operating international services, and their accompanying family members should apply Visa C. To apply for a visa C, relevant documents are required to be provided in accordance with bilateral agreements or regulations of the Chinese side.

Foreign correspondents who make short trip to China on reporting tasks should apply for Visa J-2. The applicants for J-2 visas are required to provide a certificate issued by the competent Chinese authorities.

B. Residence

Aliens who are to take up posts or employment in China, and their accompanying family members should apply for Visa Z. To apply for a Visa Z, an Employment License of the People's Republic of China for Foreigners (which could be obtained by the employer in China from the provincial or municipal labor authorities) and a visa notification letter/telegram issued by an authorized organization or company are required. An Alien Residence Permit could be extended based on the purposes of the holder's stay. Accompanying family members are subject to the same terms. Family members should not work unless having been granted Employment Permit.

Aliens who come to China for study, advanced studies or job-training for a period of six months or more should apply for Visa X. To apply for a Visa X, certificates from the receiving unit and the competent authority concerned are required, i.e., Application Form for Overseas Students to China (JW201 Form or JW202 Form), Admission Notice and Physical Examination Record for Foreigners.

Foreign resident correspondents in China should apply for Visa J-1. The applicants for J-1 visas are required to provide a certificate issued by the competent Chinese authorities.

C. Permanent Residence Permit (granted for an indefinite time)

Aliens who are to reside permanently in China should apply for Visa D. A permanent residence confirmation form shall be required for the application of Visa D. The applicant shall apply to obtain this form himself or through his designated relatives in China from the exit-and-entry department of the public security bureau in the city or county where he applies to reside.

D. Evaluation of an agreement on Movement of Business Persons

From the standpoint of movement of business persons, no inconveniences are foreseen for the execution of an FTA with Peru, as China has made great efforts to facilitate the entry and residence in the past several years, for example, some special policies have been made to facilitate the entry and residence of the following: a) Foreign senior management personnel who come to China to carry out agreements signed by China's central or local governments and foreign governments on major scientific & technological, or key construction projects at the state, provincial or ministerial levels according to Chinese standards; b) Foreign qualified scientists and technicians or high-level management personnel taking posts in China; c) Foreign nationals coming to China to carry out inter-governmental free aid agreements; d) Foreign investors, especially those investing in China's western areas; From July 1, 2003, businesspersons holding valid Singaporean and Brunei ordinary passports are exempted from visas when staying in China for no more than 15 days; From September 1, 2003, businesspersons holding valid Japanese ordinary passports are exempted from visas when staying in China for no more than 15 days; China joined the APEC Business Travel Card (ABTC) Scheme in 2001, and has issued the card in 2003; To facilitate business across the country mobility, half of the immigration channels are equipped with Optical Character Recognition (OCR) readers.

Peru

A foreigner who intends to undertake business activities in Peru, such as signing contracts, is considered a business person and should apply for a Temporary Business Visa. However, a foreigner with a business visa cannot generate income in Peru. The Temporary Business visa is granted for up to 90 days and can be extended for up to 30 additional days, according to the Legislative Decree No. 703, Foreigner Status Law.

Another option for business persons is to hold an APEC Business Travel Card. Peru joined into this system in the year 2000.

However, if the foreigner just wants to visit Peru, or hold business meetings, he or she can enter Peru with a tourist visa. Nevertheless, holding a tourist visa does not allow the signature of contracts. In the case of Chinese citizens, visa is required.

The Office in charge of immigration and visa issues in Peru is the General Directorate of Immigration and Naturalization (DIGEMIN), which is a branch of the Ministry of Internal Affairs.

In order to generate income in Peru, resident visa is needed. The foreigner's legal representative or manager should request a residence visa for up to one year in DIGEMIN, which can be extended annually for one additional year. Also, relatives are granted with the same period. It is possible for a foreigner to change his or her Temporary Business visa to a Resident visa.

5.3 Transparency

China

China has made great efforts to ensure transparency regarding the laws, regulations and other measures it has issued and implemented. The Government of China regularly issued publications providing information on China's foreign trade system, such as the "Almanac of Foreign Economic Relations and Trade" and "The Bulletin of the MOFCOM" published by the MOFCOM; "Statistical Yearbook of China", published by the State Statistical Bureau; "China's Customs Statistics (Quarterly)", edited and published by the Customs. China's laws and regulations of the State Council relating to foreign trade are all published, as are rules issued by departments. Such laws, regulations and rules are available in the "Gazette of the State Council", the "Collection of the Laws and Regulations of the People's Republic of China" and the "MOFCOM Gazette". The administrative regulations and directives relating to foreign and domestic trade are also published on the MOFCOM's official website (<http://www.mofcom.gov.cn>) and in periodicals.

There are no foreign exchange restrictions regarding import or export. Information on foreign exchange measures is published by the State Administration of Foreign Exchange (SAFE) and is available on SAFE's website (<http://www.safe.gov.cn>) and via the news media. Information concerning the administration of imports and exports is published in the "International Business" newspaper and the "MOFCOM Gazette".

Information on China's customs laws and regulations, import and export duty rates, and customs procedures is published in the "Gazette of the State Council" and in the press media, and is available upon request. The procedures concerning application of duty rates, customs value and duty determination, drawback and duty recovery, as well as the procedures concerning duty exemptions and reduction, are also published. Customs also publish monthly customs statistics, calculated according to country of origin and final destination, on the basis of eight-digit HS levels.

Any bilateral trade agreements concluded between China and its trading partners, and protocols on the exchange of goods negotiated under them are published in "The Treaty Series of the PRC". In addition, the "Directory of China's Foreign Economic Relations and Trade Enterprises"

and "China's Foreign Trade Corporations and Organizations" are two publications which identify foreign trade corporations and other enterprises in China engaged in foreign trade.

The full listing of official journals is as follows: Gazette of the Standing Committee of the National People's Congress of the People's Republic of China; Gazette of the State Council of the People's Republic of China; Collection of the Laws of the People's Republic of China; Collection of the Laws and Regulations of the People's Republic of China; Gazette of MOFCOM of the People's Republic of China; Proclamation of the People's Bank of the People's Republic of China; and Proclamation of the Ministry of Finance of the People's Republic of China.

China set up the China WTO Notification and Enquiry Centre immediately after the accession to provide enquiry service on trade-related information for all members, enterprises and individuals. The establishment of this enquiry point has been notified to the WTO. The Chinese government has also designated Foreign Economic and Trade Gazette as the official journal for the laws, regulations and other measures relating to or affecting trade in goods, trade in services, TRIPS or TRIMS. These laws, regulations and measures cannot be enforced before their publication.

Peru

The government of Peru has a strong commitment on transparency issues in order to give the chance to the society to be well informed in a wide array of topics where the Peruvian state has a determined role. All laws and regulations are required to be published in the official newspaper "El Peruano" to enter into force.

On 2003, the Ministry Council approved the Transparency and Access to Public Information Law. This norm promotes the publication of government acts and regulates the fundamental right to access to information. The law establishes that all information the State has is presumed to be public, unless specified in a particular law. It also determines the obligation for all public entities to provide any information requested by individuals. In this sense, all people (not only nationals) have the right to request and obtain any information from the State without stating any reason.

This law also requires all public entities to have websites with a specific transparency section, where all sectoral norms, as well as their texts of administrative procedures should be published. Also, all the initiatives within the Peruvian Congress as well as the laws enacted by this institution are published in the internet. In the same way, regulatory bodies also have the obligation to publish in advance their regulations.

In terms of economic policy, the main economic policy guidelines are published by the Ministry of Economics and Finance through the Multiannual Macroeconomic Framework, which also includes Peru's mid-term fiscal objectives and some policy measure on the main macroeconomic indicators. In addition, Peru's Central Reserve Bank also informs and evaluates, on a regular basis, on the evolution of the monetary policy.

Data on Peru's economic indicators are widely available in these institutions' websites, as well as in the National Institute of Statistics website.

5.4 Trade and Investment Promotion

China

China has made great efforts to promote trade and investment, for example the average tariff rate had been decreased from 15.3% to 9.9% from the entering of WTO to 2005; China has reduced some quota tariff rate and non-tariff barriers; made customs and other trade-related laws, regulations and guidelines accessible to the public in paper form (e.g. publication) or via Internet. For example, China Customs has set up its legal database updated regularly. This database contains all information on existing customs laws, regulations and administrative guidelines. All information can be obtained as well via customs website: (www.customs.gov.cn);

China has also taken some measures to facilitate trade in movement of goods, standards, business mobility and electronic commerce.

The China Council for the Promotion of International Trade (CCPIT) is the most important and the largest institution for the promotion of foreign trade in China. It comprises individuals, enterprises and organizations representing the economic and trade sectors in China.

The mission of the CCPIT is, in line with laws and government policies of the People's Republic of China, to facilitate foreign trade, to use foreign investment for the introduction of advanced technologies, to conduct activities of economic and technological cooperation in various forms, to promote development of economic and trade relations, and to improve the mutual understanding and friendship between China and all other countries in the world.

With the approval of the Chinese government, the CCPIT established a separate organ– China Chamber of International Commerce (CCOIC) - in 1988, which worked together with the CCPIT. The CCPIT admits new members from enterprises in all parts of China, and promotes trade through its functions of information consultation, exhibition, legal assistance, etc. Besides the CCPIT and the CCOIC, there are other trade promotion institutions, such as the Trade Development Bureau of the Ministry of Commerce, the China Export & Credit Insurance Corporation and so on.

The Investment Promotion Bureau of the Ministry of Commerce is the important institution for the promotion of investment in China. Its mission is to attend meetings of the World Association of Investment Promotion Agencies (WAIPA) on behalf of the Ministry of Commerce and handle relevant affairs; to contact and communication with overseas investment promotion agencies and chambers of commerce and associations; to organize and sponsor activities of bilateral investment promotion bodies; to provide guidance on and participate in the work of the joint mechanism of nationwide investment promotion agencies; to guide the work of investment promotion agencies at localities; and to guide the work of the China International Investment Promotion Center.

It also carry out publicity and promotion activities at home and abroad; conduct investment-related surveys and research; prepare and distribute materials and publications concerning investment promotion such as the Compilation of Laws and Regulations on Foreign Investment Utilization, Statistics on FDIs in China, and China Investment Guide; and take care of the daily operation of Invest in China and provide information to businesses; organize the China International Fair for Investment and Trade; undertake various investment promotion activities designated by the Ministry of Commerce; plan and organize large investment promotion activities at home and abroad; and organize training programs, seminars, fairs and exhibitions specializing in investment; engage in investment-related consulting and information services, market research, credit investigation, and investment promotion planning, and etc; assist foreign-invested enterprises in going through required legal procedures; and handle investors' complaints involving more than one province or tasked by senior leaders.

China has taken some business facilitating measures to improve its domestic business environment. Improvements have been made on government administration, and the competitive market environment and supportive legal environment have been built up. More one-stop shop services have been provided by local governments, and investment promotion agencies have been established at each province to assist investors.

To create an effective government administrative environment, efforts have been made to the following areas: (1) Gradually reform the existing administrative system to improve government efficiency. Currently the government focuses on decentralization and simplifying the approval procedures for foreign invested projects; (2) Set up governance linkages between different governments thanks to the fast development of computer network; (3) Conduct training programs for officials in various specialized areas.

To create competitive market environment so as to increase the investors' confidence, the government has kept on rectifying economic order by: strengthening the legitimate enforcement for infringements to protect IPR, removing barriers hinder regional/local protections and

monopolies, cracking down the behavior of making fake and shoddy products and other illegal activities, revoking all of the unauthorized fees, inspection, levies and fines on foreign invested enterprises (FIEs); strengthening the management of fee collection by making transparent fee collection items for FIEs.

To create supportive legal environment, Chinese government is keeping on reviewing the existing laws, regulations and administrative practices at both central and local level. Both central and local governments have established regular contacts with those main export enterprises in order to provide better services and help them solving the difficulties during their production and operation. The autonomy on operation and management of foreign invested enterprises is protected through improving related legislation, and intensifying the execution of law. Both the legal rights of all investing parties and workers' interests and rights are protected by law. The social services system has been further improved, as well as other social intermediary institutions.

Peru

PromPerú (Commission for Peru's Promotion on Exports and Tourism) and ProInversión (Private Investment Promotion Agency) are the two Peruvian institutions in charge of promoting trade and investment, respectively.

PromPerú is the agency in charge of implementing export promotion policies in accordance with the National Strategic Export Plan. In this sense, in terms of export promotion, PromPerú seeks to promote activities whose objectives are:

- to increase the growth of Peru's exportable supply;
- to consolidate and diversify export destination markets;
- to defend the image of Peru's exporting goods;
- to support the development of current and new exporting goods in all its regions;
- to encourage an exporting culture within the society.

In order to achieve these objectives, PromPerú carries out commercial intelligence activities and market research, giving emphasis to organize the participation in fairs, entrepreneurial missions, roundtables and exhibitions. Additionally, PromPerú implements actions to solve critical points of the exporting chain that difficult the sustainable development of exports. In this sense, PromPerú helps small and medium enterprises through training and technical support.

PromPerú can assist these companies in designing export plans that defines the objective markets, costs and export prices and the promotion strategy. Also, PromPerú promotes among these companies the implementation of quality systems to reduce costs and provides technical assistance to have an active presence on the Internet, through the execution of e-commerce projects managed by the interested companies⁸⁵.

In terms of investment promotion, these activities are in charge of ProInversión, whose mission is to promote investment by non-depending private actors from the Peruvian State, so as to foster Peru's competitiveness and sustainable development in order to improve welfare among the population.

The activities carried out by ProInversión are based on the following guidelines:

- to promote investments in all the regions and provinces of Peru;
- to prioritize investment promotion on activities that help to increase the employment levels, national competitiveness and exports;
- to prioritize investment promotion on activities matching national, regional and local interests;
- to improve quality and expand coverage of public utilities through different modalities;

⁸⁵ For more information, see
<http://www.prompex.gob.pe/PROMPEX/Portal/Menu/BuyerEnglishMenu.aspx?.menuId=104>

- to develop mechanisms oriented to attract and assist investors;
- to promote the image of the country as an adequate place to develop domestic and foreign investments.

In this regard, ProInversión offers a wide array of services for investors in Peru. At the pre-establishment level, potential investors can request information on macroeconomic data, legal framework, tax regime and others. ProInversión can also prepare an agenda of activities with potential partners, suppliers, authorities, clients, business associations and so on.

At the establishment level, ProInversión has the attribution to guide investors with the paperwork and other formalities needed to obtain the proper authorizations to start operations in Peru. Finally, at the post-establishment level, it is possible to assist investors in establishing contacts with government and private organizations; provide non-financial support to expand the investor's business; and help identifying bottlenecks which can affect their activities and factors that can contribute to a successful business operation⁸⁶.

ProInversión is the entity responsible of promoting investment in public infrastructure works and utilities under concession modality. ProInversión's responsibilities include the conduction of the public tenders or bids and the awarding of the concession. These concessions include projects with mixed participation, in which the State co-finances part of the project. Furthermore, ProInversión defines the modalities of the participation of private investment in State-owned companies, when necessary. These modalities include: 1) stock or share transfers; 2) capital increase; 3) joint ventures; and 4) selling of the state assets⁸⁷.

5.5 Small and Medium Enterprises Cooperation

China

China has been encouraging the development of the small and medium-sized enterprises (SMEs). In order to improve the environment for the development of SMEs, provide job opportunities in urban and rural areas, and encourage the important role of SMEs in national economic and social development, China issued the SME Promotion Law, effective on January 1, 2003. Article 16 of the Promotion Law points out that the State will take measures to broaden the channels of direct financing for SMEs, and gives them active guidance in their efforts to create conditions for direct financing through various ways as permitted by laws and administrative regulations. Article 17 regulates that the State encourages, through taxation policies, legitimately established risk investment institutions to increase direct investment in SMEs. Article 3 underlines that the State will apply the principles of active support, strong guidance, perfect service, lawful standardization and guaranteed rights and interests, in order to create a favorable environment for their establishment and development. Article 4 emphasizes that the State Council shall be responsible for formulating policies regarding SMEs and make overall planning for their development; The department under the State Council in charge of work in respect of enterprises shall arrange for the implementation of the State policies and plans concerning the SMEs, making all-round coordination and providing guidance and services in the work regarding such enterprises throughout the country. The related departments under the State Council shall, according to the policies and overall planning of the the State for SMEs and within the scope of their respective functions and responsibilities, provide guidance and services to such enterprises.

Article 5 points out that the department under the State Council in charge of work in respect of enterprises shall, according to industrial policies of the State and in light of the characteristics of the SMEs and the conditions of their development, determine the key ones for support by formulating a catalogue of SMEs to be provided with guidance for their industrial development or by other means, in order to encourage the development of all such enterprises. Article 6 outlines that the State protects the lawful investments made by SMEs and their investors, as

⁸⁶ For more information, see <http://www.ProInversión.gob.pe/default.aspx?ARE=1&PFL=0>

⁸⁷ A list of investment opportunities promoted by ProInversión is available at <http://www.ProInversión.gob.pe/1/0/modulos/JER/PlantillaStandardsinHijos.aspx?ARE=1&PFL=0&JER=807>.

well as the legitimate profits earned from the investments. No unit or individual may infringe upon the property and lawful rights and interests of such enterprises.

In practice the main measures promoting development of the SMEs adopted by the Chinese government are including: 1) Financial Supports. It is from both the central and local governments. 2) Support for Establishment of Enterprises. The State supports and encourages the establishment and development of SMEs through taxation policies. 3) Technological Innovation. The State formulates policies to encourage the SMEs to adopt advanced technology to improve product quality. 4) Market Development. The States encourages and supports large enterprises to establish stable relations of cooperation with SMEs. 5) Public Services. The State encourages all sectors of the society to establish and improve the service system for SMEs.

With regards to the Standards of SMEs, the Law of the People's Republic of China on Promotion of Small and Medium-sized Enterprises, and the Tentative regulations on the Standards of the Small and Medium-sized Enterprises outline the overall standards to classify the SMEs, and specific standards based on different industries according to the application conditions to enterprises with various ownership and forms of organization. Detailed information can be obtained at the website: <http://www.sme.gov.cn>.

Peru

According to the Law on Promotion and Formalization of Micro and Small Enterprise, a micro enterprise must have 10 employees at most and annual sales not above 150 Tax Units⁸⁸. To qualify as small enterprise, the number of employees must not exceed 50 and its annual sales must be in between 150 and 850 Tax Units.

The Law does not define what a medium enterprise is. Nonetheless, Peru's National Authority of Tax Administration (SUNAT) classifies the companies by size as follows:

- Micro enterprise: annual sales below US\$ 150,000
- Small enterprise: annual sales between US\$ 150,000 and US\$ 850,000
- Medium and large enterprises: annual sales over US\$ 850,000.

A publication from the Ministry of Production shows that the contribution of the micro and small enterprises (year 2004) to Peru's GDP was around 42%. Also, it states that micro and small enterprises generated 88% of the private employment and accounted for 98% of the number of formal businesses in the country (94.4%, micro enterprises and 3.9%, small enterprises)⁸⁹. However, these figures reflect only the conditions at the formal sector. The most recent estimations indicate that there are 2,500,000 enterprises of these sizes, but only 648,000 of them belong to the formal sector⁹⁰.

The Ministry of Labor and Employment Promotion is the institution in charge of enacting the general policies and regulation concerning the development of micro and small enterprises. Its main objective is to promote competitiveness, association, formalization and institutionalization in the sector to allow the parties involved to participate in the market under better conditions.

5.6 Customs Procedures

China

China joined the International Convention on the Simplification and Harmonization of Customs Procedures in 1988, and signed the Protocol on the Amendment of the International Convention on the Simplification and Harmonization of Customs Procedures on June 15, 2000. The

⁸⁸ As of June 30th, 2007, 1 Tax Unit is equivalent to 3,450 soles.

⁸⁹ Espinoza, Carlos (2006). "Formalization of the Micro and Small Enterprises in Peru", published in "Small and Micro Enterprise Financing: A Tool for Mainstreaming the Informal Sector", by the Ministry of Production, on behalf of the APEC Secretariat.

⁹⁰ Ibid.

declaration, examination, levying of duties and release measures adopted by China Customs are consistent with international practice.

Being a contracting party of the revised Kyoto Convention, China Customs has started implementing a number of projects to simplify its clearance procedures. Pilot operations were carried out in some major regions with substantial achievements. Such initiatives are in line with the principles of the revised Convention and advocated by the World Customs Organization (WCO). The Guidelines on implementing the revised Convention has been translated into Chinese and will be made available to all customs officers and business on request.

China attaches great importance to international customs activities and is an active player in the work of international organizations including the WCO and APEC. In meeting the challenges brought about by the globalization and rapid progress of science and technology, and meeting its commitments as WTO member, China has taken further measures to accelerate its modernization process to facilitate the business and international trade through full implementation of customs-related WTO Agreements and the Collective Action Plans under the Sub-committee on Customs Procedures (SCCP CAP) items. As a result, it has greatly improved the effectiveness of customs control, achieved a higher level of integrity, and come up with more streamlined customs procedures.

China E-port system was put into operation and has been working well. The system has been upgraded from H883 to H2000. H2000 system is being improved to realize electronic transmission and exchange of trade data or information between customs authority and other trade related government agencies and enterprises. The system is designed to deal with on-line processing of duty payment (electronic fund transfer), drawback and manifests, etc.

On January 1, 2002, China Customs has started its full implementation of the WTO Customs Valuation Agreement across the country, and carried out Measures of the Customs of the People's Republic of China for the Assessment of Dutiable Value of Import and Export Goods. After that, China Customs has implemented the Provisions of the Decision on the Treatment of Interest Charges in Customs Value of Imported Goods and the Decision on the Valuation of Carrier Media Bearing Software for Data Processing Equipment both adopted by the WTO Committee on Customs Valuation. In 2006, China Customs further revised the above Measures with a view to improving it.

The overwhelming majority of China's customs duties are ad valorem duties. The customs value of imported goods is assessed according to the C.I.F. price based on the transaction value, as defined in the Customs Valuation Agreement. If the transaction value of imported goods can't be determined, the customs value will be determined by other means provided in the Customs Valuation Agreement.

The Customs Law provides for appeal procedures. In the event of a dispute over calculation of duty paid or payable with the Customs, the importer can apply to Customs for a reconsideration of the case. If the appeal is rejected, the importer can sue at the People's Court. In order to ensure clear appeal provisions and procedures, progress has been made in developing software of Management System of Administrative Appeals System. Nationwide investigation and research on appeal work is undergoing.

On January 1, 2007, the import and export taxation rule and statistical catalogue of China's customs started to introduce "International Convention for Harmonized Commodity Description and Coding System" (Harmonized System, HS) of 2007 version issued by World Customs Organization. To implement Harmonized System and new content of 2007 version comprehensively, China's customs has advanced related training for the staff of the customs nationally.

China's customs has improved the regulation of sorting and issued "PRC Customs Import and Export Goods Sorting Management Regulation" which was implemented on May 1, 2007. Additionally, China's customs has updated the material database of present sorting rules to ensure all customs of China can make use of it efficiently, and guarantee the consistence of sorting management.

More specific measures have been taken to raise the level of customs integrity. Integrity Action Plan has been implemented across the country. China Customs is making and will continue to make greater efforts than ever in modernizing its administration and performance. Its objective is to facilitate legitimate trade through more simplified procedures and more efficient administration, while protect the benefits of community and the country through more effective enforcement of customs laws and regulations.

Peru

The Ministry of Economics and Finance is the responsible institution of planning, directing and controlling Peru's customs policies. However, the Peruvian Customs Service as part of SUNAT (National Authority of Tax Administration) is in charge of implementing these policies.

In this way, the Peruvian Customs is responsible of the administration, collection, control and enforcement of international traffic of goods, means of transportation and people, within Peru's Customs territory. In addition, the Peruvian Customs is accountable for managing the regulations applicable to the regimes and customs operations, special and exceptional customs locations, regulations on origin, international treaties and conventions, and managing the tariff nomenclature schedule and customs evaluations.

It also processes requests for exemptions from duties and/or customs taxes, authorizes the operation of foreign trade operators, and supervises the activities of the inspection/verification companies; and provides solutions to technical queries within its competence.

In 1998, Peru became a signatory country of the International Convention of Harmonized Commodity Description and Coding System (HS). The Peruvian Tariff Nomenclature is organized at a 10-digit level and based on the Common Nomenclature of Andean Country (NANDINA), organized at a 8-digit level, which is also based on the HS. On April 1st, 2007, Peru implemented the Tariff Book which includes the Fourth Amendment of the Harmonized System and Decision 653 of the Andean Community.

In terms of customs valuation, Peru notified WTO the application of the WTO Customs Valuation Agreement to the whole universe of tariff lines since April 2000. Approximately, 85% of the imported volume is valued using the "transaction value" method. Currently, SUNAT is implementing some measures whose purpose is to prevent price sub-valuation on imported goods, such as training sessions, access to new information sources and strengthening of the capacity to conduct statistical data analysis.

Peru has experienced some problems regarding price sub-valuation on imported goods, which has been a common practice among importers, especially in the textile and apparel sector, from the time the application of the WTO Customs Valuation Agreement entered into force. The adoption of measures to reduce this kind of malpractice is very complex, since new modalities are constantly used to declare an inferior value to the real value paid by the importer.

In terms of trade facilitation, the Peruvian Customs Service has signed agreements with other governmental entities to interconnect their information systems, which will allow the exchange of information in order to simplify and make effective clearance of goods⁹¹.

Nowadays, the Peruvian government is working to establish a Foreign Trade Single Window. In this context, governmental entities that issue authorizations, licenses and similar documents will share information and manage the payment of services electronically from one single attention point.

Up to now, 3 decrees related to the FTSW have been published:

⁹¹ The governmental entities that signed agreements with the Peruvian Customs Service are the following ones: Ministry of Health, Ministry of Transportation and Communications, National Agrarian Health Service, Ministry of Production and Financial Intelligence Unit.

- Supreme Decree N° 165-2006-PCM: Foreign Trade Single Window Creation;
- Supreme Decree N° 081-2006-PCM: exonerates the payment of duties, rates or public prices to organizations that require information of another organization of the Public Administration.
- Supreme Decree N°199-2006-EF: the FTSW will be in charge of MINCETUR.

This mechanism is expected to be fully implemented by 2008. The current institutions participating in this mechanism are as follows:

- Ministry of Foreign Trade and Tourism
- Presidency of the Ministry Council
- Ministry of Economics and Finance
- Ministry of Transportation and Communications (General Directorate of Communications)
- Ministry of Production
- Ministry of Internal Affairs (DISCAMEC – General Directorate of Control of Security Services and Control of Weapons, Ammunition and Explosives for Civilian Use)
- Ministry of Health (DIGESA - General Directorate of Environmental Health; DIGEMID – General Directorate of Medicines, Supplies and Drugs)
- Ministry of Agriculture
- INRENA – National Institute of Natural Resources
- SENASA - National Agrarian Health Service
- ITP - Technological Fishing Institute
- SUNAT - National Authority of Tax Administration

5.7 Dispute Settlement

China

Generally speaking, there are three ways of resolving commercial disputes in Mainland China: consultation and mediation, arbitration, and litigation.

First, China has always advocated and encouraged settlement of international commercial disputes by arbitration. As early as in 1956, the Chinese Government set up an arbitration body whose sole purpose was to settle international commercial disputes. Now, China ranks first in terms of the number of cases handled by Chinese arbitration organizations. And there are two foreign-related arbitration organizations in China, which are, the China International Economic and Trade Arbitration Commission (CIETAC) and the China Maritime Arbitration Commission (CMAC).

Second, disputes could be brought to a people's court in a civil action for settlement if the parties concerned have had no arbitration clauses in their contract or have not consequently reached a written arbitration agreement.

Third, choosing consultation and mediation for dispute resolution is usually between arbitration and litigation.

Consultation can be facilitated by a third party if agreed on by the disputing parties. It is largely an informal way of dispute settlement, but the result can still be legally binding if it is properly recorded in an agreement between the parties. Mediation that is presided over by a judge is a required step during litigation procedures according to the PRC Civil Procedure Law. The judge who hears the case will usually conduct mediation after the initial presentation of the case in court with evidence and argument by both parties.

In simple words, arbitration is a legal process in which the dispute of the parties is heard by a private individual or panel of several private individuals (qualified arbitrators), rather than the courts. Arbitration results in an award or decision being made by the arbitrator(s). Arbitration between Chinese and foreign parties in China is usually conducted by the China International Economic and Trade Arbitration Commission (CIETAC) in Beijing, Shanghai or Shenzhen in

accordance with its own Arbitration Rules and subject to the PRC Arbitration Law and other relevant laws.

The basic framework for civil litigation in Mainland China is laid down in the PRC Civil Procedure Law. Other relevant sources of authority include various judicial interpretations by the Supreme People's Court or the Supreme Procurate, the PRC Contract Law, the laws and regulations that govern foreign investment enterprises, and the Foreign Investment Enterprise Winding Up Measures.

Since becoming a WTO member in 2001, China has been extensively involved in the WTO dispute settlement affairs. On June 6 2006, the China Council for the Promotion of International Trade (China International Chamber of Commerce) launched its dispute settlement center in Xiamen. The center is positioned to provide mediation for business disputes of foreign trade and economic nature.

The settlement center has an advisory board consisting of representatives from such city authorities as the government, legislative council of the people's congress, intermediate court, maritime court, legislative bureau, judicial office, industrial and commercial administration, foreign investment bureau, trade development bureau, arbitrary committee and the Law School of Xiamen University. On top of that, 22 experts with their respective specialties are also taken on board. The objectives were to seek amicable solutions and avoiding going to courts.

Peru

The Peruvian Government promotes the use of Alternative forms of Dispute Resolution (ADR) for disputes that might emerge, including trade issues. The General Arbitration Law published on January 31st, 1996, includes international arbitration. This particular law implements the Convention on the Recognition and Enforcement of Foreign Arbitrage Awards (New York Convention).

Peru has incorporated foreign awards to its legal system, according to international treaty procedures where Peru is participating. For the recognition of foreign awards, issued in an international arbitration case, the regulations applied are the same as the ones established to recognize any foreign legal sentence.

As WTO member, Peru considers the Dispute Settlement Understanding (DSU) as an effective way to resolving disputes. The trade agreements negotiated with Chile, Thailand and United States contain a chapter on dispute settlement that respects the structure of WTO's DSU. Also, as a member of the Andean Community, Peru participates in the Andean Dispute Settlement System.

In terms of disputes between governments and private entities, Peru is a signatory of the following international conventions that regulate trade arbitration:

- Convention on the Recognition and Enforcement of Foreign Arbitrage Awards
- Convention on the Settlement of Investment Disputes between States and Nationals of Other States
- Inter-American Convention on International Trade Arbitration
- Inter-American Convention on Extraterritorial Efficacy of Foreign Sentences and Arbitration Awards

Among private parties, the main institutions in Peru dealing with any dispute resolution process are the following ones:

- The Lima Chamber of Commerce and other regional Chambers of Commerce around the country.
- The Center for Arbitration and Trade Conciliation (CEARCO), constituted within the Peruvian Chapter of the Inter-American Commission for Trade Arbitration, where business and guild organizations participate.

- The Bar Association and its respective affiliates in the country. The Lima Bar Association has established a permanent Arbitration Tribunal.

In addition, Conciliation Centers have been set up nationwide. According to the Ministry of Justice, there are 528 centers with almost 12,260 conciliators.

5.8 Trade Facilitation Matters

China

As a participator and promoter of economic globalization and regional economic integration, as well as a big country of international trade, china is making efforts to accelerate the process of trade facilitation so as to improve its foreign trade efficiency, and reduce the trade costs. On one hand, China is active in taking part in the negotiation on trade facilitation under APEC and WTO framework, on the other hand, China is conducting negotiation on the issues under the RTA with other countries or regions. For example, under CEPA between Hong Kong and Mainland, the measures of trade facilitation are including: promotion of trade and investment, facilitation on clearance, inspection and quarantine on merchandise, food safety, quality standard, electronic business, transparency of law and regulations, cooperation on SME and cooperation on Chinese medicine and pharmaceutical industry.

At present, on the aspect of trade facilitation the main measures adopted by China are as follows:

1. To Establish and improve the relevant laws and policies, and increase transparency of laws and policies. Chinese government is gradually improving the relevant laws and administrative rules restricting medium agencies and enterprises on commercial behavior, and supervising the trade legally to promote trade facilitation fundamentally. The government publishes information regularly on laws and policies in Chinese and foreign languages, establishes websites to publish the information and deal with the related problems concerning laws and policies.
2. To simplify the procedures of goods clearance and reducing the time of goods clearance. The new clearance model which means at ports the coordinating mechanism among the related departments, such as custom, inspection and quarantine, foreign currency etc. is establishing. All the departments are using the unified windows to provide facilitated service for firms which need to deal with the governments, agencies for customs reporting, companies of international goods transportation, ports and banks etc. The customs are implementing risk management combining the examination after importing so that under the reasonable and strict supervision of customs, the goods flow could be accelerated.

In July 2006, the General Administration of Customs declared that Office of Planning of the General Administration of Customs was renamed as Office of National Port Management to coordinate ports management for companies so as to decrease the cost of clearing customs.

3. On the aspect of inspection and quarantine, China is gradually improving and perfecting the procedures and standards of goods inspection, adjusting and reducing the kinds of importing and exporting goods needed to be inspected and quarantined, simplifying and regulating the procedures of inspection and quarantine, and reducing the related cost in order to promote trade facilitation.
4. As to foreign currency management, according to the requirements of market economy development, Chinese government is continuously adjusting rules and regulations on foreign currency management to facilitate trade and service firms better. More and more new measures regarding receiving and paying of foreign currency have been practiced. For example, some restrict conditions on foreign currency paying for imported goods have been eliminated.

5. On the aspect of entry and departure of business personnel, as a member of APEC, China has established green passageway to business personnel of APEC members. The administration of entry and departure has been in accordance with international practice. For Chinese commercial personnel, passport application has been simplified and time of issuing passport has been shortened significantly, with one week in general. Simplifying entry and departure formalities for enterprise staff improves efficiency gradually.
6. Improving infrastructure to facilitate trade. China is improving its ports infrastructure and its complements. Ports have been equipped with modern instruments to promote trade facilitation. Promoting non-paper clearance, constructing internet connection of relevant authorities, sharing information, and certificating digital credentials with other countries, could supply convenience and safety to trade facilitation. Some of automatic electronic checking systems for customs reporting, and vehicle pathway etc. have fully improved the clearance efficiency.

Since 2000, China Customs has provided an easier clearance procedure for large and high-tech enterprises, such as pre-arrival declaration, on-line declaration, fast transit procedure, checking and release on site, urgent clearance, release with deposit and prioritized consultation. Twenty-four-hour clearance, clearance consultation and quality service are also provided by the customs offices.

Since August 1, 2001⁴ the sub-system for export exchange collection under "China E-Port" has been fully operated in all customs offices across the country, while in the meantime, China Customs has been wasting no time in securing nationwide application of "China E- Port" and working at ways to implement remote filing and declaration for export draw back.

Peru

Peru launched its Master Plan for Trade Facilitation (MPTF) in April 2004. The MPTF objective is to provide a basic framework to foster and facilitate trade and to transform Peru into a competitive and export-oriented economy, with more value-added merchandise and services exports.

The Master Plan for Trade Facilitation (MPTF) aims to implement effective trade facilitation mechanisms by fostering infrastructure development and enabling access and provision of physical distribution and financial services at better quality and price conditions. It comprises of 6 areas: macroeconomics and tax policy, financing, customs management, road, air and maritime transport infrastructure and services. The MPTF contains 6 general strategies, 17 specific policies, 41 objectives and 152 tasks to be implemented by 23 public sector entities, including Regional Governments and 15 institutions from the foreign trade private sector.

Peru is focusing on having a legal framework that allows the application of efficient mechanisms to simplify foreign trade paperwork and procedures, to foster infrastructure development and to improve financial services in terms of quality and price.

Among the principal measures to be promoted are:

- An efficient and permanent dialogue between public and private sectors and the implementation of the agreements reached by them.
- A public-private monitoring mechanism of the regulatory framework.
- The incorporation of the private sector in managing the decentralized regulatory and public organizations.
- The improvement of public officials' capabilities and promotion of transfer of knowledge.
- The improvement of the role of Customs as trade facilitator.
- Fostering development of Peru as a HUB, the creation of Logistic Activities Areas and Platforms, the physical integration with the Andean Community and MERCOSUR members and the development of funding alternatives for foreign trade.

- The simplification and standardization of administrative procedures and setting up minimum standards for the provision of logistic services (as the aforementioned FTSW)

5.9 Government Procurement

China

The implementation of government procurement is an innovation in the field of public consumption. At present, this system is an important component for public consumption management for a vast number of nations, and is playing an imperative role in social and economic lives.

To improve government procurement institutions and unify government purchasing market, some international organizations have formulated a few of international lawful documents related to government procurement. Two of them are relatively important—the Government Procurement Agreement (GPA) drafted by the WTO and the Model Law on Procurement of Goods, Construction and Services drafted by the United Nations Commission of International Trade Law (UNCITRAL). GPA is the legal reflection of global government procurement liberalization. It is also one of the results of trade liberalization and economic globalization. Its main purpose is to make institutional arrangement for government procurement around the world.

China is a late comer in the practice of government procurement. In the middle of 1990s, in the process of drafting the Invitation and Submission of Bids Law of the People's Republic of China, the State introduced the method of fair market competition for government procurement. From 1996, pilot programs had been implemented in Shanghai and Shenzhen successively. After 1999, China promulgated some national regulations and rules concerning government procurement. Based on the Budget Law, the Ministry of Finance (MOF) issued the Tentative Measures on Government Procurement Management in April 4, 1999. In June of the same year, the MOF also issued supplementary documents: the Tentative Measures on Supervision of Government Procurement Contract and the Tentative Measures on Invitation and Submission of Bids for Government Procurement. They regulated the supervision rules regarding government procurement, and management and supervision plans during the process of invitation and submission of bids for government procurement. In September 2000, the MOF published the Management Measures on Government Procurement Information Notice and the Items Category on Government Procurement. The former stipulated specifically the means and methods of information publication; the latter provided the criterion for standardized operation regarding government procurement. On June 29 2002, The Government Procurement Law of the People's Republic of China was promulgated, effective as of January 1, 2003.

In July 2006, the MOF launched enforcement investigation and evaluation with respect to government procurement laws and regulations. Generally speaking, these laws and regulations have played positive role in guaranteeing open, fair and impartial behaviors in government procurement, and achieved remarkable economic and social benefits. From 1998 to 2005, the average scale of government procurement in the whole country had increased by 77.9% annually. In 2005, the actual scale of government procurement was RMB 292.76 billion, up 37.1% as the same period in 2004, which accounted for 1.6% of GDP and saved RMB 38.02 billion. Based on primary statistics, government procurement scale in 2006 was RMB 350 billion.

According to Article 10 of the Government Procurement Law of the People's Republic of China, the domestic goods, construction or services should be preferred for all the government procurements in general except otherwise they fall within one of the following situations:

1. Where the goods, construction or services in need cannot be acquired within the territory of the People's Republic of China or even if acquired but not at arm's length conditions;
2. Where the procurement items are procured for the consumption in abroad;

3. Other circumstances provided by laws or administrative regulations. The definitions for the domestic goods, construction or services mentioned above should be applied with reference to the relevant regulations approved by the State Council.

In General, the Government Procurement Law regulates that the goods, construction or services shall be procured domestically. However, it is not subject to the law if relevant goods, construction or services cannot be acquired within China or are procured for consumption abroad.

Although China has not entered the GPA, China has made some beneficial attempts on globalization of government procurement. On May 16, 2006, the first conversation of China and EU on government procurement was held in Beijing. Both sides were satisfied with the communication and cooperation since the establishment of bilateral dialogue mechanism on government procurement, strengthened the importance of regular conversation between China and EU, and agreed that profound development of the conversation mechanism would have a positive impact on deepening bilateral cooperation.

Peru

The Superior Board of Contracts and Purchases of the State (CONSUCODE) is the managing entity on government procurement in Peru. It exerts its duties nationwide and covers every public entity that conducts any process to purchase goods or services and execute public works.

Peru has started to implement completely the use of new tender modalities on government procurement, such as reverse auction, purchases by catalogue and corporative purchases, according to the amendments to Peru's Procurement Law during year 2004. The goal of these changes is to obtain great savings to the public administration, achieve more efficiency in the procurement system and reduce tendering procedures' time limits. Also, Peru has begun with the use of electronic means for procurement transactions under the modality of reverse auctions and procurement in the case of minor purchases.

Since 2004, the Peruvian Government established that all public entities at all level of government, including public enterprises, must use the Electronic Government Procurement System (SEACE) <http://www.seace.gob.pe>. This web site constitutes a single entry point for the purpose of enabling suppliers to access information on procurement opportunities in the whole country.

Moreover, since 2005, all public entities ought to publish the entire tendering information in this electronic system. In this regard, SEACE constitutes the only official means containing information such as: notices of intended procurement and invitations to tender, tender documentation, including technical specifications and evaluation criteria, awarding of contracts, annual procurement plans, business opportunities and statistic information. This is a public access database and provides information about prices and conditions to participate in a tendering procedure, which can be used as reference for future contracts.

SEACE enables to centralize in a single entry point all information concerning procurement opportunities SEACE also includes a business opportunities link that enables registered providers to become acquainted with the information related to their business branch.

The system includes an electronic tool to send information to interested suppliers on procurement opportunities, tendering and qualification procedures, according to the business branch of the provider and the object of the contract. Through SEACE, all suppliers (national and aliens), have the same access' conditions to the detailed information concerning to procurement opportunities with the Peruvian Government.

The only requirement to participate in a tendering procedure is to be registered in the National Provider's Register. Otherwise, as established before, it is prohibited by the Peruvian law that any public entity can establish an individual register system for contractual purposes. Any registered provider under the National Provider's Register can be excluded or banned from

participating in a tendering procedure only by an administrative resolution of CONSUCODE's Administrative Tribunal.

Currently, there is no measure that restricts market access on government procurement to foreign suppliers in a tendering procedure. However, the current regulations establish a 20% bonus over the technical and economic valuation on the tenders comprised by goods and services produced or rendered within Peru.

5.10 Competition Policy

China

In recent years, the government of China has made great efforts to improve its legislation and enforcement of competition laws and regulations to provide a more transparent and fair competition environment.

China has taken effective measures to break industry monopoly and sector blockage to maintain fair competition as stated below: (1) severely punish the abuse of dominant positions, monopoly collusion and mergers which may harm competitions. Great attentions have been paid to such industries as supply of water, electricity and gas; (2) Make research on the measures to deal with large companies who abuse their dominant positions in China; (3) Regarding the countering of unfair competition, Chinese government has severely punished counterfeit of famous commodities of food, medicine, house utensils and agriculture materials, and imitation of the peculiar name, package, decoration and registered trade mark, China also launched the Campaign of "Maintenance of Fair Competition Order and Breaking down Counterfeit and Fraud Activities", which put emphasis on punishment of brokerage and bribery in medicine, civil aviation, tourism and real estate sectors; (4) Strike on the fraudulent sale with prize or disguised sale with mint prize. Strengthen supervision of online business activities, and punish unfair competition activities online.

Recognizing the importance of establishing a normal market economic order to protect the normal operation of economy, and improve the socialist market economic system, China has set up a legal framework to enhance market competition regulations since 1980s, including the Law on Countering Unfair Competition, the Price Law, the Advertisement Law, the Product Quality Law, the Trademark Law, the Patent Law, the Law of Corporation, the Promotion Law of Small and Medium-sized Enterprises, the Temporary Provisions on the Prohibition of Price Monopoly Activities, the Regulations on Telecommunication, etc.

In order to further protect fair competition, China has promulgated the Promotion Law of Small and Medium-sized Enterprises of PRC, the Regulations on Administration of Technology Import and Export, the Provisions on Prohibition of Implementation of Regional Blockage to Cigarette Business. The Promotion Law of Small and Medium-sized Enterprises of PRC was promulgated in June 2002, and came into force as of January 1, 2003. This law is to promote the healthy development of small and medium-sized enterprises by establishing a fair competition mechanism.

The Temporary Provisions on the Prohibition of Price Monopoly Activities was promulgated in June 2003, and put into effect since November 1, 2003. Its purpose is to promote fair competition, and protect the lawful rights of businessmen and customers by prohibiting price monopoly activities.

Antimonopoly is another high point of China's legislation, since the promulgation of the Regulations on Telecommunication, China has formulated the Temporary Provisions on Foreign Investors' Merger with Domestic Enterprises, and the Temporary Provisions on the Prohibition of Price Monopoly Activities. The awareness of the necessity of antimonopoly legislation has been greatly improved.

The State Tobacco Bureau promulgated the Provisions on Prohibition of Implementation of Regional Blockage to Cigarette Business as of June 1, 2001, in order to break regional

blockage, and establish a united, fair and orderly competitive nationwide cigarette market in China.

The Anti-Monopoly Law of the People's Republic of China has been promulgated on August 30, 2007, effective as of August 1, 2008. In addition, China is making efforts to draft the Telecommunication Law, in which provisions on monopoly activities will be stipulated. China is also considering the development of laws and regulations relevant to malfeasance and unfair trade activities. The review of the Law on Countering Unfair Competition is underway.

Peru

Peru has undertaken major changes which have had a significant impact on the country's development. Many of the most significant changes involved the constitution of a market economy system.

Competition policy was formally introduced in 1991, with the enactment of Legislative Decree 701, the Peruvian Competition Law. This legislation is intended to eliminate monopolistic practices, controls and restrictions to competition in the production and distribution of goods and services so as to improve market efficiency and promote consumers welfare. This law is applicable to all economic sectors.

Legislative Decree 701 bans all conducts related to economic activities that constitute an abuse of dominance or that restrict, impede or obstruct competition; and adversely impact on general welfare. Currently, it does not have provisions that require prior notifications of mergers or acquisitions. There is another law, Law N° 26876, which establishes a merger control regime exclusively for the electric sector.

Peru has also laws for unfair competition (Decree N°. 39-2000-ITINCI and 20-94-ITINCI) and competition advocacy that safeguards market access from governmental restrictions (Laws 776, 27322, 28335, and 28996, among others).

The National Institute of Defense of Competition and the Protection of Intellectual Property (INDECOPI), created in 1992, is the national competition authority in Peru. Within INDECOPI, there are two quasi jurisdictional bodies that are directly related to the enforcement of the Competition Law: the Competition Commission; and the Competition Chamber, appellate body and final administrative instance. Both, the Free Competition Commission and the Competition Chamber, are independent bodies for case handling purposes. Nevertheless, the Competition Commission must follow the procedural guidelines and mandatory precedents approved and published by INDECOPI. This provides for greater degree of certainty and predictability.

INDECOPI enforces the Competition Law in all sectors except for the telecommunications sector; where the sectoral regulator, OSIPTEL, is charge of the enforcement and implementation of the competition policy. OSIPTEL also issues some guidelines with the objective of improve the legal system and the predictability of the procedures conducted on the matter.

6 CONCLUSIONS AND RECOMMENDATIONS

China and Peru formally established diplomatic relations on November 2nd 1971. After that, especially in the 21st century, bilateral relations in many aspects have been enhanced significantly. Trade and investment between the two countries have witnessed fast growth in the past few years.

In this sense, in order to strengthen their bilateral links, both countries decided to conduct a Joint Feasibility Study on a bilateral FTA. This study would allow to explore the opportunities and challenges that both countries would face and to measure the impact of an eventual FTA; and finally would provide recommendations on the best ways to conduct negotiations between the two countries.

For the purpose of this study, China and Peru analyzed each chapter from its own perspective and reached common conclusions and recommendations as following:

On Chapter 1: “Introduction”, both countries present information on macroeconomic conditions and on their past and ongoing FTA negotiations. This chapter shows that both countries have strong macroeconomic indicators; for instance, in last few years China’s GDP growth has been around 9%, while in the case of Peru, GDP growth has reached high levels (8% in 2006). Additionally, this chapter shows that China and Peru are following a very active trade agenda, on a bilateral and multilateral basis.

On Chapter 2: “Trade and Investment Policies and Systems”, the most important features of the trade and investment policy of each country are briefly described, including tariffs and non-tariff measures, foreign investment regimes, services and trade remedies. For example, the average applied tariff level in China was 9.8% (2006), while in Peru it was 8.04% (July 2007). This chapter would contribute to have a better understanding of each country’s policies and systems. Finally, it also allows the identification of some existing barriers to trade and investment between the two countries, which can be reduced or eliminated through an FTA.

Particularly, tariff elimination should be complemented with the removal of unnecessary non-tariff measures to improve trade between the two countries. FTA negotiations would improve disciplines in areas such as technical barriers to trade, sanitary and phytosanitary measures, among others.

The services sector represents an important share of the GDP of China and Peru. Aiming to promote bilateral trade in services, a possible FTA would serve as an instrument to consolidate and deepen the commitments made in the WTO and to provide a secure and stable environment to current and future investors and service providers in both countries.

On Chapter 3: “Economic relations, challenges and prospects between China and Peru”, both countries analyzed statistics on bilateral trade (in goods and services) and investment. This chapter shows that trade flows have experimented steady growth during the last few years. Some trade indexes (RCA, RPC, RIM, RIX and TSC) have also been used to evaluate the characteristics of the actual and potential trade flows between China and Peru. These indexes have shown a significant level of complementarity between the export supply and import demand of both countries.

On Chapter 4: “Impacts of trade and investment liberalization”, both countries used general and a partial equilibrium models, in order to assess the impact of a possible FTA between China and Peru. Modeling results show main indicators such as GDP, trade and welfare, will increase in both countries as a result of bilateral full trade liberalization. In the case of China, real GDP will grow 0.04%; particularly, the sectors that would benefit the most are: electronic and telecommunication equipment, transportation equipment, livestock, food industry, tobacco processing and textile industry etc. In the case of Peru, GDP will grow 0.7% and welfare will

improve by 0.53%; particularly, the sectors that would benefit the most are: fats and oils of fish, fishing, petroleum and mineral products, fishmeal, agriculture, chemicals, etc.

With respect to direct effects on trade, the partial equilibrium models show that in the case of China, trade creation and trade diversion will be 0.61% and 0.81%, respectively; while for Peru they will be 2.2% and 0.55%, respectively. The outcomes of these models suggest that net benefits for both countries can be expected from the negotiation of an FTA, but they also identify possible negative impact on some industries that should be taken into account in the negotiation process.

On Chapter 5: “Information Exchange on Other Issues and Economic Cooperation”, both countries elaborated on additional disciplines and institutional issues such as: intellectual property rights, movement of business persons, transparency, trade and investment promotion, small and medium enterprises cooperation, customs procedures, dispute settlement, trade facilitation, government procurement and competition policy. These additional topics can help to promote and facilitate trade and investment between China and Peru; therefore, the above issues would be considered for their inclusion in a possible FTA.

In conclusion, this study has demonstrated that significant complementarities exist between the Chinese and Peruvian economies and that an FTA would benefit the people and economies of both countries. To secure these benefits and build on the long and warm relationships between the two countries, this study recommends that negotiations on an FTA between China and Peru covering goods, services and investment, among others, should commence as soon as possible.

This bilateral agreement has strategic connotations for each side. In the case of China, it is one of the important ways to strengthen its economic and trade relations with Latin America. In the case of Peru, it is a critical step to strengthen links with leading world countries like China, in order to become a business and productive platform within South America.

Taking account of the results of this feasibility study, the two sides recommend announcing and launching negotiations for an FTA after fulfilling their internal procedures. As equal trading partners, this should follow a written commitment by Peru not to apply Articles 15 and 16 of the Protocol on the Accession of China to the WTO and Paragraph 242 of the Report of the Working Group on the Accession of China to WTO.