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KOREA – PERU
FREE TRADE AGREEMENT

JOINT FEASIBILITY STUDY

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JOINT FEASIBILITY STUDY ON A FREE TRADE AGREEMENT BETWEEN KOREA AND PERU

1. INTRODUCTION

Peru and Korea established diplomatic ties on April 1st, 1963 and the permanent diplomatic representation, at levels of an Ambassador dates since 1984. Furthermore, on June 19th, 1989, Korea and Peru aiming to stimulate, increase and deepen economic, scientific and technical cooperation, trade flows and investment, established a Mix Committee.

Therefore, since 1963 both countries have experienced a sound relationship, strengthened by the development of bilateral trade flows, investment opportunities and cooperation activities, being the relationship improved by the common membership in APEC.

Also, in the multilateral field, Peru and Korea have supported each other in a wide array of issues such as the Korean reunification and the maintenance of peace, the defense of the democratic values and human rights, among others.

In this regard, trade flows between Peru and Korea have increased substantially. When both countries started diplomatic ties, trade levels were not significant. In 2007, bilateral trade flows reached US$ 1,409 million, which is the third largest from Asia after China and Japan. Furthermore, in terms of investment, Peru and Korea signed a Bilateral Investment Treaty, which entered into force on April 20th, 1994. Since the 1990s, many Korean companies have invested in Peru, especially in energy, mining, commerce and finance.

In addition, Korea has played a main role in terms of economic and technical cooperation projects. In this way, cooperation from Korea has developed by five different modalities: assistance in projects, researches for development, have sent experts and volunteers; and finally Korea has offered technical training every year for Peruvian professionals and technicians in Korea.

By the year 2000, the Korea International Cooperation Agency (KOICA) established a representation office in Peru. This had the purpose to bring greater treatment to the cooperation in Peru, which has widely increased and diversified. At present, Peru is the main destination of cooperation of Latin America.

Due to the increasing importance of these ties, Peruvian and Korean authorities have met in recent years to find ways to build up our current relationships. In this sense, Peru's Minister of Foreign Trade and Tourism, Mercedes Araoz and Korea's Minister for Trade, Kim Hyun-Chong, agreed in November 2006, to start a Joint Feasibility Study on a Free Trade Agreement (FTA) between Peru and Korea, to be prepared by representatives from the private sector. Also, in September 2007, Peru's President, Alan Garcia and Korea's President, Roh Moo-Hyun, held an official meeting in order to discuss ways to promote bilateral trade and Korean investments in Peru.

2. MACROECONOMIC OVERVIEW OF KOREA AND PERU

KOREA

Korea experienced a balance of payment crisis at the end of 1997, and its growth rate dropped to -6.9% in 1998. However, after a rapid recovery in 1999, Korea's economy has shown a stable performance in the recent years, with an average growth rate of 5.2 % from 2000 to 2007. The inflation was maintained under 4% after 2002. The terms of trade continuously deteriorated after 1997 because of the price fall of IT products and the price increase of primary commodities. However, after the balance of payment crisis and large devaluation of the exchange rate in 1998, Korea was able to maintain a surplus in the current account. This was primarily because of the surplus in the current account; the international reserves increased from US$ 20.4 billion in 1997 to US$ 262.2 billion in 2007.

Table 2.1 Macroeconomic Indicators of the Korean Economy

	growth rate (%)	inflation rate (%)	terms of trade	current account ($billion)	international reserves ($billion)
1997	4.7	4.4	122.2	-8.29	20.4
1998	-6.9	7.5	116.7	40.37	52.0
1999	9.5	0.8	114.1	24.52	74.1
2000	8.5	2.3	100.0	12.25	96.2
2001	3.8	4.1	95.5	8.03	102.8
2002	7.0	2.8	95.0	5.39	121.4
2003	3.1	3.5	89.0	11.95	155.4
2004	4.7	3.6	85.3	28.17	199.1
2005	4.2	2.8	79.0	14.98	210.4
2006	5.1	2.2	73.2	5.39	239.0
2007	5.0	2.5	70.2	5.95	262.2

Source: Bank of Korea

Table 1.2 shows the composition of Korea's GDP by sector from 2001 to 2006. Manufacturing sector represented about 28.9 % of total GDP in 2001, and it gradually rose to 33.5 % in 2006. Primary sectors such as agriculture and mining, occupied only a small fraction of Korea's GDP and their ratio either decreased or remained at the same level as in the initial year of the given period.

Table 2.2 Gross Domestic Products by Sectors (as % of GDP)

Sector	2001	2002	2003	2004	2005	2006
Agriculture, forestry and fishing	4.7	4.3	3.9	4.1	4.0	3.7
Mining and quarrying	0.4	0.3	0.3	0.3	0.3	0.3
Manufacturing	28.9	29.1	29.8	31.5	32.4	33.5
Electricity, gas and water supply	2.7	2.7	2.7	2.8	2.9	2.8
Construction	8.5	8.2	8.6	8.3	8.0	7.6
Wholesale & retail trade, restrnts & hotels	10.9	10.7	10.1	9.6	9.4	9.3
Transport, storage and communications	7.8	7.9	8.1	8.2	8.3	8.2
Financial intermediation	7.2	8.2	8.0	7.5	7.5	7.5
Real estate, renting and business activities	12.8	12.6	12.5	12.1	12.0	11.9
Public administration and defence; Compulsory social security	5.5	5.3	5.3	5.2	5.1	5.0
Education	5.0	4.9	5.0	4.8	4.7	4.6
Health and social work	2.2	2.2	2.3	2.3	2.3	2.3
Other service activities	3.4	3.5	3.4	3.3	3.3	3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Korea

Within the Korean manufacturing sector, electrical and electronic equipments represented the largest portion of the total output of the sector, and its share in manufacture GDP increased from 25.7% in 2001 to 37.9% in 2006. Other manufacturing categories that constituted large fractions of the sector are petroleum, coal and chemical products, metal products and transport equipments. Low-skilled sector such as textile industry experienced a decline in its participation from 6.5% in 2001 to 3.6% in 2006.

Table 2.3 Participation of the Sub-sectors within Manufacture Sector: 2001-2006 (Unit: % of total manufacture GDP)

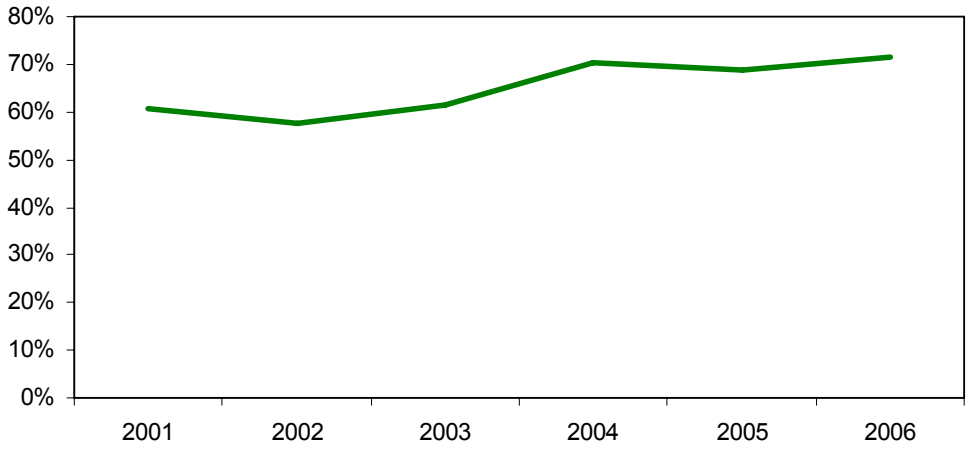
Sector	2001	2002	2003	2004	2005	2006
Food, beverages and tobacco	7.1	6.6	6.1	5.5	5.1	4.8
Textiles and leather	6.5	6.0	4.9	4.3	3.8	3.6
Wood, paper, publishing and printing	4.4	4.1	3.8	3.3	3.1	2.8
Petroleum, coal and chemicals	19.5	19.4	18.9	17.9	17.5	16.7
Non-metallic mineral products except petroleum and coal	3.9	3.7	3.7	3.4	3.3	3.0
Metal, Fabricated metal products	12.5	11.8	11.2	10.9	10.8	10.2
Machinery equipment	6.7	6.6	6.6	6.5	6.6	6.8
Electrical and eletronic equipment	25.7	28.0	31.0	34.0	35.7	37.9
Precision instruments	1.1	1.0	1.0	1.1	1.1	1.1
Transport equipment	10.9	11.0	11.0	11.5	11.6	11.9
Furniture and other manuf. industries	1.7	1.7	1.6	1.5	1.4	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Korea

Trade in Goods

The Korean economy is highly dependent on trade activities, as international trade has been the engine of growth for the economy. The trade dependency ratio of Korea was already high in the 2001, but increased even more to exceed 70 % in 2006.[1]

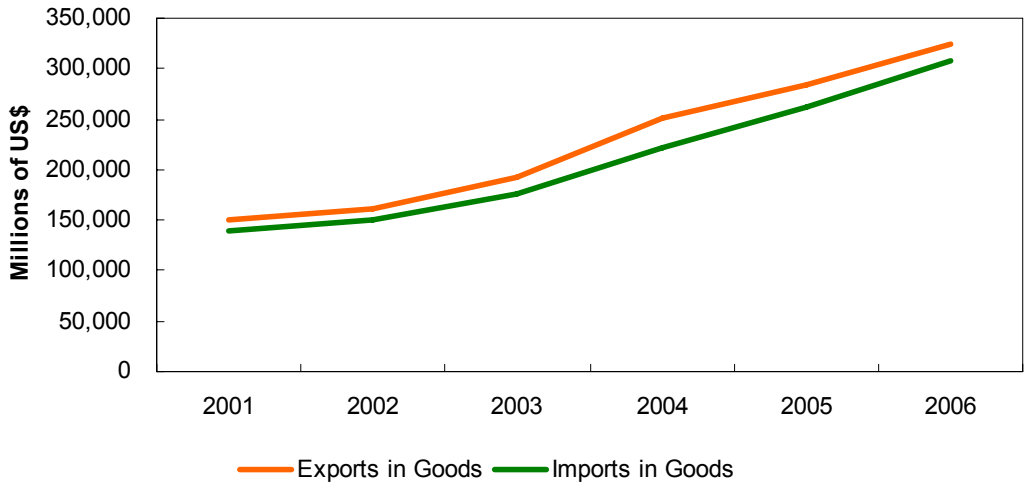
Chart 2.1 Trade Dependency of Korea (as % of total GDP)



Source: UN COMTRADE

Throughout the years from 2001 to 2006, Korea's export in goods increased from US$ 149,374.2 millions to US$ 324,625 millions, helping the economy maintain a current account surplus and accumulate sizable international reserves.

Chart 2.2 Korea's Trade in Goods 2001-2006 (millions of US$)



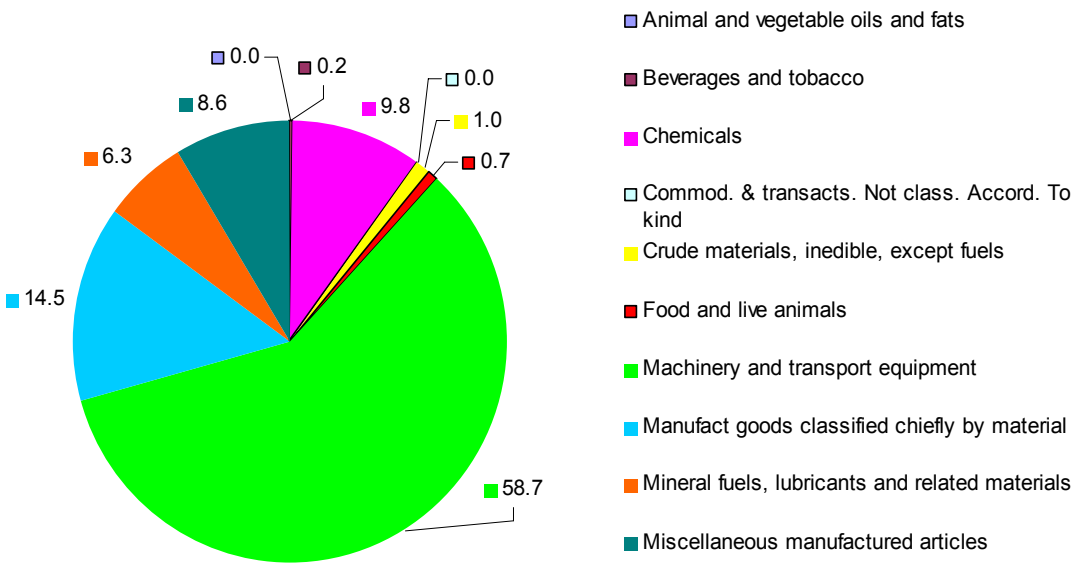
Source: UN COMTRADE

In 2006, machinery and transport equipments constituted about 58.7 % of Korea's total exports in goods. Among other sectors, manufactured goods, miscellaneous

[1] Trade dependency ration is defined as (export+import)/GDP.

manufactured goods and chemical products added together represented 32.9 % of the total export in goods. Primary products such as crude materials, inedible goods, food and live animals occupied only a small fraction of the Korea's exports in goods.

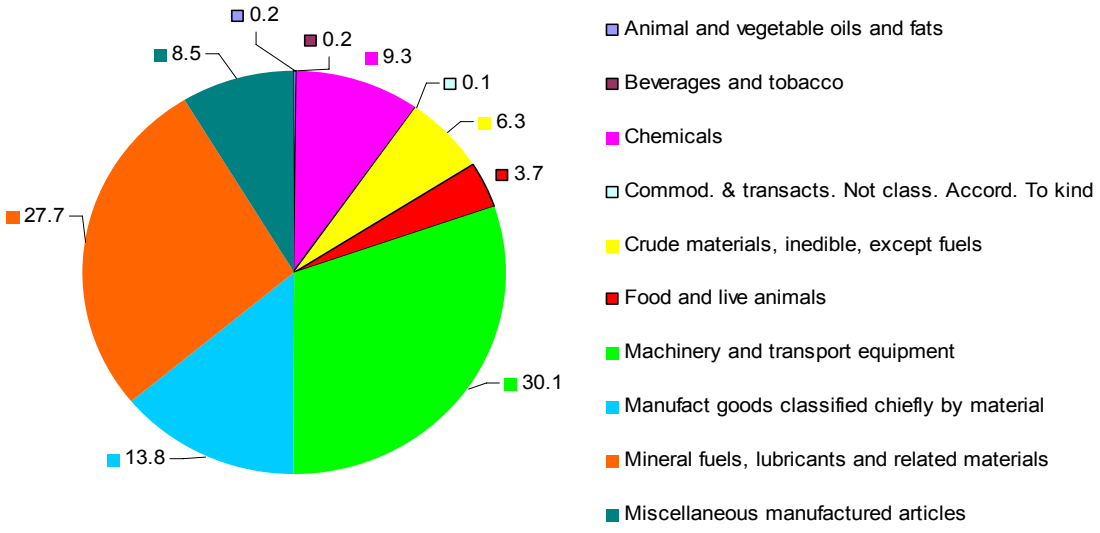
Chart 2.3 Korea's Exports by Sector, 2006 (as % of total)



Source: UN COMTRADE

On the import side, machinery and transport equipments had a share of 30.1% in Korea's total imports of 2006, while mineral fuels, lubricants and other related materials had the second largest share amounting to 27.7%. Crude materials, food and live animals are the categories in which Korea imported (10%) more than it exported (1.7%).

Chart 2.4 Korea's Imports by Sector (as % of total)

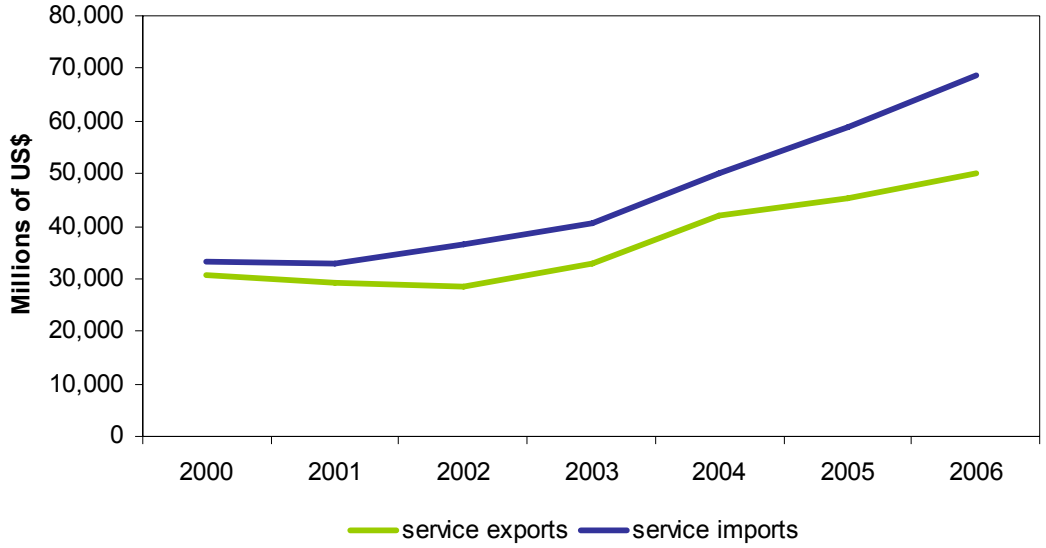


Source: UN COMTRADE

Trade in Service

Contrary to exports in goods, Korea has been accumulating deficit in service trade. According to the Korean balance of payment data, service exports of Korea increased from US$ 30,533 million to US$ 49,890 million between 2000 and 2006, whereas service imports increased from US$ 33,381 million to US$ 68,851 million in the same period. This led to an increase in the deficit of service trade, which reached US$ 18,762.9 million in 2006.

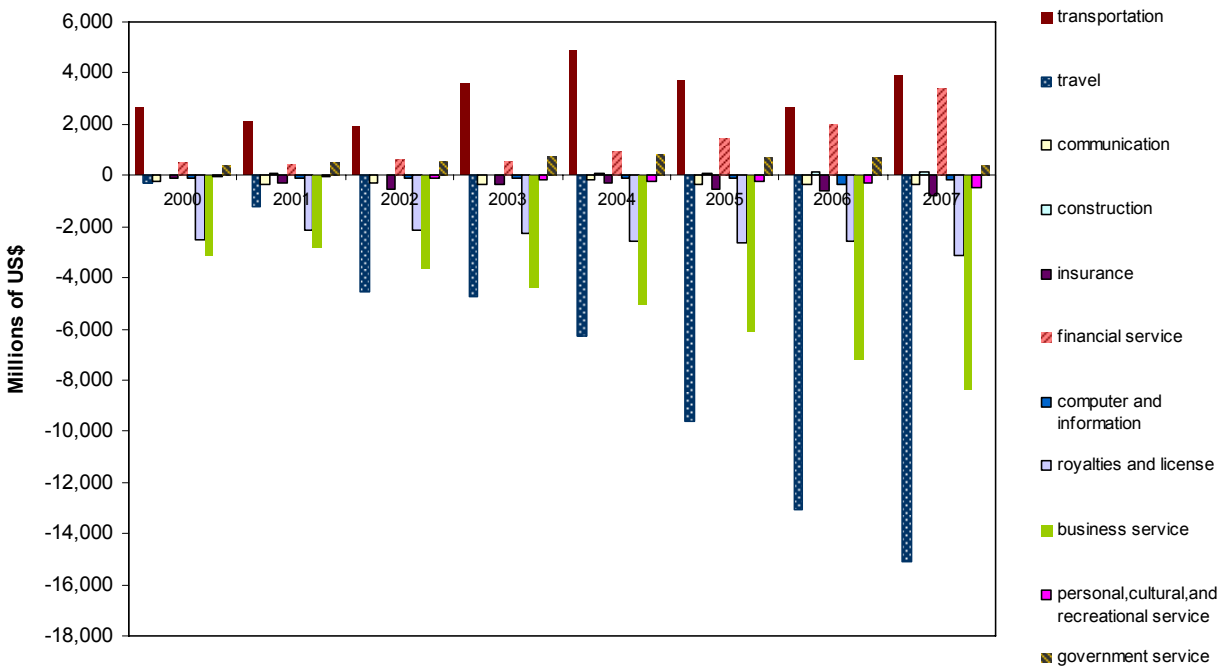
Chart 2.5 Korea's Trade in Service (millions of US$)



Source: Bank of Korea

During the given period, the sectors in which Korea has accumulated deficits are mainly travel, business service, royalties and license fees, and the deficit has increased every year. On the other hand, Korea has recorded surplus in transportation, construction, financial and government service. However, unlike the sectors in deficit, surplus recorded in these sectors has shown some fluctuations throughout the years as surplus in transportation sector has reached its peak in 2004 and has gone slightly downward since then. Moreover, the amount of surplus these sectors were too small to compensate the increasingly large amount of deficits registered in the other sectors.

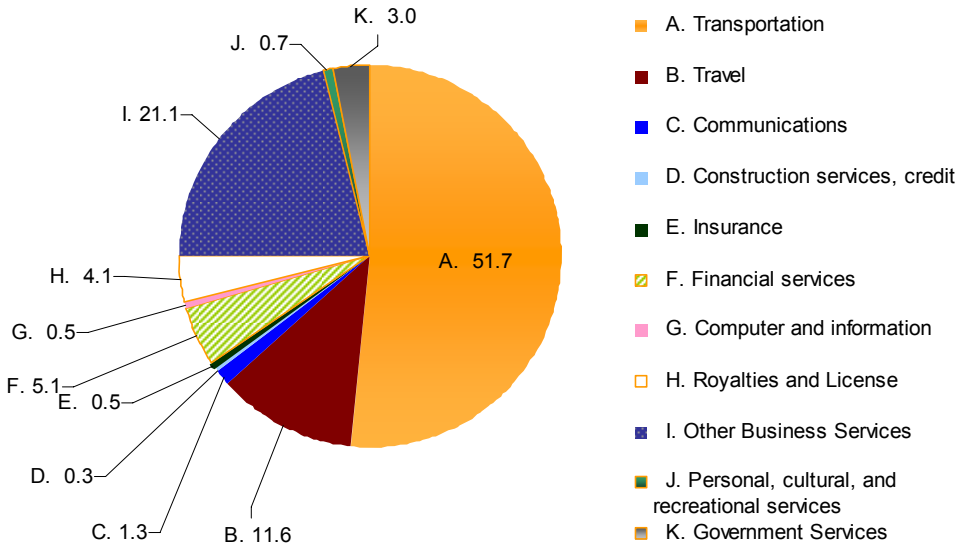
Chart 2.6 Korea's Trade in Service by sector 2000-3rd quarter, 2007 (millions of US$)



Source: Bank of Korea

According to the cross-sectoral data from 2006, the largest portion of the Korean service exports belonged to transportation service which constitutes 51.7% of the total amount, followed by business service occupying 21.1 %. Except for transportation, business and travel service, exports in other service sectors represented relatively small amounts.

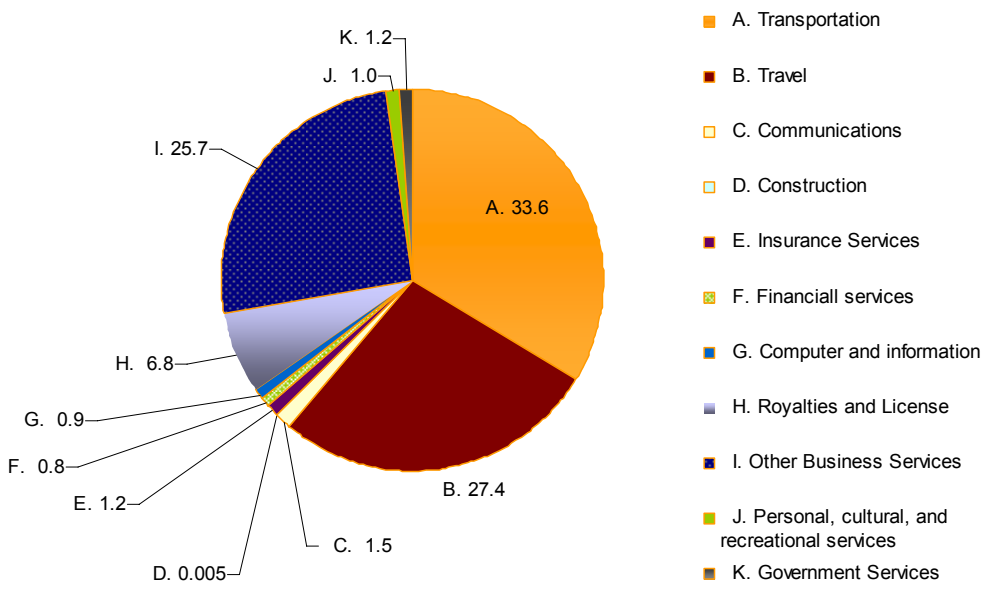
Chart 2.7 Korea's Service Exports by Sector, 2006 (as % of total)



Source: Bank of Korea

The composition of the Korean service imports was mainly concentrated on three sectors: transportation, travel, and business service. Transportation service constituted the largest portion of the total imports although the difference in their numbers was not very significant. Other service sectors including royalties & license fees, insurance, financial and communication service among others constituted less than 13 % of the total imports in service.

Chart 2.8 Korea's Service Import by Sector, 2006 (as % of total)

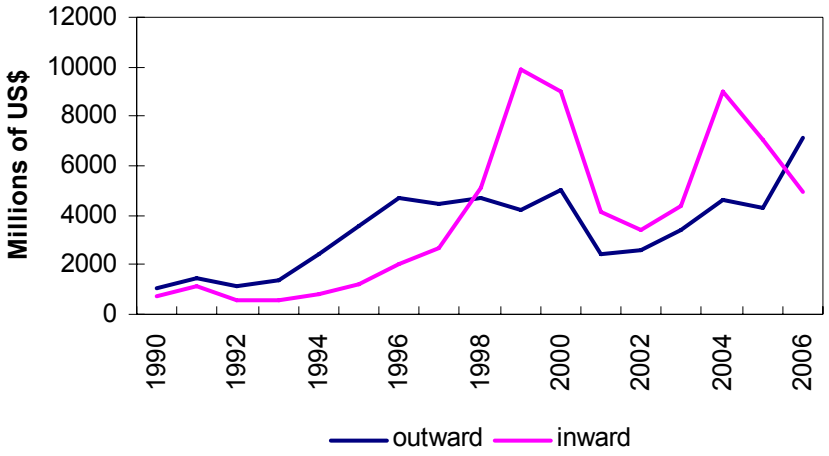


Source: Bank of Korea

Foreign Direct Investment

Korea's outward FDI exceeded inward FDI in the early 1990s, but after the abolishment of the restrictions to inward FDI after the currency crisis in 1997, inward FDI exceeded outward FDI. However, with abundant international reserves and increased competitiveness of Korean companies, Korea's outward FDI increased rapidly since 2002. In 2006 outward FDI reached US$7,128 million, exceeding inward FDI once more. The increase was driven mainly by global management strategy of Korean companies for better market access as well as investment in overseas resource development due to high commodity prices. The governmental deregulations on overseas investment have contributed to the growth of outward FDI. In particular, the recent investment in resource development surged on the back of government assistance such as strengthening of resource diplomacy, expanded financial source for resource development, and training of skilled manpower.

Chart 2.9 Korea's total inward and outward FDI (millions of US$)



Source: UNCTAD

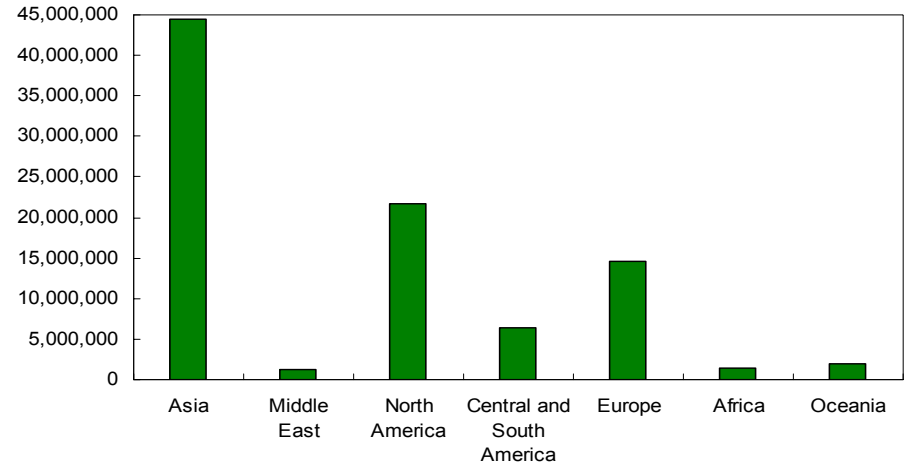
Table 2.4 Korea's Outward FDI by sector: 1980-2006 (unit: $ million)

Total	76,802
Manufacturing	40,405
Retail and whole sale	14,326
Mining	5,770
Service	5,199
Real Estate	2,308
Construction	2,242
Telecommunication	1,850
Accomodation	1,843
Finance and Insurance	1,451
Transportation and Warehousing	789
Fishery	617
ETC	3

Source: EX-IM Bank of Korea

From Table 1.4, we can observe that the majority of Korea's FDI is concentrated on the manufacturing sector. This is probably due to the fact that Korea's major competitiveness is in the manufacturing sector, such as automobile and electronic sectors. The mining sector ranks the third highest; Korea, owing to its scarcity in natural resources, relies on FDI to secure the supply of such resources. Compared with other OECD countries, the FDI of service sectors, such as finance and insurance, or telecommunication, has relatively small share in total Korea's outward FDI.

Chart 2.10 FDI from Korea to World by region (Thousand of US$) (1980-2006)



Source: EX-IM Bank of Korea

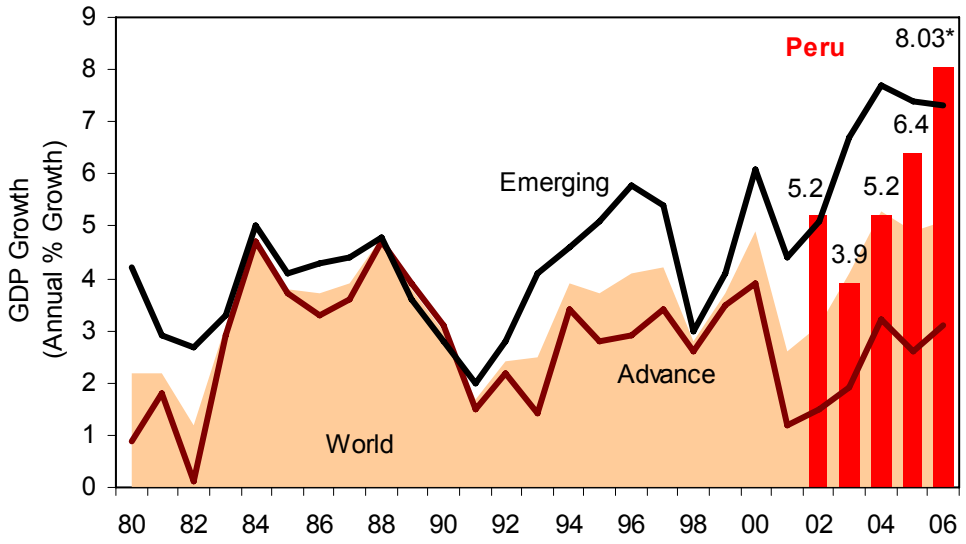
When observed by region, the main destination of Korea's outward FDI is the Asian region, especially China. During 1980-2006, more than half of Korea's outward FDI were directed to Asian Region. North America and Europe were the second and third largest destination respectively. The main motive of the investment in these regions was 'market-seeking'. Latin America received 6% of Korea's outward FDI. An important part of Korea's FDI in Latin America was 'resource-seeking FDI', which had a share of 38%.

PERU

Gross Domestic Product (key industries, potential growth sectors)

Peru has recorded outstanding economic expansion in the last years evidenced by a GDP growth of 7.6% in 2006 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. 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.

Chart 2.11 World Growth (% change)

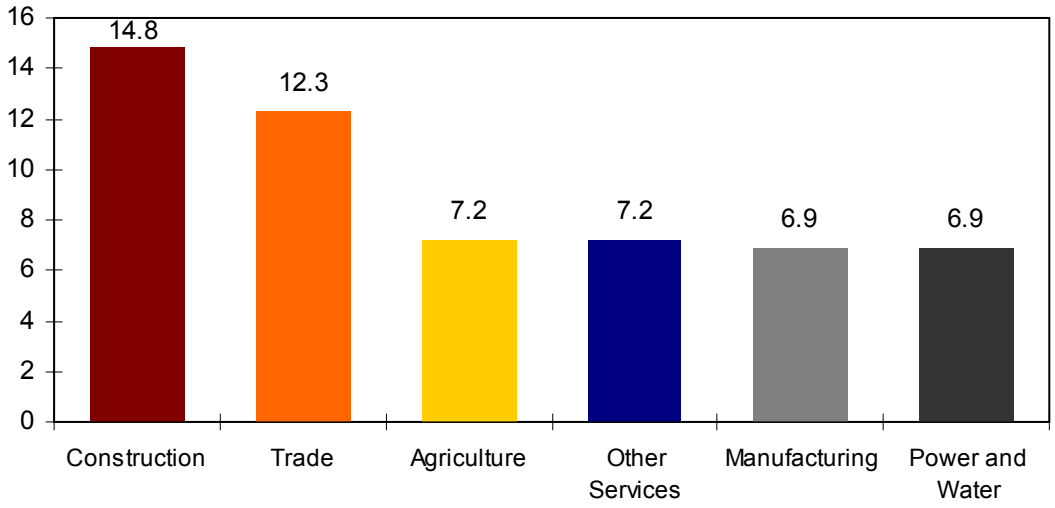


Source: International Monetary Fund and BCRP
Prepared by: Proinversion

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.

Chart 2.12 GDP per Sector 2006 (% change)



Source: Adex Data Trade

Agriculture grew on average 7.35%, 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.

Table 2.5 Domestic Gross Product by Productive Sectors (% growth)

Sector	2002	2003	2004	2005	2006
Agriculture (crop and liverstock) (**)	6.10%	2.97%	0.23%	4.75%	7.35%
Fisheries	6.06%	-10.25%	30.75%	3.21%	2.35%
Mining and hydrocarbons	11.98%	5.48%	5.28%	8.40%	1.39%
Manufacturing	5.68%	3.57%	7.71%	7.23%	7.36%
Power and water	5.45%	3.65%	4.47%	5.59%	6.89%
Construction	7.66%	4.50%	4.67%	8.40%	14.76%
Trading	3.27%	2.44%	5.84%	6.28%	11.12%
Other services	4.00%	4.66%	4.41%	6.36%	6.96%
GROSS DOMESTIC PRODUCTS	**5.02%**	**4.03%**	**5.11%**	**6.74%**	**7.56%**

(**) Including forestry
Source: Central Bank of Peru

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.

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.

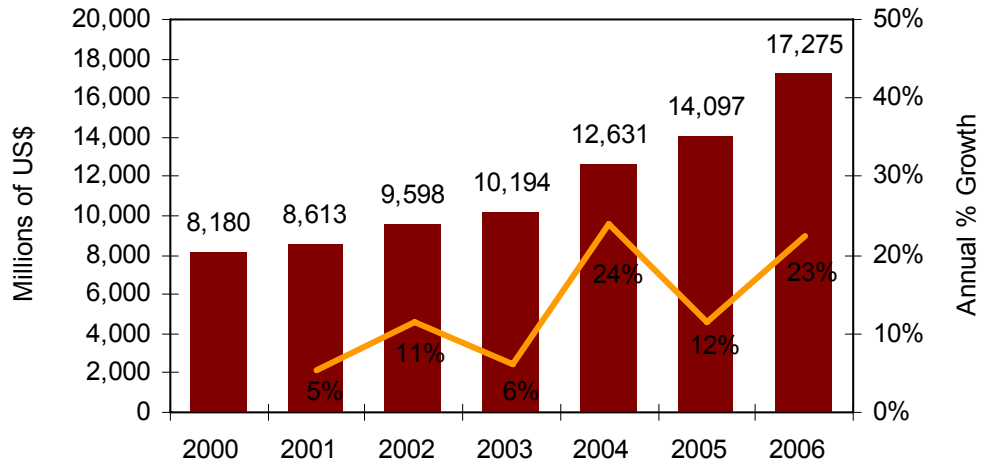
Forests also provide potential for development. Peru is the world's ninth country for forest surface, second only to Brazil in Latin America. Located in the South American tropics where most of the world's rainforests are found, Peru has 78.8 million hectares of natural forests and over 8 million hectares 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.

Foreign Exchange Reserves

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.

Chart 2.13 Foreign Exchange Reserves (millions of US$)

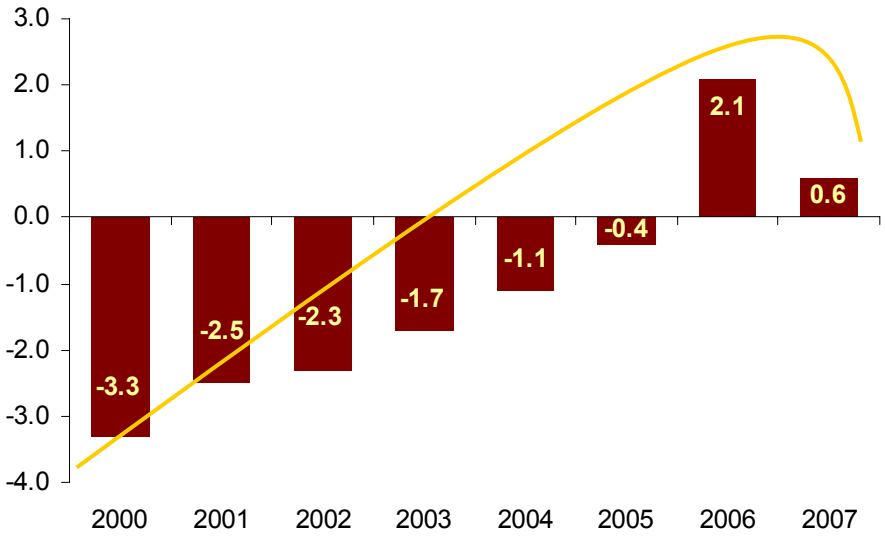


Source: Central Bank of Peru

Fiscal Deficit

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 2.1% 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.

Chart 2.14 Fiscal Deficit (% GDP)

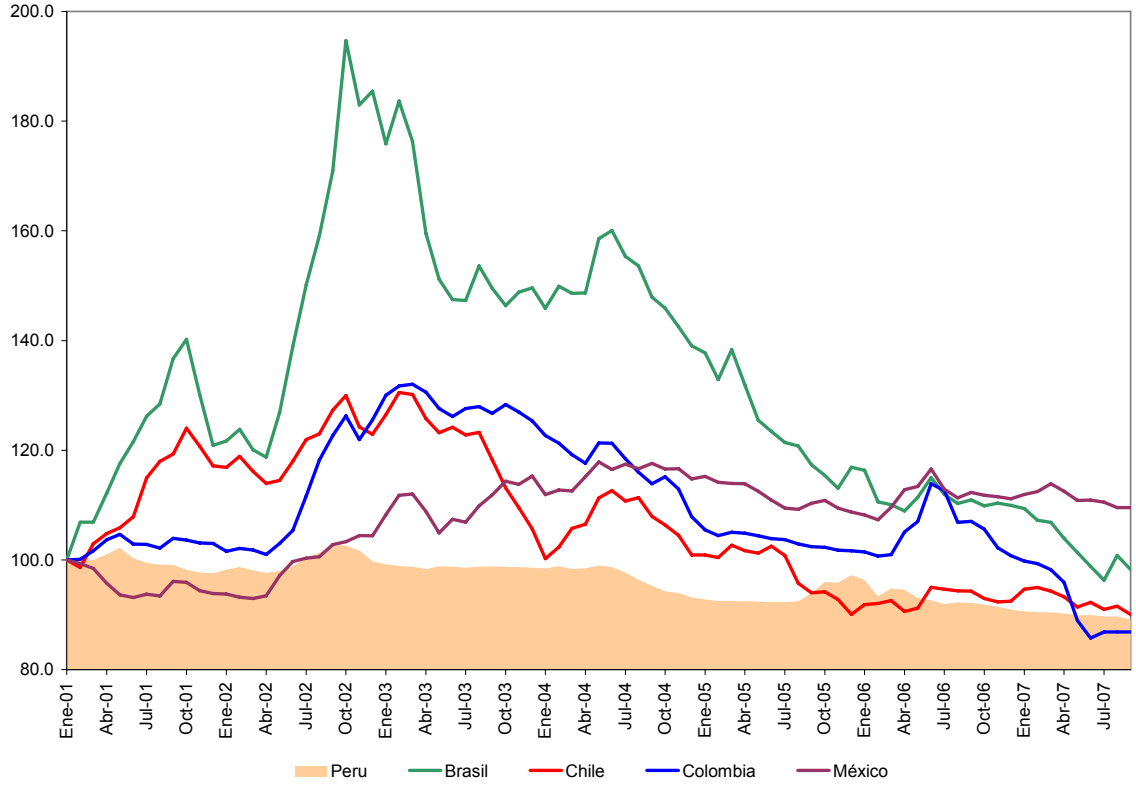


Source: BCRP / (*) MEF estimations

Exchange Rate and Inflation

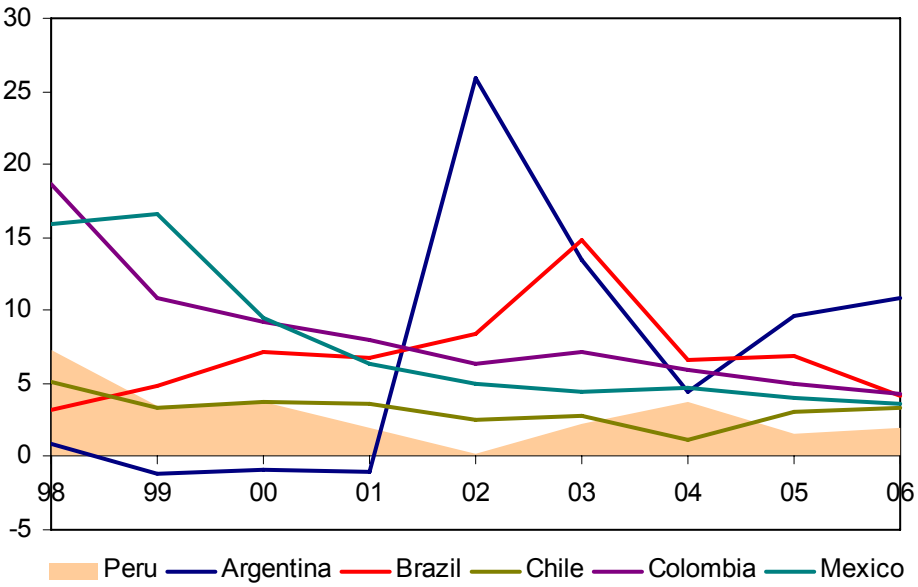
Peru's economic growth has benefited from the country's exchange rate and price stability, now lasting over ten years, as a consequence of the economic authorities' firm commitment to the necessary fiscal balance and a conservative monetary policy. On the one hand, Peru has a very stable floating exchange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

Chart 2.15 Exchange Rates in Latin America (Index January 2001 = 100)



Source: International Monetary Fund and Central Bank of Peru
Prepared by: ADEX

Chart 2.16 Inflation in Latin America (%)

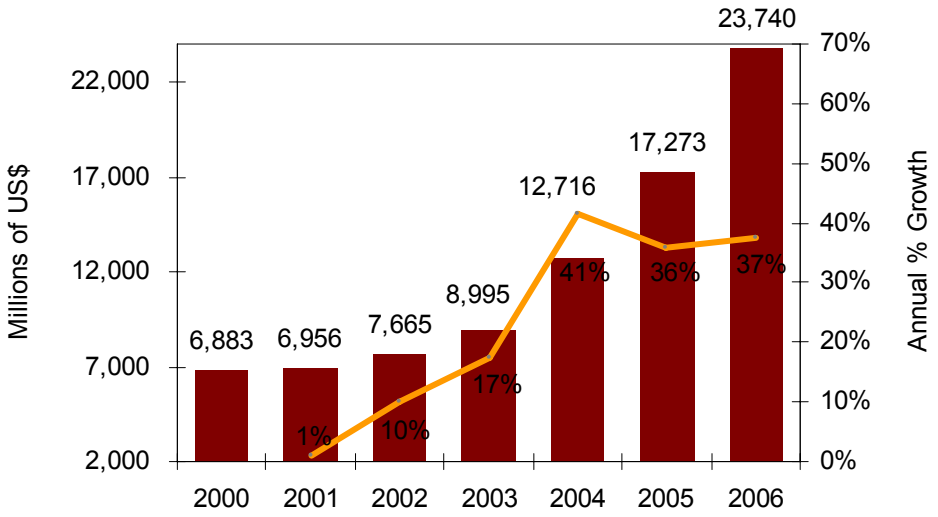


Source: Central Bank of Peru, Argentina, Brazil, Chile, Colombia, Mexico
Updated October 2006

Trade statistics

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.

Chart 2.17 Export Growth (millions of US$, annual % growth)



Source: SUNAT
Prepared by: MINCETUR

Table 2.6 Traditional and Non Tradicional Exports (US$)[2]

Exports	2005	2006	% change
Tradicional Products	**13,037,322,567**	**18,275,579,272**	**40.2%**
Agriculture	330,105,274	560,168,480	69.7%
Fisheries	1,302,999,116	1,277,485,867	-2.0%
Crude and Byproducts	1,590,178,290	1,877,669,364	18.1%
Mining	9,814,039,887	14,560,255,561	48.4%
Non Traditional Products	**4,286,782,645**	**5,222,788,146**	**21.8%**
Agriculture	1,008,018,155	1,197,095,635	18.8%
Textiles and apparels	1,275,112,776	1,455,503,976	14.1%
Fisheries	331,103,881	435,359,624	31.5%
Machinery	190,743,732	161,906,439	-15.1%
Chemical	534,732,924	593,680,218	11.0%
Iron and steel	385,356,937	710,599,756	84.4%
Non metalic minerals	118,081,894	132,655,068	12.3%
Lumber and paper products	168,319,677	212,755,187	26.4%
Others	275,312,670	323,232,243	17.4%
TOTAL	**17,324,105,212**	**23,498,367,418**	**35.6%**

Source: Central Bank of Peru and SUNAT

The traditional exports reached US$ 18.3 billion in 2006. The ten principal products represent 79% of the total traditional exports. The principal traditional product is “Gold, non monetary, bullion and dore”. The exports of this product reached US$ 4 billion and represent 22% of traditional exports. This high value of exports can be explained by the high price of this mineral in the international market. Four of the ten principal traditional products represent the 69% of total traditional exports.

Table 2.7 Traditional Exports 2006 (US$)

Ord.	Code	Description	FOB 2006
1	7108120000	Gold, nonmonetary, bullion and dore	4,002,778,579
2	7403110000	Refined copper cathodes and sections of cathodes	2,968,321,217
3	2603000000	Copper ores and concentrates	2,824,518,697
4	2608000000	Zinc ores and concentrates	1,757,851,264
5	2613900000	Molybdenum ores and concentrates, not roasted	833,958,136
6	7106911000	Silver, unwrought (o/than bullion and dore)	479,574,173
7	2607000000	Lead ores and concentrates	443,012,097
8	8001100000	Tungsten, powders	305,067,180
9	7901110000	Zinc (o/than alloy), unwrought, containing o/99.99% by weight of zinc	229,193,750
10	7801100000	Refined lead, unwrought	154,487,223
		Others	561,493,244
Total			**14,560,255,560**

Source: Adex Data Trade

[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.

The non traditional exports reached US$ 5.2 billion in 2006. The ten principal products only represent 24% of total non traditional exports. The principal product of this group is "refined cooper, wire, w/maximum cross-sectional dimension over 6 mm". The exports of this product reached US$ 239 million and represent 4.6% of total non traditional exports. One of the characteristics of this sector is that each product does not have such a high participation in the total exports. This demonstrates the non concentration of exports in some products in this non traditional sector.

Table 2.8 Non Traditional Exports 2006 (US$)

Ord.	Code	Description	FOB 2006
1	7408110000	Refined copper, wire, w/maximum cross-sectional dimension over 6 mm	239,233,091
2	6109100031	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	208,403,597
3	709200000	Asparagus, nesi, fresh or chilled	185,611,387
4	6105100041	Men's or boys' shirts, knitted or crocheted, of cotton	113,684,193
5	2005600000	Asparagus, prepared or preserved otherwise than by vinegar or acetic acid, not frozen	100,079,768
6	7901120000	Zinc (o/than alloy), unwrought, o/than casting-grade zinc, containing at least 97.5% but less than 99.99% by wt. of zinc	99,266,032
7	7113190000	Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal,nesoi	92,466,691
8	307490000	Cuttle fish and squid, frozen, dried, salted or in brine	90,163,556
9	6109100039	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	81,378,309
10	904200000	Paprika, dried or crushed or ground	72,603,635
		Others	3,939,897,949
Total			**5,222,788,146**

Source: Adex Data Trade

United States is the most important commercial partner of Peru with 23.9% of participation in Peruvian total exports. In second place is China with 9.5%, follow by Switzerland (7.2%), Canada (6.8%) and Chile (6%). The first fifteen commercial partners of Peru concentrate 83.3% of total exports of the country.

Table 2.9 Peruvian Commercial Partners (millions US$)

Ord.	Market	2000	2001	2002	2003	2004	2005	2006	% share
1	United States	1,902	1,751	1,980	2,410	3,563	5,341	5,625	23.9%
2	China	443	425	598	677	1,235	1,879	2,236	9.5%
3	Switzerland	550	309	563	672	282	786	1,688	7.2%
4	Canada	123	143	140	136	312	1,034	1,606	6.8%
5	Chile	263	283	254	413	635	1,098	1,402	6.0%
6	Japan	325	380	374	391	552	607	1,216	5.2%
7	Brazil	221	227	194	231	356	458	806	3.4%
8	Germany	215	208	251	255	382	537	798	3.4%
9	Spain	187	213	241	303	415	558	757	3.2%
10	Italy	122	140	175	188	282	395	756	3.2%
11	Netherland	133	95	151	182	370	558	735	3.1%
12	Korea	138	111	168	176	202	227	540	2.3%
13	Colombia	144	151	158	189	261	349	501	2.1%
14	Belgium	108	107	103	96	169	228	496	2.1%
15	Venezuela	111	146	114	109	196	299	411	1.7%
	Others	1873	2263	2198	2590	3147	2961	3918	16.7%
	Total	**6,866**	**6,955**	**7,665**	**9,027**	**12,364**	**17,324**	**23,498**	**100.0%**

Source: Adex Data Trade

Credit Risk

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-.

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.

Table 2.10 Credit Classification 2008 – Latin American Comparison*

Country	S&P	Fitch /1	Moody's /2
México	BBB	BBB+	Baa1
Chile	A	A	A2
Perú	**BB+**	**BBB-**	**Ba2**
Colombia	BB+	BB+	Ba3
Brasil	BB+	BB+	Ba2
Venezuela	BB-	BB-	B3
Argentina	B+	B	Caa1
Bolivia	B-	B-	Caa1
Ecuador	CCC	CCC	Caa2

Source: Standard & Poor's, Moody's and Fitch Rating
/1 Foreign Currency
/2 Bank Deposits
* Updated: April 2008

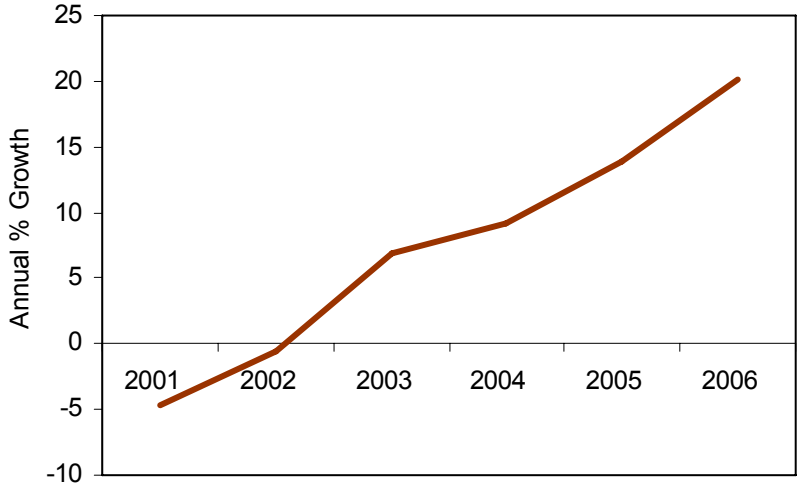
Last April 2008, Fitch Ratings upgraded Peru to the investment grade of the long term Peruvian debt in external currency from BB+ (speculative grade) to BBB-, reaching the

same levels of Croatia and India. This upgrading is due to the commodity exports, continuous economic growth and the increase of their payment debts capacities.

Investment

Private investment grew 19.9% in 2006, after increasing 13.9% in 2005. Similar rates are expected for the following years. 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.

Chart 2.18 Private Investment Growth (annual % growth)



Source: MEF and BCRP

Table 2.11 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: Proinversion

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.

3. TRADE AND INVESTMENT POLICIES AND FREE TRADE AGREEMENTS

3.1 Status of Korea and Peru FTAs with other countries

KOREA

Korea's economic development has been achieved through trade with foreign economies. In the year of 2006, Korea's trade value accounted for about 70% of GDP. As a trade-oriented economy, it is necessary for Korea to enlarge its export markets. Recently in the world economy, regionalism has been accelerated based on Free Trade Agreements. While remaining as a strong supporter of the multilateral trading system, Korea aims to pursue FTAs that are complementary and that goes beyond the WTO liberalization. As a part of such attempt, Korea has been pursuing active negotiations since 2003.

FTAs of Korea would fall into a relatively high-level in terms of degree of liberalization, and comprehensive in terms of coverage and scope. Also, negotiations can be carried out simultaneously with more than one country when necessary.

Currently, Korea has four FTAs in force. FTA negotiation with the United States has been concluded and FTA negotiations with other 41 countries are in process.

Table 3.1 Korea's FTA Negotiation

No.	Name of Free Trade Agreement	Progress
1	Korea-Chile FTA	In Force since 1st Apr. 2004
2	Korea-Singapore FTA	In Force since 2nd Mar. 2006
3	Korea-EFTA FTA	In Force since 1st Sep. 2006
4	Korea-ASEAN FTA in Goods Korea-ASEAN FTA in Services	In Force since 1st Jun. 2007 Concluded in 21st Nov. 2007
5	Korea-US FTA	Concluded 2nd Apr. 2007
6	Korea-ASEAN FTA in Investment	Ongoing
7	Korea-Canada FTA	Ongoing
8	Korea-India CEPA	Ongoing
9	Korea-EU FTA	Ongoing
10	Korea-Mexico SECA	Ongoing
11	Korea-Japan FTA	Ongoing
12	Korea-China FTA	Joint Study Ongoing
13	Korea-MERCOSUR FTA	Joint Study Ongoing
14	Korea-GCC FTA	Joint Study Ongoing
16	Korea-Peru FTA	Joint Study Ongoing

a. Korea-Chile Free Trade Agreement

The Korea-Chile FTA was concluded on the February 15, 2003 and entered into force on April 1, 2004. The Korea-Chile FTA is the first FTA that Korea has concluded and the negotiation experience has played a constructive role in subsequent free trade negotiations with Singapore, EFTA and recently, the U.S., among others. As the first FTA with a Latin American country, Korea-Chile FTA will contribute to further negotiations with other countries in the region.

For the last three years since the entry-into-force of the FTA, bilateral trade volume of the two countries and Korea's export to Chile have more than tripled, respectively. According to tariff elimination schedule, both countries will be removing tariffs on about 96% of all goods within 10 years. Korea has a competitive advantage in industrial products such as telecommunication equipments, automotive and electronic products, whereas Chile has its advantage in raw materials and agricultural products such as copper, grape and pulp.

b. Korea-Singapore Free Trade Agreement

The Korea-Singapore FTA was concluded on August 4, 2005 and entered into force on March 2, 2006.

Korea is to eliminate tariffs on 91.6% of all goods within 10 years, while Singapore is to eliminate tariffs on 100% of all goods immediately upon the effectuation of the agreement.

Korea-Singapore FTA grants preferential tariffs on goods produced in the special economic zones in North Korea equal to the preferential treatment it grants to the goods produced in the territory of South Korea.

Singapore acts as a solid international hub for logistics, finance and business and is a promising destination for investments by multinational companies. Thus, Korea expects to increase the competitiveness of its service sector and attract more foreign investments. Furthermore, Singapore will play a role as a gateway into Southeast Asian markets for the Korean economy to make inroads.

c. Korea-EFTA Free Trade Agreement

Korea-EFTA FTA was concluded on July 12, 2005 and entered into force on September 1st, 2006. EFTA is the European Free Trade Association which has 4 member countries, Iceland, Norway, Switzerland, and Liechtenstein.

d. Korea-ASEAN Free Trade Agreement

The Framework Agreement on Comprehensive Economic Cooperation among the governments of the member countries of the Association of Southeast Asian Nations and the Republic of Korea was signed in Kuala Lumpur, Malaysia on the thirteenth day of December 2005.

The Trade in Goods Agreement of the Korea-ASEAN Free Trade Agreement (FTA) was signed in August, 2006 and entered into force on June 1, 2007. With the entry into force of the agreement, 63% of all the goods imported into Korea from Malaysia, Singapore, Myanmar, and Vietnam enjoy the benefit of immediate tariff elimination and 45% of all Korean goods exported to these countries enjoy low tariffs of 0-5%. Meanwhile, the Trade in Goods Agreement did not apply to Thailand because Thailand

was unable to participate in the negotiations. But on 18th of Dec. 2007, Thailand signed the Agreement.

Agreement on Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation was signed in Singapore on November 21, 2007

The negotiations on investment agreement of the Korea-ASEAN FTA are being carried out with the aim of concluding the talks by the end of 2008.

e. Korea-US Free Trade Agreement

The Korea-US FTA was concluded on April 2nd, 2007. The Korea-US FTA is a comprehensive one which includes all trading sectors and it will become a world third largest trade block following EU and NAFTA.

Tariff on goods will be eliminated 100% by time schedule and for 94% of import goods, based on import value; tariff will be eliminated within 3 years. According to the elimination of tariff, it is expected that market share of Korea's main exporting goods will increase. Also, there is a potential for a trade creation.

For the short term, following goods are expected to increase its market share in the Unites States: Automobile, LCD monitor, Camcorder, TV camera, Audio Amp, Polystyrene, Metal-cutting and processing machineries, ear phone, epoxy resin and color TV.

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 members[3] 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 MERCOSUR[4] in 2005, which only covers trade in goods.

[3] Bolivia, Colombia, Ecuador and Peru are the current Andean Community members
[4] Argentina, Brazil, Paraguay and Uruguay

Apart from these agreements, under the framework of the Latin American Integration Association (ALADI) Treaty of Montevideo[5], 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 now it is in the middle of the implementation process. In the same way, Peru and Thailand signed an Early Harvest on trade in goods in November 2006 and in August 2007 a Free Trade Agreement with Singapore; however, both treaties have to be ratified by their legislative branches. FTA with Canada is already finished and it will be in force in January 2009. On the other hand, FTA negotiations Mexico, China, EFTA (European Free Trade Association) and European Union are currently underway.

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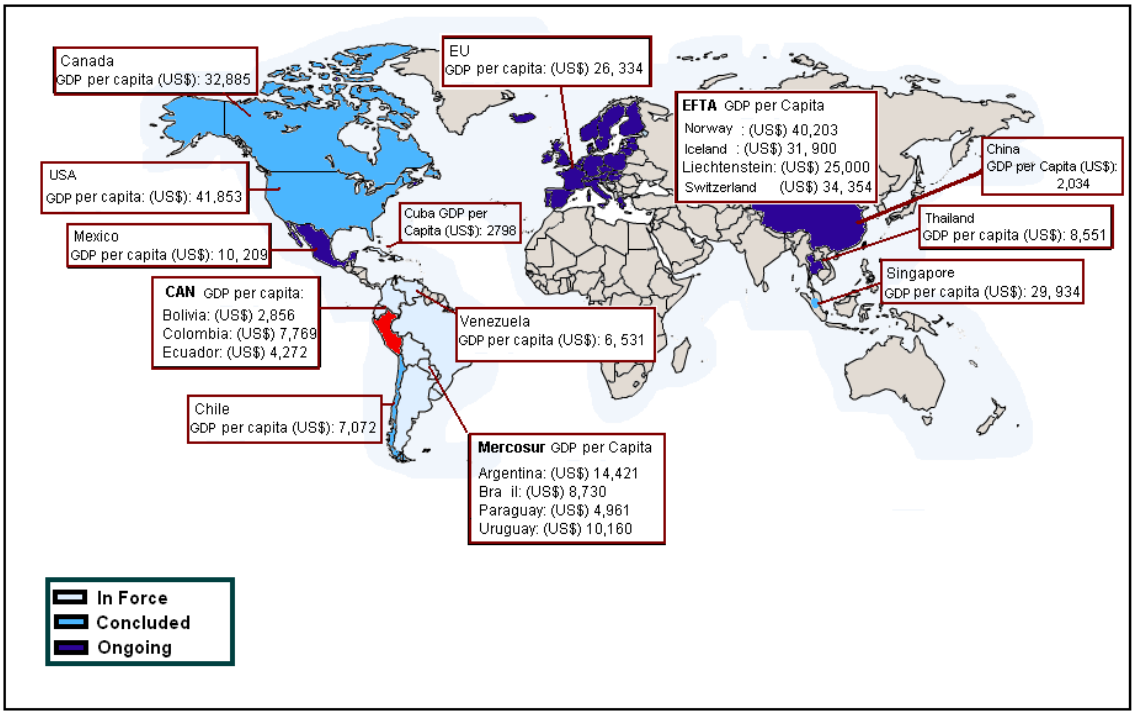
Table 3.2 Peru Trade Agreements and Regional Integration Initiatives*

	Trade Agreements and Regional Integreation Initiatives*	Progress
1	Andean Community	In Force since 1967
2	Latin American Integration Association (ALADI)	In Force since 1980
3	Peru - Cuba Economic Complementation Agreement	In Force since 2000
4	Peru - MERCOSUR Economic Complementation Agreement	In Force since 2003
5	Peru - Mexico Economic Complementation Agreement	In Force since 1987 / Ongoing Extension
6	Peru - Chile Economic Complementation Agreement	In Force since 1998 / Extension Concluded
7	Peru - Thailand FTA	Early Harvest Concluded in 2005 / Ongoing Extension
8	Free Trade Area of the Americas (FTAA)	Suspended
9	Peru - United States Trade Promotion Agreement	Concluded
10	Peru - Singapore FTA	Concluded
11	Peru - Canada FTA	Concluded
12	Peru - EFTA FTA	Ongoing
13	Andean Community - European Union Association Agreement	Ongoing
14	Peru - China FTA	Ongoing
15	Peru - Korea FTA	Joint Study Ongoing

Prepared by: MINCETUR/VMCE/OGEE
* Updated to March 2008

[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.

Chart 3.1 Peruvian Trade Negotiations Map



Source: United Nations, WTO
Prepared by: ADEX

3.2 Trade and Investment Policies[6]

KOREA

Korea strongly supports the rules-based multilateral trading system of the WTO. Since its accession to the GATT in 1967, Korea has learned firsthand that embracing an open and strong multilateral trading system is the best means to achieving economic growth and development.

As one of the greatest beneficiaries of the open multilateral trading system, Korea has put that belief into practice and thus remains fully committed to the global effort to promote freer trade. Korea has tabled over 70 submissions with a view to promoting further liberalization and strengthening the rules and disciplines of the WTO system for the mutual benefit of both developed and developing countries.

While Korea's belief in the primacy of the multilateral trading system in safeguarding a freer global trading environment remains firm, it has recently been engaged in parallel efforts to utilize regionalism as a means to reinforce the liberalization efforts on the multilateral level. Korea's first-ever Free Trade Agreement (FTA) with Chile entered into force on 1 April 2004.

[6] This information is based on the latest Trade Policies Reviews of the World Trade Organization of Korea (2004) and Peru (2007).

Korea is also actively engaged in regional cooperation mechanisms, including the Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), and ASEAN+3 processes. Korea was the host economy of APEC in 2005, the year in which member economies were scheduled to conduct a mid-term review of the progress towards the Bogor Goals to achieve free and open trade and investment in the Asia-Pacific region.

3.2.1 Tariffs

Korea has reduced tariff rates by implementing WTO commitments. It eliminated tariffs on 98 tariff lines from 1 January 2003 and abolished remaining duties under the ITA. There have been few unilateral reductions or increases in MFN tariffs. Tariffs of 10% were imposed on cigarettes in July 2001 and raised annually, to 40% by 2004.

The tariff comprises several different rates according to the source of imports. These are the MFN tariff from non-preferential sources, and several preferential tariffs, such as duties extended to imports from other members of the Bangkok Agreement and to Chile. There are also a number of different MFN rates (e.g. basic/general rate, international cooperation rate, WTO concession (i.e. bound) rate).

Applied MFN rate

The Korean tariff structure has changed little. The average (unweighted) MFN tariff in 2004 was 12.8% (13.8% in 2000). Tariff protection varies substantially across and within sectors, averaging 52.2% for agricultural products and 6.7% for industrial goods in 2004 (WTO definitions). Average tariffs are highest for vegetable products (HS section 2), at 100%. Manufacturing tariffs are highest for footwear and headgear (HS section 12) at 10.2%, and for textiles and articles (HS section 11) at 9.9%. By according varied and substantial levels of protection to selected industries, especially agriculture, tariffs distort competition by favoring some activities over others.

Table 3.3 Structure of Korean MFN tariffs, 1996-2004 (Percent)

		1996	2000	2004	Final bound[a]
	Bound tariff[b]				
1.	Bound tariff lines (% of all tariff lines)	91.0	91.7	91.5	91.5
2.	Simple average bound rate	27.6	20.2	17.2	17.0
	Agricultural products (HS01-24)	72.4	65.5	61.1	61.1
	Industrial products (HS25-97)	20.0	12.8	10.0	9.7
	WTO agricultural products	71.3	65.4	61.1	61.1
	WTO non-agricultural products	19.8	12.5	9.7	9.5
	Textiles and clothing	28.5	23.1	18.5	18.5
3.	Tariff quotas (% of all tariff lines)	1.7	1.7	1.7	1.8
4.	Duty free tariff lines (% of all tariff lines)	2.0	7.0	14.2	14.4
5.	Non-*ad valorem* tariffs (% of all tariff lines)	0.9	0.7	1.0	1.0
6.	Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.9	0.7	1.0	1.0
7.	"Nuisance" bound rates (% of all tariff lines)[c]	0.6	1.6	2.1	2.1
	Applied tariff				
8.	Simple average applied rate	14.4	13.8	12.8	..
	Agricultural products (HS01-24)	51.8	50.3	47.9	..
	Industrial products (HS25-97)	7.7	7.5	6.6	..
	WTO agricultural products	56.2	54.8	52.2	..
	WTO non-agricultural products	7.7	7.5	6.7	..
	Textiles and clothing	7.8	9.8	9.8	..
9.	Domestic tariff "spikes" (% of all tariff lines)[d]	2.4	2.3	2.5	..
10.	International tariff "spikes" (% of all tariff lines)[e]	8.7	8.7	8.9	..

		1996	2000	2004	Final bound[a]
11.	Overall standard deviation (SD) of tariff rates	57.5	54.4	52.0	..
12.	Tariff quotas (% of all tariff lines)	1.7	1.7	1.7	..
13.	Duty free tariff lines (% of all tariff lines)	2.0	6.7	13.3	..
14.	Non-*ad valorem* tariffs (% of all tariff lines)	0.5	0.5	0.6	..
15.	Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.5	0.5	0.6	..
16.	"Nuisance" applied rates (% of all tariff lines)[c]	2.7	3.0	2.7	..

.. Not available.

a Final bound calculations are based on the 2004 tariff schedule.

b Calculations are only based on bound tariff lines.

c "Nuisance" rates are those greater than zero, but less than or equal to 2%.

d Domestic tariff spikes are defined as those exceeding three times the overall simple applied rate (indicator 8).

e International tariff spikes are defined as those exceeding 15%.

Note: Includes out-of-quota rates for tariff quotas (thereby excluding lower in-quota rates) and the *ad valorem* part of alternate duties. The 1996 and 2000 tariffs are based on 10-digit HS96 nomenclature; the 2004 tariff is based on 10-digit HS02 nomenclature.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

Over 99% of tariffs are *ad valorem* duties. This simplifies the tariff structure and improves transparency. However, there are some 90 different rate bands, mainly associated with agricultural tariffs. Tariff rates range from free to 887.4%. Some 86% of rates were 10% or below in 2004; 62% of rates are between 5% and 10%; the modal rate is 8%. Rates of over 30% apply to 2.8% of tariff items in 2004; "nuisance" applied MFN rates (2% or less) applied to 2.7% of tariff lines in 2004, and 2.5% of lines had domestic tariff "peaks" (rates over 38.4%). Although the share of duty free tariff lines almost doubled between 2000 and 2004, to 13.3%, scope remains to rationalize the Korean tariff, for example, by reducing the large number of rate bands and removing decimal duties. This too would improve transparency and provide some gains to economic efficiency.

Non-*ad valorem* tariffs consist of "alternate" duties on several manufacturing tariff items, mainly cinematographic film, diagnostic or laboratory reagents, raw silk, and recorded video tapes. These generally apply the greater of an *ad valorem* or a specific duty, whereby the *ad valorem* alternate rate sets a floor import duty rate. Alternate duties also apply to a number of agricultural tariff items as out-of-quota duties, which also provide very high minimum *ad valorem* rates, generally of well over 100% (exceeding 500% on sesame seeds and oil, Jujubesi and pine nuts). Korea has no plans to replace alternate duties with *ad valorem* rates. Tariff quotas apply to approximately 190 agricultural tariff lines (2% of total items); where there is no alternate out-of-quota duty the *ad valorem* rate is generally high, frequently exceeding 200% (as high as 887.4% on manioc), and many also having decimal rates.

3.2.2 Non-Tariffs

Import licensing, quotas, and prohibitions

Licensing

All commodities can be imported without a licence unless on a negative list of prohibited or restricted items (the Consolidated Public Notice on Guidelines of Exports and Imports, published semi-annually by MOCIE). Import prohibitions or restrictions are to protect public morals, human health, hygiene and sanitation, animal and plant life, environmental conservation or essential security interests in compliance with domestic legislation or international commitments. Import approval and authorization requirements are listed in about 50 separate laws; items covered can be generally imported subject to certification, permission, and type approval. Non-tariff measures cover about 1,000 tariff items, including petroleum, LPG, agricultural fertilizers, crop seeds, animals and animal products, nuclear materials, narcotics, foods and food additives, foreign publications, firearms and explosives.

Korea does not operate an import licensing system. Imports are screened or checked in a "fair" manner by the relevant government agency or producer association commissioned by that agency to ensure that the product meets import requirements. Since the agency responsible for checking whether a certain imported product meets these requirements has to produce a confirmation paper, granting this authority to producer associations does not, according to the authorities, disadvantage imports through potential conflict of interest. Health or safety related products, such as pharmaceuticals, require additional testing or certification by designated organizations before clearing customs. Imports that do not comply with standards and/or testing requirements may be banned. MOCIE also approves special items defined in its Annual Trade Plan (firearms, illicit drugs, and endangered species). Korea belongs to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Quotas

Only rice is subject to import quotas. These were negotiated on rice imports under the Uruguay Round as part of Korea's "non-tariffication" of rice, and provided for increased "minimum access commitments" of from 1% to 4% of domestic consumption during 1995 to 2004. Since 2000, the Agricultural and Fishery Marketing Corporation has been mandated by the MAF to import rice. Imported rice is purchased through open bidding and on-sold to the MAF at import price. It is not sold directly to consumers but is used for food processing.

Prohibitions

Korea prohibits a few imports, mainly to protect health, safety, security, public morality, the environment, and natural resources, and to prevent deceptive practices, in accordance with multilateral trade and other agreements, according to the authorities. Prohibited products include: certain pornographic and other unacceptable material; goods that reveal confidential government information or intelligence activities; and counterfeit currency or financial instruments. Korea does not maintain any trade embargoes with other countries.

3.2.3 Others

a. Customs procedures

Korea has streamlined and modernized customs procedures to reduce importers' costs by accelerating import clearances. Customs formalities have been further automated and "e-customs" introduced. Korea Customs Service (KCS) was re-organized to provide a "one-stop" service by integrating import/export clearance operations and cargo management systems. A Customs Ombudsman in each customs house handles complaints. KCS processed 10 million e-customs transactions in June 2003, saving W 2.5 trillion in handling costs annually.

In August 2003, the KCS introduced more rigorous customs inspections on agricultural products, including especially peppers, garlic, sesame seeds, onions, carrots, and seasoning powders, to help protect local farmers and producers against increased imports. The import sample inspected to check prices was also raised to 20%. The authorities indicate that these measures were implemented not to restrict imports, but to prevent illegal importation and duty evasion from under-invoicing, and to meet the need for increased laboratory analysis under paperless customs clearances. The sample size used for analysis was lowered for qualified importers with good compliance records from March 2004.

- Registration, documentation, and clearance requirements

Only consignors, customs brokers, associations or corporations can make import declarations. Required documentation includes the commercial invoice, price declaration, duplicates of the bill of lading, detailed packing list, import approval document (if applicable), sanitary and phytosanitary certificates for most agricultural goods and processed foods, and certificate of origin for goods subject to tariff preferences. Qualified importers (approved by Customs based on their import record) receive expedited customs clearance and more convenient methods for paying duties.

In early 2003, declarations were processed on average in 1.3 hours (2.4 hours in 2000). Prior-entry import declarations (up to five days for sea and one day for air) are allowed. Most (90%) imports are cleared after bonded storage; the average clearance times from port entry to their release from bond was 9.6 days (4.6 days for air and 16.2 days for sea cargo) in early 2003. A cargo selectivity system automatically selects high-risk cargo for documentary and possible physical inspection. The KCS operates, on request, an "on-dock" immediate clearance system at the major ports of Busan, Incheon, and Gwangyang, to allow imports of reputable companies to be released before submission of import declarations (required within 10 days). Some 60% of inward cargo uses this system.

The Regulatory Review Commission (RRC) selected import and export customs clearance procedures as a strategic priority area of trade-related regulatory reform in 2003. It aimed to shorten clearance times from port entry to release of goods to five days, and reduce logistic costs by simplifying clearance procedures. The RRC worked closely with the KCS to introduce measures that would reduce cargo inspection times and lower the number of items covered by inspection from 4,810 to 4,000, and to cut unloading times of vessels in ports from five to three days. These included installing on-dock immediate clearance systems in all major ports, expanding the scope of simplified clearance of express cargo, simplifying trans-shipment procedures, expanding and

improving the electronic clearance system, and establishing a "single window" for customs clearances.

b. Customs valuation

Korea's customs valuation legislation (sub-section 2 of the Customs Act 1949) complies with the WTO Agreement on Customs Valuation. Imports are valued at their c.i.f. (cost, insurance, freight) price. The main method used is transaction value (based on the "price actually paid or to be paid by the buyer"). When this cannot be used, valuation is determined using, in order, identical goods, similar goods, domestic sales price or computed value.

While the KCS may, in principle, set special customs valuation and documentary requirements for used imports (Presidential Decree of the Customs Act), it applies the same customs valuation methods (i.e. transaction value or where impossible in sequence one of the other alternative WTO-consistent valuation methods) for second-hand imports. However, as a last resort, customs may determine their valuation using "reasonable standards", whereby prices paid are adjusted based on appraised prices from certified appraisal institutes, domestic wholesale prices, or other recognized price lists. However, the transaction value is accepted where significant differences exist, unless there is reason to suspect the authenticity or accuracy of the declared value, when an alternative WTO-consistent valuation method is used.

Customs duties (including domestic taxes) must be paid within 15 days from acceptance of the import declaration (where security has been lodged). Late payments are subject to an additional 5% of the amount owed for the first month, and 12% for each month thereafter (up to a maximum of 77%). Criminal penalties (up to three years imprisonment or a fine of five times the evaded duty) apply for fraudulent declaration of dutiable value or incorrect tariff classifications. Importers who voluntarily rectify declarations within six months of importation must pay the duty difference plus 5% additional duty (10% after six months). If such under-payments are detected by the KCS, the importer pays the outstanding duty plus an additional 20%.

Customs decisions can be appealed to the KCS Commissioner or to the National Tax Tribunal. The Tariff Review Commission assists the Commissioner on appeals and decisions can be appealed to the courts.

c. State trading

Korea has several designated import agencies to allocate or operate agricultural tariff quotas, such as MAF and the Agricultural and Fishery Marketing Corporation for certain vegetables**.** A number of products are no longer imported exclusively by the designated agency, but instead are imported by private importers buying quota at agency auctions. The Livestock Products Marketing Organization (LMPO) administered beef quotas until their removal in January 2001.

Table 3.4 State trading entities and products

State trading entity	Products
Ministry of Agriculture and Forestry	Rice, rice flour, rice food preparations and barley
Agricultural and Fishery Marketing Corporation	Capsicum, garlic, onions, sesame seeds, groundnuts, soya beans, small green/red beans, buckwheat, ginger, and potatoes
National Livestock Cooperatives Federation	Honey
Jeju Citrus Grower's Agricultural Cooperative	Oranges, mandarins and tangerines
Korea Ginseng Cooperative Federation	All ginseng products
National Forestry Cooperatives Federation	Pine nuts (shelled and unshelled)

Source: WTO document G/STR/N/4/KOR, 10 December 1998; and the Korean authorities.

d. Standards and other technical requirements

The Korean Agency for Technology and Standards (KATS) is the nation's standardization agency. It sets, administers, and disseminates voluntary Korean Industrial Standards (KS) based on the National Standardization Act of 1999 and the Industrial Standardization Act. KATS represents Korea at international bodies, such as the International Electro-technical Commission (IEC) and the International Organization for Standardization (ISO), in which Korea participates. It is the official enquiry point on industrial products under the WTO Agreement on Technical Barriers to Trade, and has accepted the Code of Good Practice for the Preparation, Adoption and Application of Standards.

MOCIE requires KATS, as a key policy goal, to revise and harmonize national industrial standards with international norms, especially ISO/IEC standards. Regulatory authorities are to adopt, where possible, international standards when setting up or modifying technical or voluntary standards. The National Standards Council (chaired by the Prime Minister) reviews all standards and coordinates domestic and international standards.

The Korean standardization system has a dual structure, consisting of technical regulations (mandatory standards) developed by ministries and government agencies, and voluntary standards (KS) set by KATS. Non-harmonized standards are either those that are unique to Korea, with no corresponding international norm, such as for kimchi, or cannot be harmonized because of their link to other domestic regulations.

All Korean standards are voluntary unless cited in technical regulations. Mandatory technical regulations are used only to meet legitimate objectives, such as national security requirements, preventing deceptive practices, protecting human, animal, and plant health and safety, and preserving the environment, under relevant domestic laws.

Priority areas for standards harmonization are electrical and electronic appliances, food labelling, machinery, and rubber products. KATS reviews standards every five years, or earlier if required. New or revised standards are published in the *Official Gazette*.

Additional priorities for standards harmonization are new technology products, including IT, and services.

e. Government procurement

Korea's government procurement market is about 12% of GDP (2004). Korea operates international tendering and other government procurement procedures in accordance with its multilateral commitments under the WTO Plurilateral Agreement on Government Procurement (GPA). Although government procurement is directed at achieving "value for money", it also focuses on promoting SMEs and regional development. Korea's international tendering system is based on open competitive tendering. For GPA-covered entities, contracts subject to Korea's commitments represented about half of their total procurement in 2002. About 6% (by value) of these contracts were awarded using restricted (limited) tendering.

The main government procurement legislation (Act on Contracts to which the State is a Party, 1995) has not changed substantially. It covers international and domestic procurement of goods and services (including construction) by prescribed government agencies. The legislation specifically excludes agricultural, fisheries and livestock products (under the Food Grain Management Act, the Marketing and Price Stabilization of Agricultural and Fishery Products Act, and the Livestock Industry Act, respectively). Also, procurement covered by other legislation is generally excluded. Procurement of sub-central authorities and SOEs, for example, falls mainly under the Local Financing Act and the Government-Enterprise Accounting Regulations; some SOEs are, however, covered because they are "prescribed agencies".

The GePS system has enhanced procurement transparency, efficiency and accessibility, including by foreign suppliers. The Procurement Administration Reform Committee oversees reforms, including strengthening of control functions. PPS uses a "multiple basic price system" for competitive bidding on the Internet that discloses basic prices. The evaluation of restricted contracts has been tightened and their use reduced in favour of open competitive tenders. An integrity pact system dissuades companies and officials from bribery, and a Clean Procurement Committee (comprising members from non-government organizations, academics, and public organizations) has curbed corruption. Korea's public procurement system was found consistent with APEC's Non-Binding Principles in 2002.

Contracts are awarded through open competitive tender, unless there are reasons of "purpose, nature, size, etc. of a contract" for awarding by restricted tender. Negotiated contract (restricted or private) is allowed in some, rare cases.

The International Contract Dispute Mediation Committee (ICDMC), established under MOFE, handles disputes on Korea's international tendering procedures and other GPA commitments. The Ministry of Construction and Transportation operates the Construction Dispute Mediation Committee for contractual disputes. The Electronic Commerce Disputes Advisory Committee at the Korean Institute for Electronic Commerce under the MOCIE also assists in resolving disagreements among parties.

f. Trade Policies by Sector

f.1 Agriculture

Agricultural liberalization is very sensitive politically in Korea. Protection is centred on self sufficiency policies aimed at addressing food security concerns, especially for rice, and other "non-trade" objectives. Korea believes that any multilateral agricultural liberalization must be sufficiently gradual to take account of the sector's "multifunctionality". Key agricultural commodities of rice, apples and pears were permanently excluded from the Korea–Chile free-trade agreement (KCFTA), and tariff reductions deferred on many food items until after the current multilateral negotiations.

Agricultural policy is directed towards achieving balanced national development. Direct payments are being expanded and farm income support strengthened. Agricultural investment and improved technology are also sought, to enhance productivity and thus competitiveness, and to provide consumers with safer and higher quality food. A key policy priority is to reduce high farm debt (W 27.6 trillion in 2002), which has escalated on average to well over 80% of farm income. Farm debt is being restructured at lower interest rates for poor farmers (Act on Special Measures for Debt Reduction of Farmers and Fishermen of 2001).

Korea has fully implemented its multilateral commitments on agriculture, and provides assistance well within WTO obligations. Nonetheless, Korean agriculture receives "high support" and has "very low levels" of market orientation. Korea's total agricultural support (net of specific sectoral budget receipts) of W 24.3 trillion in 2003 as a share of GDP (3.9%) was among the highest of OECD members. Over 90% of assistance was market price support (W 18.5 trillion in 2003), paid for by consumers paying higher prices. In 2003, Korean agricultural commodity prices averaged two and a half times world levels (consumer nominal assistance coefficient, NAC, of 2.42), and total transfers from consumers (including on imports) amounted to W 24.2 trillion. Producers' gross farm receipts, on average, were more than doubled (equivalent to W 20.2 trillion additional income) by support (producer NAC of 2.53). It is required for Korea to provide more efficient measures to protect the local farmers as well as the industry.

f.2 Fishing

Korea's large fishing fleet includes many distant-water vessels that operate overseas. Most fishermen are employed in traditional small-scale fisheries based on coastal communities. Declining catches have been largely offset by increased aquaculture production, which accounted for one third of fish production in 2003.

Korea has suffered serious resource depletion; many fish species are over exploited. It has implemented a coastal and offshore fishery restructuring project aimed at establishing a sustainable fishery system (Fishery Act, 1995). The scheme provides for reducing the number of fishing vessels, re-adjusting fishing zones, and developing environment-friendly fishing methods. Some 2,500 fishing vessels (mainly offshore) have been de-commissioned, almost half of these since 2000. All fishing vessels must be licensed, including coastal vessels below ten metres in length, and the number of licences has been reduced.

A total allowable catch (TAC) has been set for Korean waters. A pilot project was launched in 1999 and a full-scale scheme implemented in 2002; the TAC was set at 231,650 tonnes. It covered five types of fishing (seine, trap, diver, gill net and community) and nine fish species.

Access to Korean waters by foreign fishing vessels is controlled by bilateral fishing agreements; vessels must be licensed. Quotas for foreign vessels are approximately equal to the TAC, which applies only to domestic fishermen. In 2003, there were 1,232 licensed Japanese vessels and 2,531 Chinese vessels. Korean vessels also operate in foreign waters under similar agreements, including with Russia, China, Japan, Tuvalu, Solomon Islands, Kiribati, and Papua New Guinea.

Fish and fish products are subject to relatively high tariffs of either 10% or 20% and foreign investment in coastal and offshore fishing ventures is generally limited to less than 50%. In coastal fishing, permission is required from the local government. Foreigners wishing to invest more than 50% must obtain permission from the Ministry of Marine Affairs and Fisheries.

PERU

3.2.1 Tariffs

Since the economic reforms at the beginning of the 1990s, Peru has made good progress in reducing its tariff levels. The average applied MFN tariff rate decreases to 5.68% in October 2007; however, in reducing tariffs, Peru has moved away from the relatively uniform tariff structure it maintained during the 1990s, increasing the level of effective tariff protection in some sectors. All tariffs are ad valorem; those applied on 47 tariff agricultural lines are subject to reductions or surcharges linked to variations in world prices.

Peru has bound its entire tariff schedule, mostly at 30%. While this enhances predictability, further progress in this direction could be made by reducing the prevailing gap of some 22 percentage points between average applied and bound rates.

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

Following to WTO/TPR//S/189, Peru applies a national tariff, although it is a member of the Andean Community which has had a common external tariff since 1995. The entity responsible for formulating Peru's tariff policy is the Ministry of Economy and Finance (MEF).[7] The MEF has to exercise this power in coordination with the Ministry of Foreign Trade and Tourism and the ministries for the sectors involved. Peru considers it appropriate "to reduce tariffs gradually, since that reduces the operating costs of the economy and raises the level of well-being of the population [8]

Peru applies at least MFN tariff treatment to both Members and non-Members of the WTO.

[7] Article 5 of Legislative Decree No. 183 of 15 June 1981.
[8] Ministerial Resolution No. 005-2006-EF/15 of 15 January 2006.

Although all import duties are *ad valorem*, the duties applied to 47 of the ten-digit tariff lines are subject to reductions or surcharges in the form of specific duties linked to variations in international prices. No seasonal tariffs are applied. Peru maintains tariff rate quotas within the context of its preferential agreements with MERCOSUR and Mexico.

The Customs Tariff has three duty rates: 0, 9, and 17%. The commonest rate is 0%, which is applied to 53.6% of tariff lines, followed by 9% (35.6% of tariff lines) and 17% (10.8% of tariff lines).

There is tariff escalation, but it does not follow the usual pattern. Thus, although the average tariff rate applied to finished products is higher than that applied to semi-finished ones, the average rate applied to raw materials is higher than that applied to semi-finished and finished products .

Peru maintains a duty drawback system. Moreover, under the temporary admission procedure, it is possible to obtain relief from the payment of import duties and taxes on goods intended for export after processing in Peru.[9]

The WTO Secretariat has not identified any tariff line with an applied rate higher than its respective bound rate.[10]

Exports are not subject to any charge or tax.[11] The General Sales Tax (IGV) paid on inputs to be used in the production of goods for export is held as a tax credit in favor of the exporter.[12] The notional 0% tax levied on exports for statistical purposes was repealed by Legislative Decree No. 951 of 3 February 2004.

3.2.2 Non Tariffs Barriers

One of the main features of Peru's trade policy is the absence of trade distorting Non Tariff Barriers measures. In this sense, Peru does not apply import nor 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, internal security, biodiversity and cultural heritage protection. Similarly, Peru's quantitative export restrictions only apply to cases related to biodiversity and cultural heritage protection.

Peru prohibits the importation of some products (Table 3.5).

[9] Chapter VI of Title V of the Single Harmonized Text of the General Customs Law, approved by Supreme Decree No. 129-2004-EF of 12 September 2004.

[10] In carrying out this analysis the Secretariat took into account only the tariff lines contained in the file of the Consolidated Tariff Schedule corresponding to Peru which are strictly comparable with the HS 2007.

[11] Article 54 of the Single Harmonized Text of the General Customs Law, approved by Supreme Decree No. 129-2004-EF of 12 September 2004.

[12] Article 34 of the Single Harmonized Text of the Law on the General Sales Tax and Selective Consumption Tax, approved by Supreme Decree No. 055-99-EF of 15 April 1999, and Article 6 of Supreme Decree No. 29-94-EF of 29 March 1994.

Table 3.5 Prohibited Imports, March 2007

Product (number of ten-digit tariff subheadings affected)	Reason[a]	Legislation[b]
"Yoyo loco"	Health protection	Supreme Decree No. 003-2004-SA of 19 February 2004
Used tyres	Public health, safety and environmental protection	Supreme Decree No. 003-2001-SA of 8 February 2001
Foreign alcoholic beverages whose description includes the word "Pisco"	Protected appellation of origin	Law No. 26426 of 1 January 1995
Used clothing and footwear "with a commercial purpose"	Public health	Law No. 28514 of 25 May 2005
Used engines, components and spare parts for road vehicles (..)	Safety	Supreme Decree No. 017-2005-MTC of 15 July 2005
used goods, machinery, and equipment which utilize	Public health	Law Nº 27757

.. Not available.
a According to the legislation or the Peruvian authorities.
b Amending legislation not included.

Source: WTO Secretariat.

The importation of certain other products is subject to authorization or registration requirements, generally in the interests of national security, consumer health or environmental protection. In its notification concerning the Agreement on Import Licensing Procedures, Peru indicated that "no administrative procedure relating to import licensing exists in Peru".[13]

Only used vehicles of not more than five years old (two years for some categories) may be imported.

3.2.3 Others

a. Customs Procedures

Peru has adopted a number of trade facilitation measures. As a result, customs clearance times for goods subject to physical or documentary inspection have decreased by 30% since 2002. Around 35% of imports are subject to such inspections at the main customs facilities. Peru eliminated pre-shipment inspection in May 2004. In addition to tariffs, imports valued at S/. 10,350 (around US$ 3,250) or more are subject to a customs fee levied on a specific basis[14].

The Ministry of Economy and Finance is the entity responsible for "planning, directing and monitoring customs policy".[15] The National Tax Administration Supervisory

[13] WTO document G/LIC/N/3/PER/4 of 3 October 2006.
[14] WTO. Trade Policy Review, Report by the Secretariat Peru. WT/TPR/S/189. 12 September 2007. pg viii-ix.
[15] Article 5 of Legislative Decree No. 183 of 15 June 1981.

Authority (SUNAT) is entrusted with the application of that policy.[16] The entity which performed that function up to 2002 was the National Customs Supervisory Authority. In July 2002, for the purpose of improving customs and tax management, the Government ordered that the National Supervisory Authority be merged with SUNAT.[17] Peru is a member of the World Customs Organization.

SUNAT subjects imports to a random control system that takes risk analysis variables into account. The controls may be documentary (referred to as "orange channel") or physical (referred to as "red channel"). Under the General Customs Law, physical controls may not be applied to more than 15 per cent of imports, excluding goods subject to mandatory physical controls.[18] The goods that require physical controls are listed in Procedure INTA-PE.00.06 and its annexes.[19]

Starting in 2010, SUNAT will have to issue "advance rulings" in response to inquiries from users concerning classification or the criteria for determining the value of goods to be imported.[20] It will also have to issue advance rulings on the importation of goods previously exported for repair or alteration in countries that have signed a preferential trade agreement with Peru.

To combat smuggling, SUNAT has developed various specific procedures to supplement Law No. 28008 of 19 June 2003 and the Regulation thereto.[21] Moreover, in August 2003, Peruvian and Bolivian Customs signed an agreement enabling joint anti-smuggling operations to be conducted on the border between the two countries.[22]

Moreover, Peruvian customs procedures will be more efficient when the Free Trade Agreement between Peru and EEUU, entre in force.

Customs duties are assessed in US dollars and payment is made at the exchange rate announced on the date of payment by the Banking and Insurance Supervisory Authority.[23]

b. Customs valuation

SUNAT determines the customs value on the basis of the c.i.f. value of the product, which in turn must be based on the transaction value, except in specified cases.[24] The other valuation methods must be applied in the order prescribed in the Customs

[16] Article 15 of the Regulation on the Organization and Functions of SUNAT, approved by Supreme Decree No. 115-2002-PCM of 28 October 2002.
[17] Supreme Decree No. 061-2002-PCM of 11 July 2002. See also SUNAT (undated).
[18] Article 49 of the Single Harmonized Text of the General Customs Law, approved by Supreme Decree No. 129-2004-EF of 12 September 2004. See Specific Procedure: physical identification and extraction and analysis of samples, INTA-PE.00.03 of 1 February 2001.
[19] Specific Procedure: control of restricted goods, INTA-PE.00.06 of 9 July 2004.
[20] Article 8 of Law No. 28977 of 9 February 2007.
[21] See procedures for the prevention of smuggling and border control at: http://www.sunat.gob.pe/ legislation/procedim/pcontrab/index.html.
[22] SUNAT, "Customs of Peru and Bolivia sign agreement on a joint anti-smuggling campaign", Press Release No. 099-2003 of 26 August 2003. Consultated at: http://www.sunat.gob.pe/noticieroSunat/ prensa/2003/np260803.htm.
[23] Ibidem pg 24-28.
[24] Articles 3 and 8 of the Regulations for the Valuation of Goods in accordance with the WTO Agreement on Customs Valuation, approved by Supreme Decree No. 186-99-EF of 29 December 1999.

Valuation Agreement.[25] The Peruvian authorities have pointed out that in recent years the customs value of 85 per cent of declarations has been determined on the basis of the transaction value.

Within the context of documentary and physical controls, SUNAT compares the declared value with a price indicator based on the transaction value of "identical or similar" goods.[26] The price indicators come from previous transaction values analyzed by SUNAT to show that they are consistent with market prices. If the declared value is lower, SUNAT notifies the importer of its "reasonable doubt", and the latter may opt to pay the duties on the basis of the SUNAT price indicator, thereby terminating the reasonable doubt procedure. Alternatively, the importer has five working days, which can be extended by a further five, to justify its declaration. Once this period has expired, SUNAT must accept the declared value or determine the value of the goods within five working days.[27] This period may be up to 30 working days from the notification of reasonable doubt if SUNAT establishes a provisional value. The importer may remove its goods upon receiving the reasonable doubt notification, subject to the provision of security equivalent to the difference between the duties resulting from the declared value and those calculated from the price indicator.

The values declared by "frequent" importers are accepted automatically, without being compared with SUNAT's price indicators.[28] To be considered a frequent importer, it is necessary to have imported goods worth US$8 million or more in the previous calendar year (or US$3 million if US$1 million or more has been exported) and to comply with the other requirements of Supreme Decree No. 193-2005-EF of 31 December 2005. SUNAT is authorized to verify the value declared by frequent importers within the context of post-clearance controls.[29] Between May and December 2006, frequent importers accounted for approximately 53 per cent of the f.o.b. value of imports.

Customs duties are assessed in US dollars and payment is made at the exchange rate announced on the date of payment by the Banking and Insurance Supervisory Authority.

c. State Trading

The National Coca Corporation (ENACO)[30] was created in 1949 as the sole Peruvian firm authorized to market coca leaf and its by-products. Decree Law No. 22095, on the Repression of Illegal Drug Trafficking, of 2 March 1978, granted the State, through ENACO, the exclusive right to market coca leaf both domestically and abroad. As from 1982, ENACO became a State enterprise under private law, structured as a public limited company, and it maintained its monopoly on the marketing of coca and its by-products.

[25] Article 2 of the Regulations for the Valuation of Goods in accordance with the WTO Agreement on Customs Valuation, approved by Supreme Decree No. 186-99-EF of 29 December 1999.
[26] Specific Procedure: valuation of goods in accordance with the WTO Valuation Agreement, INTA-PE.01.10a of 19 December 2003.
[27] Article 11 of the Regulations for the Valuation of Goods in accordance with the WTO Agreement on Customs Valuation, approved by Supreme Decree No. 186-99-EF of 29 December 1999.
[28] Article 3 of Supreme Decree No. 193-2005-EF of 31 December 2005.
[29] Article 7 of Supreme Decree No. 193-2005-EF of 31 December 2005.
[30] ENACO online information. See: http://www.enaco.com.pe/empresa/infinstitucional.php.

Article 60 of the 1993 Constitution restricted State participation in business activity to a subsidiary role only. Subsequently, the Peruvian Government embarked upon a process of major changes that promoted private participation in various sectors of the economy where the State had majority holdings. The National Fund for the Financing of State Business Activity (FONAFE) is responsible for regulating and directing the State's business activity in areas where it still has a presence. The most important FONAFE functions include approving the consolidated budget of firms in which it has a majority stake.

By late 2006, State holdings in enterprises had been sharply reduced; the number of firms in various sectors in which the State is a majority shareholder is as follows: electricity, 15; banks and finance companies, 5; securities and real estate, 1; petroleum, 2; ports, 1; drinking water and sewerage service, 1; others, 6. The State also held a minority stake in 21 firms.

According to information provided by the authorities, income from concessions amounted to about US$495 million over the period 2000-2006, while revenue from the privatization or sale of State assets totalled US$847 million. The main privatizations during the period occurred in the areas of electric power transmission and distribution (2002), hydroelectric energy production (Yuncan plant, 2004), oil refining (Pampilla plant, 2004), and mining (Las Bambas mine, 2004; Michichillay, 2007). The authorities noted that projected investments amount to about US$1.4 billion in respect of privatizations, and about US$6.4 billion in the case of concessions.

d. Standard and other Technical Requirements

INDECOPI is responsible for developing "technical standards" (equivalent to WTO standards), while various central government ministries, within their spheres of competence, are responsible for developing technical regulations. Moreover, these technical regulations must be authenticated by the Ministry of Economy and Finance. In practice, if some Ministry, within its sphere of competence, approves a technical regulation that uses or refers to a standard, for reasons of transparency, INDECOPI publishes that standard on its web page under the heading "Mandatory Technical Standards", with details of the technical regulation which makes it mandatory.

The legal basis for the preparation of standards and technical regulations consists of Annex 3 to the WTO Agreement on Technical Barriers to Trade; the ISO Guide: Code of Good Practice for Standardization; Decision No. 419 (establishing the Andean system of standardization, accreditation, testing, certification, technical regulations and metrology); Decision No. 562 (on guidelines for the drafting, adoption and application of technical regulations); and Resolution 313 of the General Secretariat of the Andean Community. Peru participates in several bodies concerned with standardization at the international level, such as ISO, IEC, and Codex Alimentarius, as well as in trade agreements; at regional level in the Pan-American Standards Commission (COPANT), the Pacific Area Standards Congress (PASC), the Asia-Pacific Legal Metrology Forum and the Inter-American Metrology System (SIM); and at sub regional level, in the Andean Standardization Committee.

Imported goods subject to compliance with technical regulations will have to be accompanied by a technical regulation compliance certificate with a period of validity of

one year, granted by the ministry for the corresponding sector under transparent, clear and predictable procedures and on the basis of non-discriminatory criteria.

e. Government Procurement

Peru is not a member of WTO Plurilateral Agreement on Government Procurement. Since 2000, important changes have been made to the regulatory framework on government procurement. Peruvian legislation grants a 20 per cent preference margin to bidders that use Peruvian goods; and certain programmes (e.g. food aid) require that only domestic food products be acquired. Although these measures could promote national production, they also result in higher costs for tax payers[31].

Article 76 of the Constitution establishes that works contracting and the procurement of supplies financed out of public funds must be done through competitive bidding. The Law on Government Contracting and Procurement, Law No. 26850 of 27 July 1997, was amended by Law No. 28267 of 3 July 2004, approving a new Single Harmonized Text and Regulation (Supreme Decrees Nos. 083 and 084-2004-PCM, which have been in force since 29 December 2004).[32] These provisions lay down the key criteria for the legal framework regulating goods and service procurement processes, as well as contracting for public works and government consulting services.

Law No. 26850 sets the minimum conditions and exceptions that civil servants belonging to all government entities and enterprises must observe in goods, services and works procurement procedures. The Law does not impose any restriction on participation by foreign suppliers.

Special laws govern procurement in certain areas and for certain State agencies or enterprises.[33] For example, procurement and contracting by PETROPERÚ are governed by its own regulation, which was proposed by its board of directors and approved by CONSUCODE. PETROPERÚ is required to use the electronic government procurement and contracting system to report all contracts and purchases and the status of the processes that it applies.

Disputes during the procurement procedure are resolved according to the stage at which they arise and in the event of violation of the legal principles and provisions governing procurement, three types of liability can be established: administrative, civil and criminal.

Government procurement in Peru uses an Internet-based instrument, known as the Electronic Government Procurement and Contracting System (SEACE).[34] This system consists of two components: (i) an information module, which publishes all annual contracting plans, invitations to tender, replies to consultations and observations made

[31] Ibidem pg x.

[32] Other important provisions adopted during the period include Supreme Decree No. 102-2001-PCM (Single Harmonized Text of Law No. 26850) and Supreme Decree No. 013-2001-PCM (Regulation to the Law on Government Contracting and Procurement), both dated 13 February 2001.

[33] The following agencies are subject to a special regime: PETROPERÚ; PROINVERSIÓN; Commission on the Formalization of Informal Property (COFOPRI); the National Food Assistance Programme (PRONAA); the Social Emergency Production Programme (PESP)-RURAL. Certain types of procurement from the following agencies are subject to a special regime: Industrial Marine Services (SIMA); the National Elections Panel (JNE); Agua para Todos (Water For All); Fenómeno del Niño (El Niño Phenomenon).

[34] SEACE online information. See: http://www.seace.gob.pe/.

on the bidding documents, the result of the selection process and contract award, as well as all information relating to contractual performance; and (ii) a transactional module that will also make possible to submit bids over the Internet.

The system maintains a centralized data system on government procurement. According to SEACE calculations[35], the total value of government contracts in 2006 (including both centralized and decentralized agencies) was about US$5.586 billion (roughly 8 per cent of GDP). Within this amount, contracts were awarded under the following main types of selection process: small contract awards, which accounted for 36 per cent; competitive tenders and public calls for proposals, which jointly represented 36 per cent; and direct contracting (either public or selective) which accounted for 17 per cent.

f. Trade Policies by Sector

f.1 Agriculture

The Ministry of Agriculture is responsible for formulating agricultural policy[36], which seeks to promote and implement modernization of the agricultural sector and raise living standards for farmers and the rural population.[37] Since early 2007, the Ministry of Agriculture has had a Working Commission responsible for formulating government policy for developing agriculture.[38] This Commission has drawn up a preliminary proposal on government policy, which was the subject of public consultations in April 2007.[39]

The Peruvian authorities have stated that the State's policy for developing agriculture is a long-term strategy that seeks to resolve the sector's problems and encourage sustained growth, taking advantage of the opportunities afforded by global markets and improving income distribution.

Border measures

The Peruvian authorities have pointed out that it is hoped to lower the effective tariff protection rates in the sector substantially through preferential trade agreements.

In mid-2001, Peru replaced the variable specific duty scheme that had applied to certain agricultural products since 1991 by a "price band scheme".[40] Under the regulations, this scheme is "a stabilization and protection mechanism that enables the fluctuations in international prices to be offset and limits the negative impact of a fall in these prices [and which] constitutes an effective instrument for raising domestic producers'

[35] Amount disbursed in goods, services and works. Includes State enterprises but not contracts involving military secrets or internal security.
[36] Regulations on the Organization and Functions of the Ministry of Agriculture, approved by Supreme Decree No. 017-2001-AG of 19 April 2001.
[37] Supreme Decree No. 072-2006-AG of 17 December 2006.
[38] The Commission was set up by Ministerial Resolution No. 119-2007-AG of 2 February 2007.
[39] Ministry of Agriculture (2007b).
[40] Article 1 of Supreme Decree No. 115-2001-EF of 22 June 2001.

productivity levels by giving the market clear signals regarding price trends … ".[41] The price band scheme applies to 46 10-digit tariff lines in the HS.[42]

Under the price band scheme, tariffs are determined according to the position of each product's price on an international reference market in relation to the "band", composed of "floor" and "ceiling" prices determined on the basis of previous prices. When the price on the international reference market is below the floor price, a tariff surcharge is imposed. When the price on the international reference market rises above the ceiling price, a tariff reduction is applied. Lastly, if the reference price is between the ceiling and floor prices, the corresponding tariff rate applies.

Every fortnight, the Ministry of Economy and Finance publishes four reference prices, one for each "marker" product subject to the price band scheme, namely, rice, yellow maize, sugar and milk. These are derived from the average prices for the previous fortnight on the corresponding international reference market, converted into c.i.f. prices. The reference markets are defined in Annex IV to Supreme Decree No. 115-2001-EF of 22 June 2001 and amendments thereto.

The band's floor price is based on the average of prices in the reference markets over the previous 60 months, converted into constant dollars using the United States consumer price index and excluding prices outside a confidence interval. For sugar, the average obtained is multiplied by a factor of 1.107.[43] The ceiling price is obtained by adding a standard variation to the floor price. Tariff surcharges or reductions correspond to the amount required to enable the reference price adjusted according to import costs to equal the floor or ceiling price adjusted according to import costs. The surcharges or reductions are applied in the form of specific tariffs.

Products that are not marker products but are subject to the price band scheme are called "related" products. These are substitutes for the marker products or processed versions thereof. The tariff surcharges or reductions applicable to related products are the same as those for marker products.

Pursuant to Article 4 of Supreme Decree No. 153-2002-EF of 27 September 2002, the surcharges resulting from application of the price band scheme, added to the corresponding tariff duties, may not exceed the rates bound at the WTO. Moreover, the minimum tariff that can be applied to a product subject to the price band scheme is zero, even if the calculation of the tariff duty results in a negative figure, for example, if there is a steep increase in the reference price.[44]

Peru did not include any products in section I-B of its Schedule of Commitments, so it does not have the right to apply tariff quotas within the WTO framework.

Other measures

Law No. 28811 of 22 July 2006 established a programme to compensate producers of cotton, yellow flint maize and wheat for the drop in tariffs resulting from approval of the free trade agreement between Peru and the United States. The programme, which will

[41] Supreme Decree No. 115-2001-EF of 22 June 2001.
[42] The products subject to this measure are listed in Annex IV to Supreme Decree No. 115-2001-EF of 22 June 2001.
[43] Supreme Decree No. 003-2006-EF of 13 January 2006.
[44] Article 8 of Supreme Decree No. 115-2001-EF of 22 June 2001.

be implemented once the agreement has come into effect, establishes direct payment per unit sold "for industrial processing".[45]

Law No. 27360 of 31 October 2000 establishes a 15% rate of income tax on "persons engaged in growing crops and/or raising livestock" (the general income tax rate is 30%, see Chapter III(4)(i)). The 15% income tax also applies to agro-industrial companies situated outside the provinces of Lima and El Callao engaged in producing, processing and preserving meat and meat products; processing and preserving fruit and vegetables; and processing sugar. In order to be eligible for this benefit, 90 per cent of the total value of the agro-industrial companies' inputs must be of Peruvian origin (not including the packaging).[46]

The beneficiaries of the reduced rate of income tax are also eligible for advance refund of the general sales tax (IGV) and the municipal promotion tax paid on imports and purchases in Peru of "capital goods, inputs, construction services and contracts" during the "pre-production" phase of the investment[47], which may not exceed five years. Poultry producers situated outside the provinces of Lima and El Callao are only eligible for Law No. 27360 if they use yellow flint maize of Peruvian origin.

The Agricultural Bank (or AGROBANCO), which has both government and private capital, was set up in 2001 under private law and grants loans to agricultural producers, livestock breeders, foresters and fish farmers, either directly or through other financing institutions.[48] Direct loans may not exceed 15 tax units per producer (S/. 51,750 or around US$ 16,260) and according to the Peruvian authorities the loans are at market interest rates. In September 2006, the State doubled the Agricultural Bank's capital to S/. 260 million (some US$ 79.4 million).[49]

Peru has various programmes intended to alleviate agricultural producers' debt. For example, through the *Programa Especial de Regularización Tributaria* – PERTA (Special Tax Regularization Programme) and the *Régimen Extraordinario de Regularización Financiera* – RERF (Special Financial Regularization Regime) some agricultural producers are able to reduce or refinance their debts with the State. Both programmes have been operating since the second half of the 1990s, but the deadline for eligibility for them has been extended on numerous occasions, most recently in May 2006.[50] In October 2000, the *Programa de Rescate Financiero* (Financial Redemption Programme) was approved allowing the State to refinance part of the debt of agricultural producers.[51] The amount of the debt refinanced under this programme is US$229.4 million. Law No. 28752 of 6 June 2006 wrote off the debt of agricultural producers under the Ministry of Agriculture's *Programa de Fondos Rotatorios* (Rotating Fund Programme), in effect from 1992 to 2003.[52] The amount of the debt written off was S/. 521.7 million (some US$ 163.9 million). In 2003, Peru adopted provisions to

[45] Article 3 of Law No. 28811 of 22 July 2006.
[46] Article 2.2-2.4 of Law No. 27360 of 31 October 2000 and Supreme Decree No. 007-2002-AG of 8 February 2002.
[47] Article 5 of Law No. 27360 of 31 October 2000.
[48] Law No. 27603 of 21 December 2001.
[49] Law No. 28881 of 16 September 2006.
[50] The PERTA is based on Legislative Decree No. 877 of 7 November 1996, Supreme Decree No. 107-98-EF of 28 November 1998 and Law No. 28467 of 13 January 2005. The RERF is based on Law No. 26803 of 16 July 1997, Supreme Decrees Nos. 99-97-EF and 108-98-EF and Law No. 28467. Law No. 28745 of 25 May 2006 determined that the deadline for eligibility for these programmes was 30 July 2007.
[51] Article 2 of Emergency Decree No. 059-2000 of 16 August 2000.
[52] The Rotating Fund Programme was abolished by Supreme Decree No. 008-2003-AG of 20 February 2003.

capitalize the tax debt generated at May 2003 by sugar companies in which the State had a majority holding.[53]

In March 2007, the Ministry of Agriculture approved the *Plan de Desarrollo Agrario para Zonas Cocaleras* (Agrarian Development Plan for Coca-Growing Areas), which is aimed at the conversion of coca crops.[54] The Plan proposes to expend US$83.7 million for this purpose between 2007 and 2011.

There have been no official marketing or price control measures in the agricultural sector since 1990.

f.2 Fishing

Together with some other Members of the WTO, Peru has advocated a broad ban on fishery subsidies under the Doha Round.[55]

The authority responsible for formulating the sector's policy is the Ministry of Production.[56] The *Instituto del Mar del Perú* – IMARPE (Peruvian Marine Institute) advises the Ministry of Production on the management of fishery resources. The main objectives of fishery policy are to promote the sustainable development of fishing as a source of food, jobs and income and to ensure that hydrobiological resources are used in a way that is consistent with environmental protection and conservation of biological diversity.

Pursuant to the General Law on Fisheries, foreign-registered fishing vessels may only conduct fishing operations "against the surplus of allowable catch unused by the national fishing fleet".[57] The Law lays down the conditions for access to fishery resources by foreign-registered vessels.[58] These include fishing for "occasional, highly migratory or under-exploited resources" or the signing of an agreement with a Peruvian company to exploit certain resources.

A fishing permit is required for access to fishery resources and the Ministry of Production is responsible for issuing it. In order to obtain a permit, the owner of a foreign-registered vessel must be domiciled in Peru and have a legal representative there. In addition, a letter of credit must be made out to the Ministry of Production corresponding to 25 per cent of the "fishing rights" (see below). This requirement does not apply to Peruvian-registered vessels. Foreign-registered vessels must have on board a "scientific technical observer" appointed by the IMARPE and a satellite monitoring system; and at least 30 per cent of the crew must be Peruvian nationals.[59] Fishing permits for foreign-registered vessels may not be assigned.

[53] Article 2 of Law No. 28027 of 18 July 2003.
[54] Ministry of Agriculture (2007a).
[55] See, for example, WTO document TN/RL/W/196 of 22 November 2005.
[56] Article 8 of the Regulations on the Organization and Functions of the Ministry of Production, approved by Supreme Decree No. 010-2006-PRODUCE of 5 May 2006.
[57] Article 47 of Decree Law No. 25977 of 22 December 1992.
[58] Article 48 idem.
[59] Article 70 of the Implementing Regulations for the General Law on Fisheries, approved by Supreme Decree No. 012-2001-PE of 14 March 2001.

Fees must be paid for exploiting fishery resources.[60] For foreign-registered tuna fishing vessels, the fee for a fishing permit is US$25 per net registered tonne (NRT) for a three-month period.[61] This figure falls to US$10 for foreign-registered tuna fishing vessels whose catch goes to industrial facilities that have been given an operating licence by the Ministry of Production. For Peruvian tuna fishing vessels, the amount payable for fishing permits is US$ 10 per NRT per annum.

The fishery regulations do not impose restrictions on foreign capital holdings in Peruvian vessels or in aquaculture activities. There are no restrictions either on marketing fishery products on national or international markets.[62] Nevertheless, the import and export of hydrobiological resources must be authorized.

Law No. 27460 of 26 May 2001 provides for a 15 per cent rate of income tax for aquaculture.[63] Aquaculture is also eligible for advance refund of the IGV and the municipal promotion tax paid on imports and purchases in Peru of "capital goods, inputs, construction services and contracts" during the "pre-production" phase of an investment, which may not exceed five years.

The sale of fuel to foreign-registered vessels in possession of fishing permits granted by Peru or by other countries and catching "highly migratory" hydrobiological resources is not subject to the IGV, the municipal promotion tax or the selective consumption tax, provided that the vessel unloads at least 30 per cent of the cargo in its hold at a Peruvian industrial plant.[64]

The *Fondo Nacional de Desarrollo Pesquero* – FONDEPES (National Fisheries Development Fund) set up in 1992, provides small-scale fishermen and fish farmers with technical and economic support. In 2005, the FONDEPES granted 348 loans for an amount of US$ 566,380.[65] Of this amount, 65 per cent goes to repair and equip vessels. In 2005, the FONDEPES also carried out building and maintenance work on infrastructure amounting to S/. 893,170 (approximately US$ 271,000).

[60] Article 40, *idem*.
[61] Article 7 of the Implementing Regulations for the Tuna Fishing Plan, approved by Supreme Decree No. 014-2001-PE of 31 March 2001.
[62] Article 30 of Decree Law No. 25977 of 22 December 1992.
[63] Article 26.
[64] Article 2 of Law No. 28965 of 24 January 2007.
[65] Information from the FONDEPES online. Consulted at: http://www.fondepes.gob.pe/logrocredito 2005.html [1 May 2007].

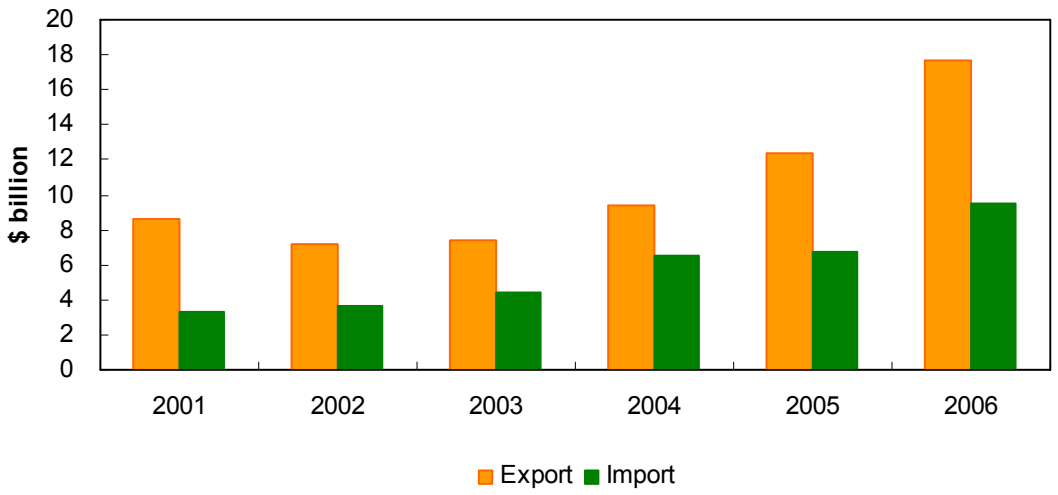
4. ECONOMIC RELATIONS, CHALLENGES AND PROSPECTS BETWEEN KOREA AND PERU

4.1 Trade in Goods

KOREA

As mentioned before, Korea is a trade-oriented economy, and its trade with the world has been increasing in both export and import. In the year of 2006, exports reached US$ 324.6 billion, and imports US$ 308.2 billion. Korea's trade with Latin America also experienced a continuous increase. Korea's exports to Latin America increased from US$ 7.2 billion in 2002 to US$ 17.7 billion in 2006. Korea's imports from the region also increased from US$ 3.6 billion to US$ 9.5 billion in the same period, but the imports were always smaller than the exports, resulting in Korea's trade surplus with respect to Latin America.

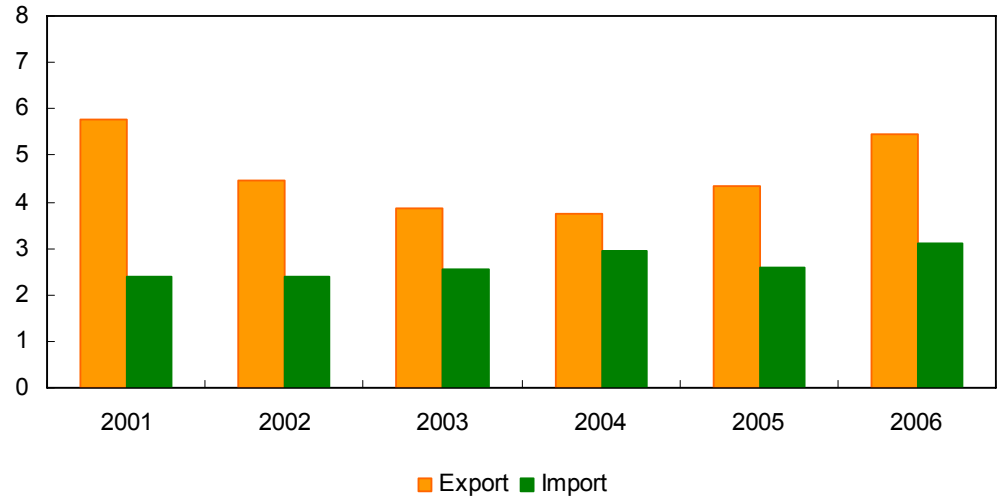
Chart 4.1 Korea's Trade with Latin America (millions of US$)



Source: UN COMTRADE

The share of Latin America in Koreas' total exports has increased since 2004, and in 2006, it reached 5.5%, which is similar to Latin America's share in world total exports. Import share also has increased during 2005 and 2006, reaching 3.1% in 2006.

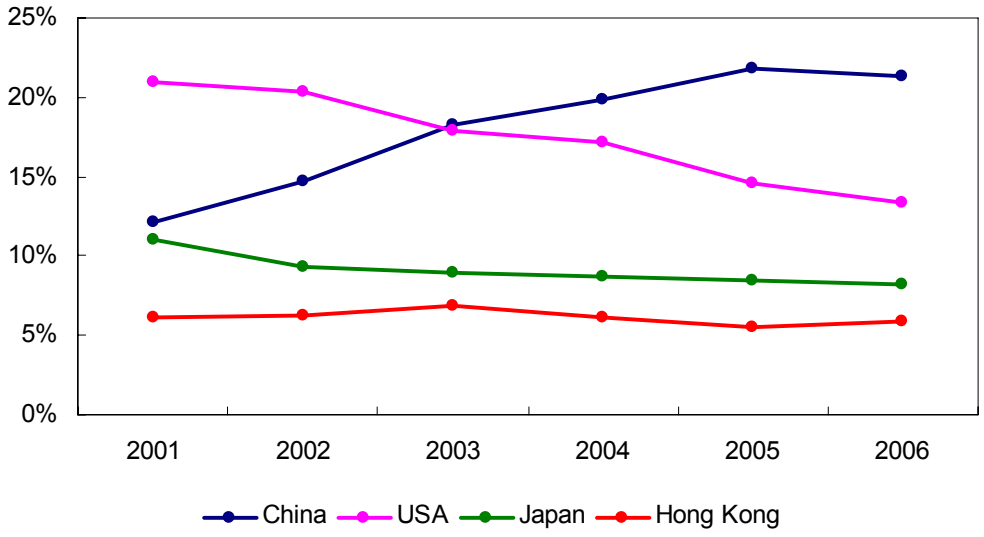
Chart 4.2 Share of Lain America in Korea's Trade (as % of total)



Source: UN COMTRADE

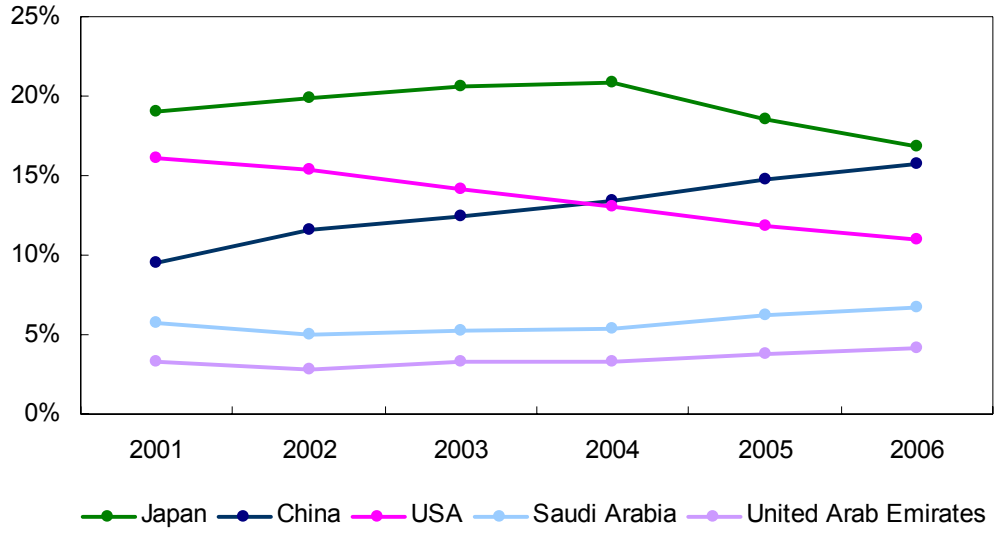
Korea's main export partners are China, USA and Japan, which all together accounted for about 50% of total export in 2006. Recently exports to China have been expanding dynamically while export to the United States has been decreasing with a similar ratio.

Chart 4.3 Korea's Export: Share of main partners (as % of total)



Source: UN COMTRADE

Chart 4.4 Korea's Import: Share of main partners (as % of total)



Source: UN COMTRADE

The three countries mentioned above are also the main three import partners and they account for about 55% of total import in 2006, Saudi Arabia and United Arab Emirates being the forth and fifth import partner, respectively. Recently, import shares of Japan and the Unites States have decreased whereas that of China has increased.

In 2006, 58.7% of Korea's exports were products in the category of machinery and transport equipment, with a value or US$ 190,602 million. Second and third largest import categories were manufactured goods and chemical products, which accounted for 14.5% and 9.8% respectively.

Table 4.1 Korea's Export by Sectors (millions of US$)

Item	2001	2002	2003	2004	2005	2006
Animal and vegetable oils and fats	17.2	21.1	23.2	23.5	19.0	24.1
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Beverages and tobacco	301.0	384.9	487.6	530.8	520.8	606.1
	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%
Chemicals	12,510.6	13,730.0	16,953.8	23,179.7	27,739.1	31,898.5
	8.4%	8.5%	8.8%	9.2%	9.8%	9.8%
Commod. & transacts. Not class. Accord. To kind	46.5	51.8	102.4	78.8	393.3	160.5
	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%
Crude materials, inedible, except fuels	1,585.1	1,633.9	1,990.1	2,482.2	2,826.6	3,305.5
	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%
Food and live animals	2,204.3	2,114.2	2,163.9	2,445.2	2,467.3	2,353.3
	1.5%	1.3%	1.1%	1.0%	0.9%	0.7%
Machinery and transport equipment	83,691.4	96,545.3	118,215.7	156,997.4	171,257.3	190,602.5
	56.0%	59.8%	61.6%	62.6%	60.2%	58.7%
Manufact goods classified chiefly by material	26,742.8	27,380.6	30,508.7	37,372.6	41,466.1	47,028.3
	17.9%	17.0%	15.9%	14.9%	14.6%	14.5%
Mineral fuels, lubricants and related materials	7,973.7	6,500.6	6,789.1	10,338.6	15,522.3	20,603.7
	5.3%	4.0%	3.5%	4.1%	5.5%	6.3%
Miscellaneous manufactured articles	14,301.5	13,163.9	14,615.3	17,412.2	22,206.4	28,042.5
	9.6%	8.1%	7.6%	6.9%	7.8%	8.6%
Total	149,374.2	161,526.4	191,849.8	250,860.9	284,418.2	324,625.0

Source: UN COMTRADE

While export is concentrated on machinery and transport equipment sector, import is rather diversified. The largest import sector was also machinery and transport equipment but the share was much smaller than export; 30.1% in 2006. Mineral fuels, lubricants and related materials accounted for 27.7%, and manufactured goods classified chiefly by material accounted for 13.8% in the same year.

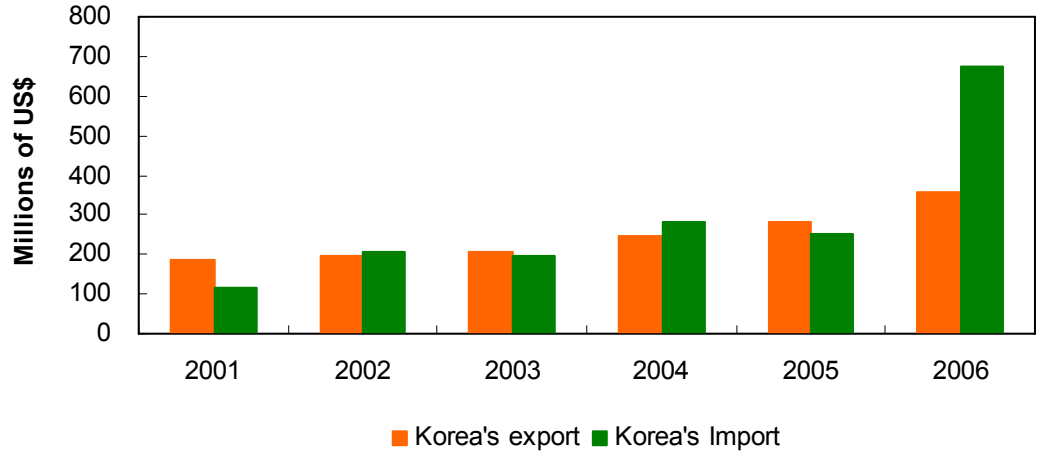
Table 4.2 Korea's Import by Sectors (millions of US$)

Item	2001	2002	2003	2004	2005	2006
Animal and vegetable oils and fats	269.3	339.3	388.7	543.5	618.9	629.2
	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Beverages and tobacco	564.0	693.9	629.6	553.0	540.3	589.4
	0.4%	0.5%	0.4%	0.3%	0.2%	0.2%
Chemicals	13,148.2	14,360.7	16,776.2	21,367.4	25,282.9	28,709.3
	9.4%	9.6%	9.5%	9.7%	9.7%	9.3%
Commod. & transacts. Not class. Accord. To kind	179.5	238.4	428.6	382.9	1,291.8	293.6
	0.1%	0.2%	0.2%	0.2%	0.5%	0.1%
Crude materials, inedible, except fuels	8,937.6	9,084.5	10,041.5	13,406.2	15,213.4	19,526.3
	6.4%	6.0%	5.7%	6.1%	5.8%	6.3%
Food and live animals	6,776.9	7,600.5	8,314.2	9,267.2	9,941.5	11,340.1
	4.9%	5.1%	4.7%	4.2%	3.8%	3.7%
Machinery and transport equipment	47,742.0	52,979.1	62,443.5	75,415.9	82,890.2	92,880.0
	34.2%	35.2%	35.5%	34.1%	31.7%	30.1%
Manufact goods classified chiefly by material	16,903.8	19,459.1	22,601.1	31,073.9	36,114.5	42,583.7
	12.1%	12.9%	12.9%	14.1%	13.8%	13.8%
Mineral fuels, lubricants and related materials	33,790.2	32,139.8	38,155.5	49,355.2	66,487.3	85,347.5
	24.2%	21.4%	21.7%	22.3%	25.5%	27.7%
Miscellaneous manufactured articles	11,143.2	13,459.9	16,094.5	19,528.9	22,854.8	26,339.0
	8.0%	9.0%	9.2%	8.8%	8.7%	8.5%
Total	139,454.6	150,355.1	175,873.4	220,894.0	261,235.6	308,238.2

Source: UN COMTRADE

The amount of bilateral trade between Korea and Peru has doubled between 2005 and 2006 and it was due to the Korea's increased import from Peru. In 2006, Korea's import from Peru amounted to US$ 676 million whereas Korea's export to Peru was US$ 359 million, resulting in a bilateral trade deficit of US$ 317 million for Korea.

Chart 4.5 Bilateral Trade between Korea and Peru (millions of US$)



Source: UN COMTRADE

Trade between Korea and Peru is mainly inter-industry trade. Korea mainly exported machinery and transport equipment in 2006, which reached US$ 164 millions with a share of 45.7% of the total export. Other large exporting sectors were chemicals and manufactured goods which accounted for 24.9% and 20.4% of the total export, respectively.

Table 4.3 Korea's Export to Peru by Sectors (millions of US$)

Sector	2001	2002	2003	2004	2005	2006
Animal and vegetable oils and fats	0.0	0.1	0.0	0.0	0.0	0.0
Beverages and tobacco	0.1	0.1	0.1	0.0	0.0	0.0
Chemicals	35.1	32.3	51.4	53.2	81.1	89.3
Commod & transacts not class accord to kind	0.0	0.0	0.0	0.0	0.0	0.0
Crude materials, inedible, except fuels	2.2	3.4	3.5	4.5	5.0	4.4
Food and live animals	1.1	1.2	0.9	0.7	0.3	0.2
Machinery and transport equipment	93.5	88.4	83.3	93.2	118.7	164.0
Manufact goods classified chiefly by material	42.7	49.4	42.7	34.2	47.4	73.2
Mineral fuels, lubricants and related materials	5.3	13.2	16.5	50.9	22.9	20.3
Miscellaneous manufactured articles	7.7	7.9	6.0	8.4	6.7	7.4
Total	187.8	195.8	204.4	245.0	282.3	358.9

Source: UN COMTRADE

The main category of products which Korea imports from Peru is crude material which reached US$ 602 millions in 2006 with a share of 89.2% in total import from Peru. The second an third largest product categories imported from Peru, are food and live animals, and manufacture goods classified chiefly by material.

Table 4.4 Korea's Import from Peru by Sectors (millions of US$)

Sector	2001	2002	2003	2004	2005	2006
Animal and vegetable oils and fats	0.2	0.1	0.2	0.2	0.0	0.0
Beverages and tobacco	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	0.7	0.8	1.0	1.5	1.4	1.1
Commod & transacts not class accord to kind	0.0	0.0	0.0	0.0	0.0	0.0
Crude materials, inedible, except fuels	70.9	177.4	163.7	222.8	205.4	602.8
Food and live animals	17.9	17.7	15.8	30.8	29.8	48.5
Machinery and transport equipment	0.1	0.3	0.2	0.1	0.2	0.8
Manufact goods classified chiefly by material	4.9	7.2	7.1	26.3	11.0	19.6
Mineral fuels, lubricants and related materials	20.8	0.0	5.0	0.0	0.0	1.4
Miscellaneous manufactured articles	0.8	1.1	1.4	1.4	1.7	1.7
Total	116.3	204.6	194.4	283.1	249.5	675.9

Source: UN COMTRADE

Among top 15 products exported by Korea to Peru, seven are from the automobile industry, three are from electronic industry, and three are from petrochemical industry.

Table 4.5 Korea's Top 15 Exports to Peru (millions of US$)

HS Code	Product	2005	2006
852520	Transmission Apparatus Inc Reception App	21.7	25.7
390120	Polyethylene	21.4	25.5
271019	Petroleum oils and oils obt from bituminous	22.9	20.2
870323	Motor cars and other motor vehicles	10.8	18.7
390110	Polyethylene	14.3	14.4
870332	Motor cars and other motor vehicles	10.6	14.3
870421	Motor vehicles for transport of goods	8.7	12.7
870210	Motor vehicles for transport of persons	6.1	9.9
481019	Paper and paperboard	6.1	9.0
852812	Colour monitors and projectors	4.6	10.3
870899	Parts and accessories of motor vehicles	5.3	5.8
390210	Polypropylene	5.8	5.2
870333	Motor cars and other motor vehicles	3.3	7.3
401120	New pnewmatic tyres, of rubber	2.6	7.1
847170	Storage units	5.7	3.6

Source: UN COMTRADE

Among top 15 products imported by Korea from Peru, the four largest ones are metal ores and concentrates: zinc, copper, lead, and iron. Three are articles of metals. The others are mostly food products.

Table 4.6 Korea's Top 15 Imports from Peru (millions of US$)

HS Code	Product	2005	2006
260800	Zinc ores and concentrates	74.6	329.6
260300	Copper ores and concentrates	73.2	182.7
260700	Lead ores and concentrates	30.3	56.1
260112	Iron ores and concentrates	23.4	28.4
160590	Crustaceans, molluscs and others	9.6	15.6
090111	Coffee	5.7	11.5
030749	Cuttle fish, squid	4.4	8.5
030420	Frozen fish fillets	4.5	5.5
740200	Unrefined copper, copper anodes	4.1	5.0
230120	Flours, meals and pellets, of fish or crustacea	2.8	2.3
510820	Yarn of fine animal hair	0.8	3.4
510539	Wood and fine or coarse animal hair	1.3	2.3
160430	Caviar and caviar substitutes	0.7	2.7
740311	Refined copper and copper alloys	0.2	3.2
790700	Other articles of zinc	1.8	1.4

Source: UN COMTRADE

PERU

Trade Balance

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$ 38,897 millions in 2006. It is important to highlight that, for the 2002-2006 period, the trade balance has shown an increasing surplus, explained by the improvement of Peru's terms of trade.

The following table shows, that Peruvian exports reached US$ 23,574 millions in 2006. Exports show a positive trend, with growth rates of over 35% since 2004, and an average rate of 32% for all the analyzed period. On the other hand, Peruvian imports also showed a positive trend, with annual growth rates of around 19.7% as from 2004, which resulted in a total of US$ 15,323 millions in 2006. Consequently, Peru's trade balance reached US$ 8,251 millions in 2006 representing the fifth consecutive year of trade surplus.

Table 4.7 Peru's Foreign Trade 2002-2006 (millions of US$)

Trade Flow	2002	2003	2004	2005	2006
Exports	7,665	9,027	12,727	17,300	23,574
Imports	7,449	8,412	10,068	12,488	15,323
Trade Balance	216	615	2,659	4,812	8,251
Total Trade	15,114	17,439	22,795	29,788	38,897
Growth rate %		**2003**	**2004**	**2005**	**2006**
Exports		17.77%	40.99%	35.93%	36.27%
Imports		12.93%	19.69%	24.04%	22.70%

Source: SUNAT
Prepared by ADEX

Exports

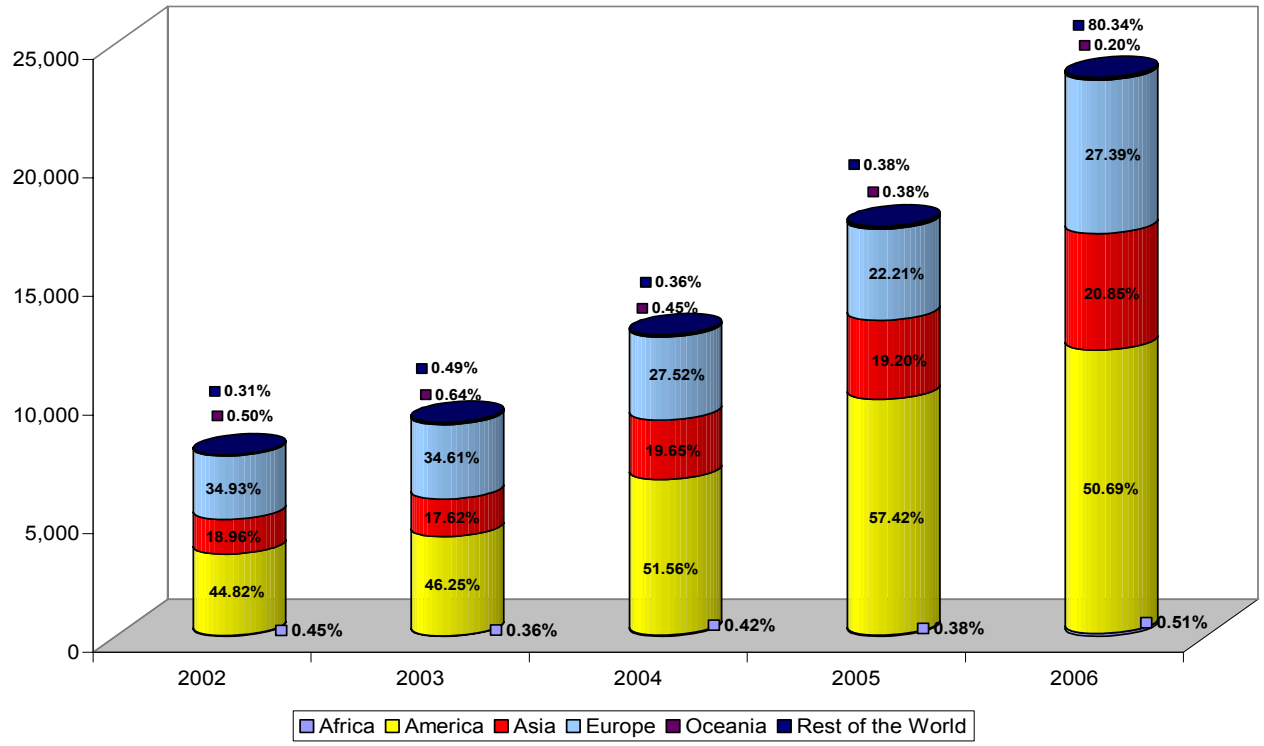
Peru directs its exports mainly to three regions: America, Europe and Asia. In first place, America represented on average 50.2% of Peru's exports between 2002 and 2006. Within this group, Peru's most important partners are the United States, Chile and Canada. In second place, Europe demands on average 29.3% of Peru's exports. Within this group, Peru's most important partners are Switzerland, Germany, Italy and Spain. In third place, Asia represents 19.3% 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. Korea constitutes the third most important destination for Peru's exports to Asia.

Table 4.8 Peruvian Exports by Region 2002-2006 (Millions of US$ and %)

Region	2002	2003	2004	2005	2006	Average % Growth 02-06
Africa	34.8	33.1	54.2	66.2	120.8	40.9%
America	3436.0	4175.0	6563.0	9934.0	11950.0	37.6%
Asia	1454.0	1591.0	2502.0	3322.0	4916.0	36.9%
Europe	2678.0	3125.0	3503.0	3844.0	6457.0	26.6%
Oceania	38.6	58.0	57.6	67.3	48.7	9.7%
Rest of the World	24.0	44.7	46.5	66.0	82.0	39.1%
Total	**7665.0**	**9027.0**	**12727.0**	**17300.0**	**23574.0**	**32.7%**

Source: SUNAT
Prepared by: ADEX

Chart 4.6 Evolution of exports to each region 2002-2006 (Millions of US$ and %Participation)



Source: Table 3.2
Prepared by ADEX

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 37.6% and 36.9% 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.

Peru's three main partners in Asia are China, Japan and Korea, representing together about 81% of the Peruvian exports to this market for the 2002-2006 period. The growth of Korea's share importance began in the second half of nineties. During the 1993-2005 period, Peruvian exports to Korea annual average growth rate was 11.8%. Until 2005,

Peruvian exports to Korea show a stable trend but in 2006 the annual growth rate rose to 141.2%.

Table 4.9 Peruvian Exports to Asia (millions of US$)

Trade Partner	2002	2003	2004	2005	2006	Average 02-06	Average % Participation 02-06
China	598	677	1,235	1,879	2,236	1,325	48.06%
Japan	374	391	552	607	1,216	628	22.78%
Rep. of Korea	168	176	202	227	540	263	9.52%
Chinese Taipei	110	147	239	302	407	241	8.74%
India	22	19	49	79	102	54	1.97%
Hong Kong, China	31	30	29	47	41	36	1.29%
Turkey	11	19	39	41	40	30	1.09%
Vietnam	5	11	19	29	35	20	0.72%
Thailand	26	27	30	25	65	35	1.25%
Indonesia	25	23	22	36	30	27	0.99%
Others	84	71	86	50	204	99	3.59%
Total Asia	1,454	1,591	2,502	3,322	4,916	2,757	100.00%

Source: SUNAT
Prepared by ADEX

Previously, during the 1986-1990 period, Peruvian exports to Asia followed 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[66], 50% to China and ASEAN-4[67].

During the first year of the 1996-2000 period, exports towards 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 Asian crisis. The recovery process started in 1999, and consolidated during the present decade.

During the 2001-2006 period, Peru recorded a 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, Japan and Korea kept growing. Nowadays, Peruvian exports to Korea represent 2.3% of the total exports to the world, making Korea the 12th most important trading partner.

The following Table shows that Peruvian exports to Korea reached US$ 540 millions in 2006. Exports show a positive trend with growth rates over 12% since 2004, and an average rate of 42% for all the analyzed period. On the other hand, Peruvian imports from Korea also showed a positive trend; with annual growth rates over 6% since 2004 and an average rate of 13% for all the analyzed period, which resulted in a total of US$ 351 millions in 2006. Consequently, bilateral trade balance reached US$ 166 millions in 2006 representing the first year of trade surplus in the analyzed period.

[66] Newly Industrialized Economies (NIE-4) includes Korea, Hong Kong, Chinese Taipei and Singapore.
[67] This document considers ASEAN-4 as Thailand, Malaysia, Indonesia and the Philippines.

Table 4.10 Bilateral Trade between Peru and Korea 2002-2006 (millions of US$)

Trade Flow	2002	2003	2004	2005	2006
Peruvian Exports	168	176	202	227	540
Peruvian Imports	229	277	296	351	374
Trade Balance	-61	-101	-94	-124	166
Total Trade	397	453	498	578	914
Growth rate %		**2003**	**2004**	**2005**	**2006**
Exports		4.76%	14.77%	12.38%	137.89%
Imports		20.96%	6.86%	18.58%	6.55%

Source: SUNAT
Prepared by ADEX

Peruvian exports to Korea for the 2002-2006 period, show a high concentration in two sectors which represent together 93% of the exports to that country. The first sector corresponds to metals, which adds 85% of the total exports to Korea. Inside this group, the most demanded products are ores and concentrates of zinc, cooper, lead and iron.

Table 4.11 Peruvian Exports to Korea by Sectors (Millions of US$)

Sector	2002	2003	2004	2005	2006	Average 02-06
Agriculture	2	4	5	9	11	6
Fish and fishing products	16	12	22	25	32	21
petroleum oils	0	0	0	0	0	0
Wood, Pulp, Paper and Furniture	0	0	0	0	0	0
Textile and Clothing	2	3	4	4	12	5
Leather, Rubber, Footwear and Travel Goods	0	0	0	0	0	0
Metals	143	153	165	181	479	224
Chemical & Photographic Supplies	1	1	1	1	1	1
Transport equipment	0	0	0	0	0	0
Non-Electric Machinery	0	0	0	0	0	0
Electric Machinery	0	0	0	0	0	0
Mineral products, Precious Stones & Metals	0	0	0	0	0	0
Manufactured Goods n.e.s.	4	3	5	7	5	5
Total	168	176	202	227	540	263

Source: SUNAT
Prepared by ADEX

The second most demanded sector corresponds to fish and fishing products, with a share of 8% of the total exports to Korea. The product with the highest demand is other mollusks and aquatic invertebrates frozen, dried, salted or in brine or prepared or preserved, representing 50% of the sectors' exports.

Other relevant sectors are agriculture and textile and clothing with an annual average participation of 2.4% and 1.9%, respectively, for the 2002-2006 period.

Imports

Peruvian imports mainly come from three regions: America, Asia and Europe. In first place, America represented, on average, 62.7% of Peru's imports during the 2002-2006 period. Peru's most important partners are United States, Brazil and Colombia. In second place, Asia provides on average 20.3% of Peruvian imports. Within this group,

imports appear very concentrated in China, Japan and Korea. In third place, Europe represents 14.2% of Peruvian imports. Peru's most important partners are Germany, Spain and Italy.

Table 4.12 Peruvian Imports by Region 2002-2006 (Millions of US$ and %)

Region	2002	2003	2004	2005	2006	Average % Growth 02-06
Africa	163	193	71	425	367	110.03%
America	4,617	5,178	6,593	7,689	9,603	20.25%
Asia	1,498	1,711	1,963	2,542	3,274	21.81%
Europe	1,123	1,286	1,371	1,751	2,001	15.78%
Oceanía	47	44	70	81	78	16.18%
Rest of the World	1	0	0	0	0	--
Total	7,449	8,412	10,068	12,488	15,323	19.84%

Source: SUNAT
Prepared by ADEX

Chart 4.7 Evolution of imports to each region 2002-2006 (Millions of US$ and % Participation)

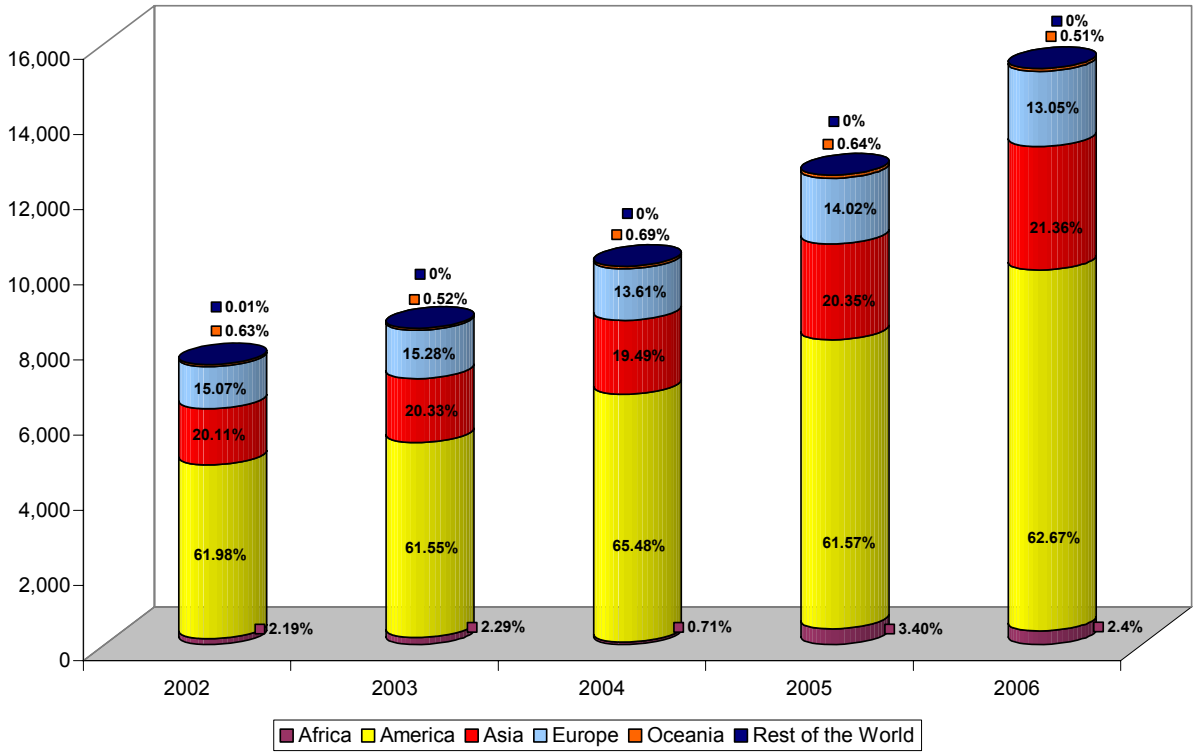


Table 4.13 Peruvian Imports from Asia (Millions of US$)

Trade Partner	2002	2003	2004	2005	2006	Average 02-06	Average % 02-06
China	465	645	768	1,058	1,586	904	41.14%
Japan	406	367	359	442	563	427	19.44%
Rep. of Korea	229	277	296	351	374	305	13.90%
Chinese Taipei	118	133	151	185	175	153	6.94%
India	63	60	75	122	146	93	4.25%
Malaysia	47	58	95	86	133	84	3.81%
Thailand	30	32	46	66	95	54	2.45%
Indonesia	35	40	51	55	66	49	2.25%
Hong Kong, China	13	15	22	19	15	17	0.76%
Others	94	83	99	158	122	111	5.06%
Total Asia	1,498	1,711	1,963	2,542	3,274	2,198	100.00%

Source: SUNAT
Prepared by ADEX

Regarding Peruvian imports from Korea, 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 chemicals and photograph supplies, transport equipment and electrical machinery.

Table 4.14 Peruvian imports from Korea by Sectors (Millions of US$)

Sector	2002	2003	2004	2005	2006	Average 02-06
Agriculture	0	0	0	0	0	0
Fish and fishing products	0	0	0	0	0	0
petroleum oils	7	37	30	41	0	23
Wood, Pulp, Paper and Furniture	0	0	0	0	0	0
Textile and Clothing	34	30	26	25	26	28
Leather, Rubber, Footwear and Travel Goods	0	0	0	0	0	0
Metals	0	0	0	0	0	0
Chemical & Photographic Supplies	49	65	64	103	112	79
Transport equipment	30	26	28	49	78	42
Non-Electric Machinery	32	38	39	44	52	41
Electric Machinery	45	50	78	57	56	57
Mineral products, Precious Stones & Metals	6	0	1	1	1	2
Manufactured Goods n.e.s.	26	31	30	31	49	33
Total	229	277	296	351	374	305

Source: SUNAT
Prepared by ADEX

As mentioned above, in the year 2006, Peru has shown a trade surplus with Korea, which accounted for US$ 166 millions. However this surplus was not shown in all trading sectors, but mainly in the ones of primary goods, such as metals, agriculture and fishing. The largest trade deficit appears in the chemical and photographic supplies sector, adding US$ 111 millions in 2006.

4.2 Trade in Services

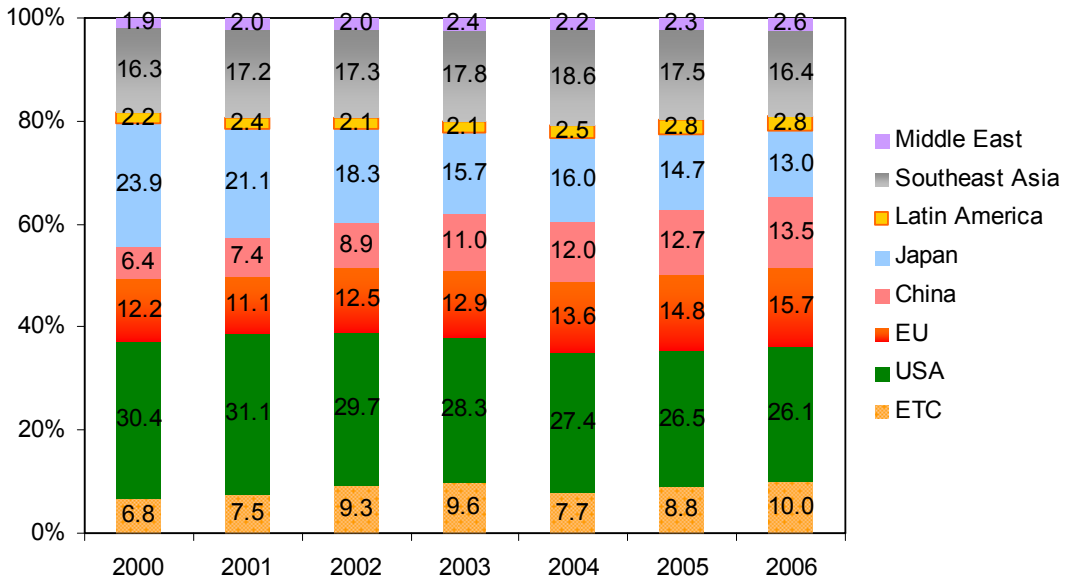
KOREA

As mentioned before, Korea's trade value in service has been increasing steadily and import has been higher than export. Service export and import of Korea reached US$ 49,890 million and US$ 68,851 million, respectively in 2006, resulting in a service trade deficit of US$ 18,762.9 million in the same year.

The main destinations for Korea's service exports are US, Southeast Asia, EU, and Japan. US alone represented 30.4% of the total Korean exports in service in 2000, and although its share has decreased from 31.1% in 2001 to 26.1% in 2006, it still remains as a major destination of Korea's service exports. While the shares of Southeast Asia and EU were increasing gradually, that of Japan fell from 23.9 % in 2000 to 13.0% in 2006. China also has emerged as one of the important destinations almost doubling its share throughout the years, whereas exports to Latin America as a whole stayed more or less at the same level since 2000.

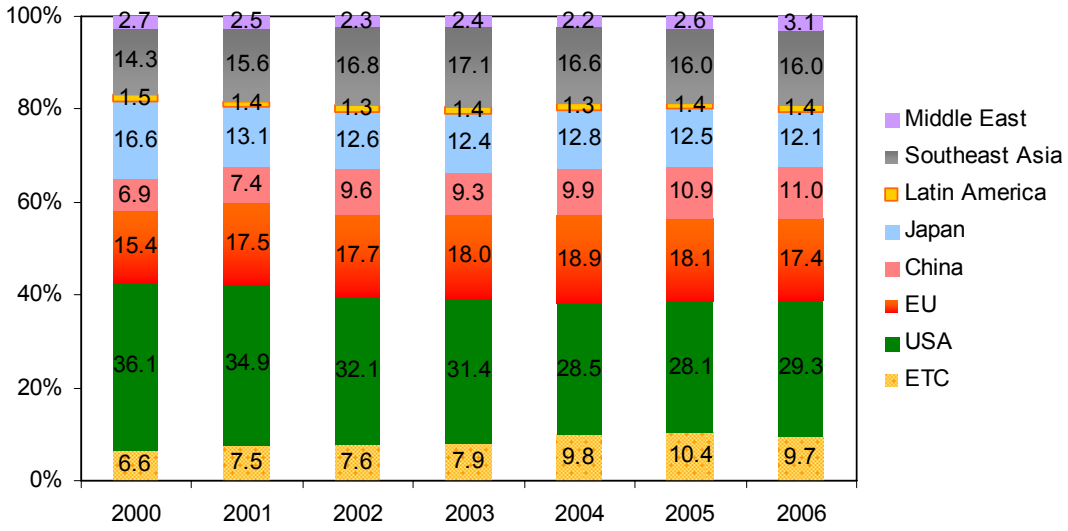
On the import side, the main partners of Korea are US, Southeast Asia, and EU, which are the same regions where the majority of the Korean service exports are destined to. The declining shares of US and Japan as origins of imports are noteworthy, while those of EU, South Asia, and China increased in 2006, compared to 2000. During the given period, the share of service imports from Latin America remained almost at the same level ranging between 1.3~1.5%.

Chart 4.8 Korea's Main Partners of Service Exports (as % of total)



Source: Bank of Korea

Chart 4.9 Korea's Main Partners of Service Imports (as % of total)



Source: Bank of Korea

Both Korean exports and imports in service have increased during the period from 2001 to 2006. While service exports are concentrated in transportation service which occupied up to slightly more than half of the total service exports in 2006, the composition of imports are more evenly distributed among transportation, travel and business service. Imports in other service sectors constitute a very small amount, slightly over 12 % of total service imports.

Table 4.15 Korea's Service Exports by Sectors (millions of US$)

Item	2001	2002	2003	2004	2005	2006
Transportation	13,180	13,216	17,180	22,529	23,877	25,807
Travel	6,384	5,936	5,358	6,069	5,806	5,788
Communications	398	378	341	446	443	642
Construction	82	39	37	99	111	133
Insurance	60	37	34	139	169	274
Financial services	533	695	699	1,083	1,651	2,543
Computer and information	16	20	30	25	57	248
Royalties and License Fees	924	835	1,311	1,861	1,908	2,046
Other Business Services	6,388	6,006	6,687	8,125	9,422	10,532
Persnl, cultrl, and recreationl serv.	138	185	76	128	268	369
Government Services	952	1,043	1,203	1,377	1,418	1,509
Total	29,055	28,388	32,957	41,882	45,129	49,891

Source: Bank of Korea

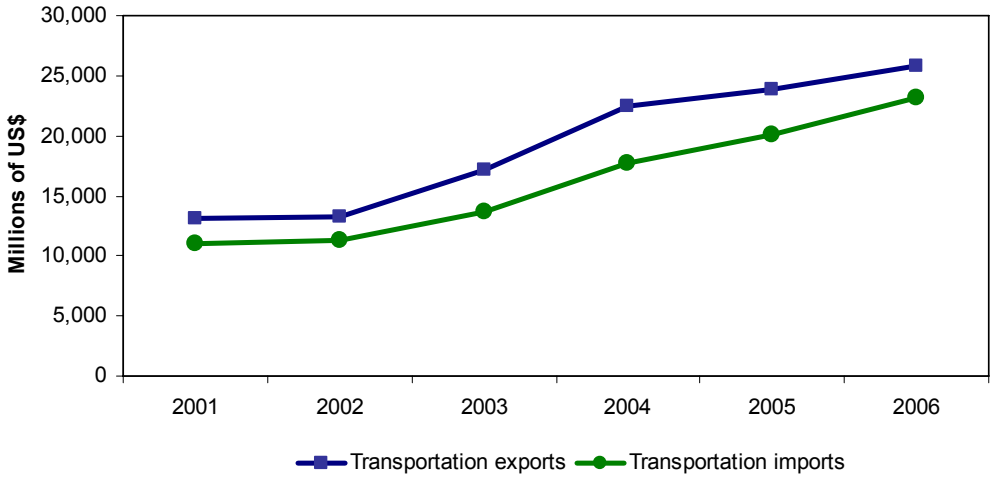
Table 4.16 Korea's Service Imports by Sectors (millions of US$)

Item	2001	2002	2003	2004	2005	2006
Transportation	11,043	11,301	13,613	17,655	20,144	23,133
Travel	7,617	10,465	10,103	12,350	15,406	18,851
Communications	742	685	693	636	773	1,012
Construction	15	24	14	4	6	3
Insurance	374	571	390	461	733	854
Financial services	83	70	101	127	235	547
Computer and information	104	124	134	157	183	598
Royalties and License	3,053	3,002	3,570	4,446	4,561	4,650
Other Business Services	9,237	9,607	11,049	13,163	15,538	17,705
Persnl, cultrl, and recreationl serv.	206	283	261	376	477	671
Government Services	454	454	453	554	733	828
Total	32,927	36,585	40,381	49,928	58,788	68,852

Source: Bank of Korea

In the transportation sector, both import and export has been increasing but export was always larger than import. In 2006, export reached US$ 25,807 millions and import reached US$ 23,133 millions.

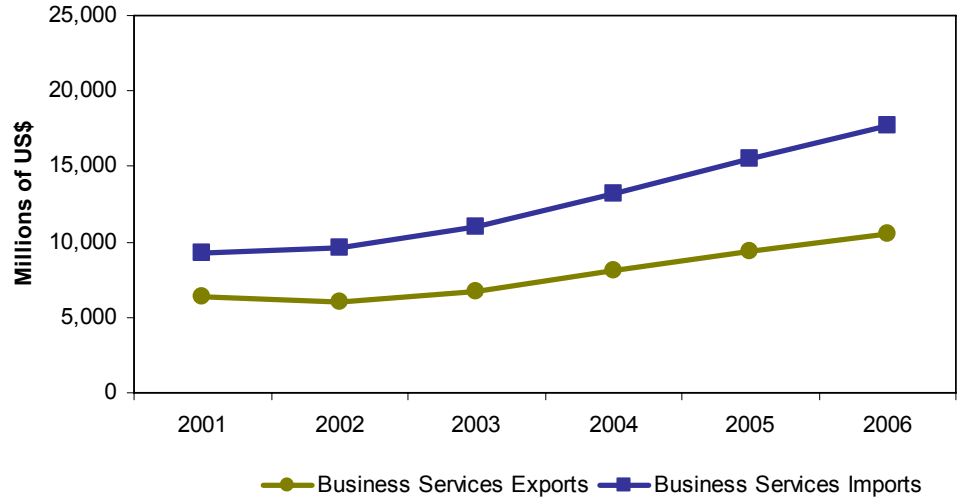
Chart 4.10 Korea's Service Trade in Transportation (millions of US$)



Source: Bank of Korea

In the business service sector, both import and export have been increasing. In this sector, Korea's imports exceeded exports. In 2006, import reached US$ 17,705 millions and export reached US$ 10,532 millions.

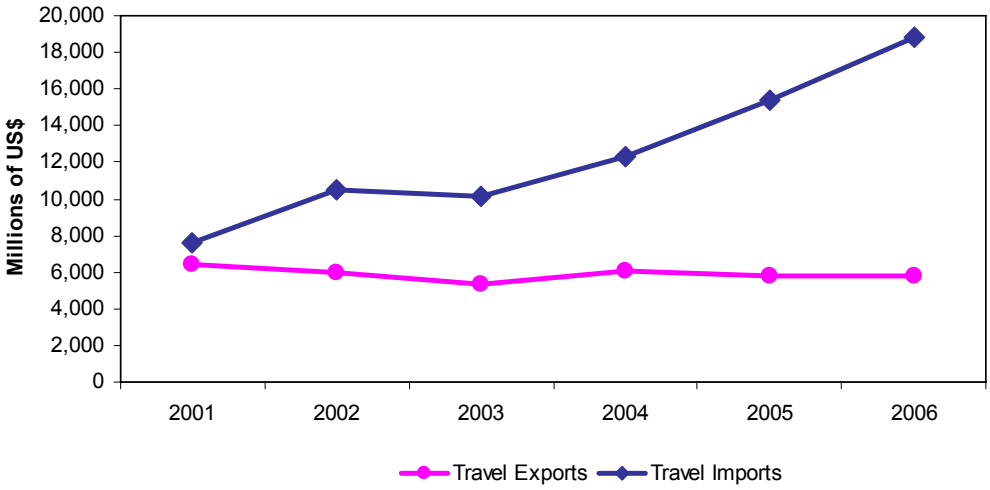
Chart 4.11 Korea's Service Trade in Business Sector (millions of US$)



Source: Bank of Korea

In the travel sector, import and export showed a different trend. Korea's import in travel has been increasing rapidly, especially since 2003, but export in travel has been stagnant. In 2006, import reached US$ 18,851 millions which were about 3 times the amount of export in the same year.

Chart 4.12 Korea's Service Trade in Travel (millions of US$)



Source: Bank of Korea

As the information of Korea's service trade with individual countries in Latin America, including Peru, is not available, the service trade with Latin America as an aggregate will be analyzed. Service trade between Korea and Latin America has witnessed a gradual increase in the past few years. Korea's exports to Latin America exceeded US$ 1 billion in 2004 and the imports from Latin America have also increased to US$ 842.1 millions.

Table 4.17 Korea's Service Trade with Latin America (millions of US$)

	2000	2001	2002	2003	2004	2005	2006
Exports	672.0	683.8	600.0	706.9	1,041.6	1,280.0	1,390.8
Imports	496.1	456.9	491.0	579.0	662.9	842.1	972.7

Source: Bank of Korea

Transportation is the sector which represents the biggest portion of Korea's service exports to Latin America. The share of travel in service exports fluctuated between 72% and 84% during 2000~2006. The second largest export item was business service, whose share fluctuated between 6.5% and 11.8%. Export incomes from royalties and license decreased in portion along the years up to 2003; though since then, they increased again slightly. With respect to the service imports, business service, travel, and transportation service constitute about 52.3%, 39.4%, 5.1% of total import in 2006, respectively.

Table 4.18 Korea's Service Exports to Latin America by Sectors (as % of total)

Item	2000	2001	2002	2003	2004	2005	2006
Transportation	77.6	82.3	80.2	80.4	73.5	72.4	83.5
Travel	9.7	4.0	6.2	3.1	2.2	2.6	3.3
Communication	0.7	0.5	0.6	0.7	0.3	0.2	0.2
Insurance	0.4	0.5	-0.1	0.0	0.1	0.2	0.4
Royalties	2.8	0.2	0.1	0.1	0.3	0.5	1.0
Business Service	7.7	10.7	11.8	7.6	7.1	6.5	6.5
Government Service	0.6	0.9	1.1	1.2	1.1	0.9	0.9
Others	0.5	0.8	0.3	6.9	15.4	16.7	4.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Korea

Table 4.19 Korea's Service Imports from Latin America by Sectors (as % of total)

Item	2000	2001	2002	2003	2004	2005	2006
Transportation	27.2	22.9	23.9	26.8	28.1	40.9	39.4
Travel	20.1	6.1	2.4	4.9	0.9	6.1	5.1
Communication	1.3	2.5	1.3	1.2	0.6	0.8	0.8
Insurance	2.1	5.9	8.8	4.5	1.0	1.9	0.1
Royalties	1.6	0.2	0.3	0.1	0.7	0.3	0.0
Business Service	43.7	59.6	60.4	60.0	66.3	47.8	52.3
Government Service	1.9	2.5	2.4	1.7	1.6	1.7	1.5
Others	2.1	0.3	0.5	0.8	0.7	0.5	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Korea

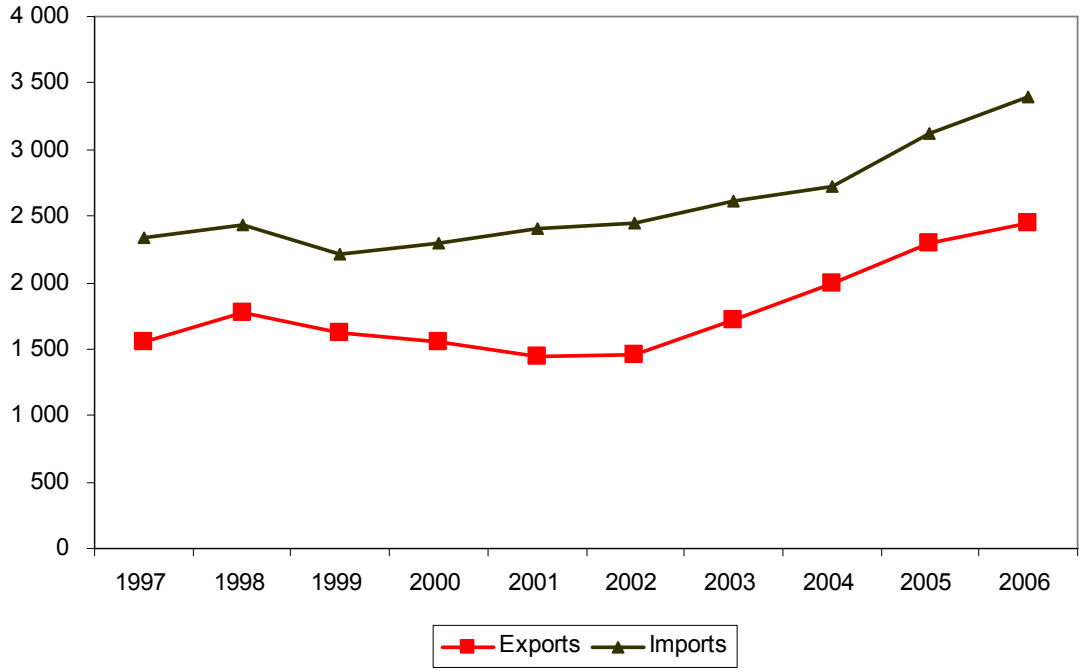
PERU

The participation of services[68] in Peru's GDP has kept relatively steady during the period between 2000 and 2006. During these years, services represented around 55% of the GDP[69]. In 2006, the main services activities, in terms of their contribution to the GDP, were retail trade; transports and communications; governmental services; and restaurants and hotels.

During the 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, resulting in 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 exports sides for the last 10 years. This growth is explained by market reforms and commercial openness that started in the early nineties.

Chart 4.13 Peru's Services Exports and Imports (1997-2006) (millions of US$)



Source: Central Bank of Peru
Prepared by ADEX

Regarding the exporting side, the travel sector was the largest and represented 56% in 2006. Transportation[70] and other services follow with shares of 21% and 15%,

[68] It is important to mention that there are exports of other services that have not been taken into account due to statistical problems and limitations.

[69] Source: National Institute of Statistics and Informatics, please visit http://www.inei.gob.pe/.

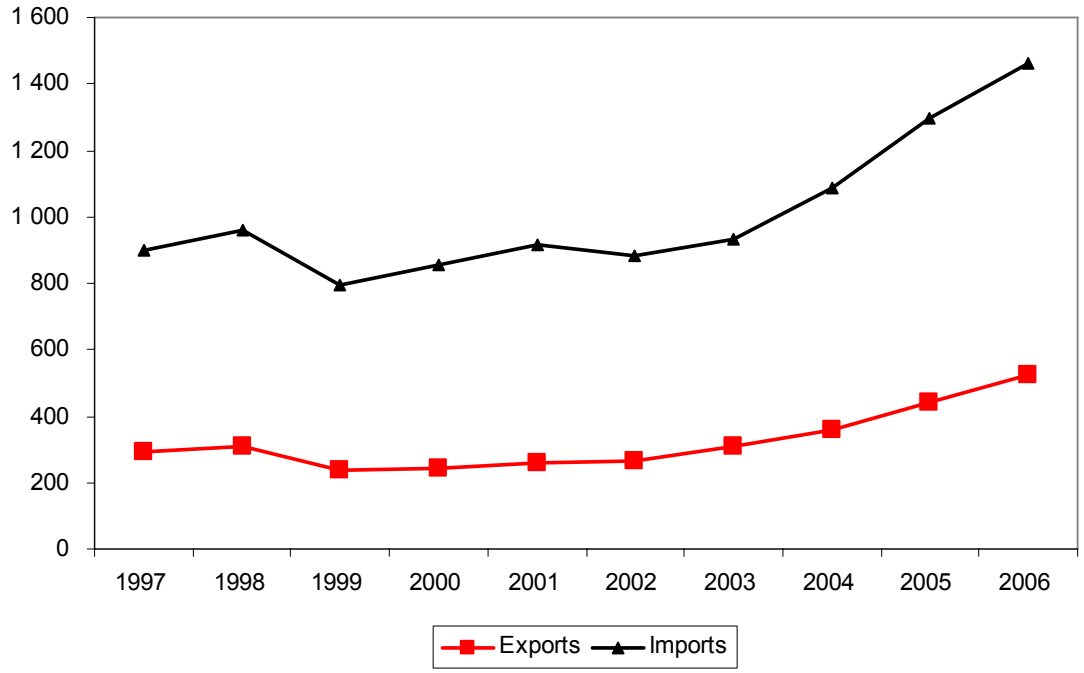
[70] Transportation is the process of carrying people and objects from one location to another as well as related supporting and auxiliary services. Passenger services cover the transport of people. It covers all services provided in the international transport of no residents by resident carrier (exports) and that of resident and non resident carrier (imports).

respectively. In the importing side, the transportation sector represented 43% followed by other services (24%) and travel (22%).

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

Specifically, the Freight Transportation sub sector, which registered an increase of 168% between 1997 and 2006, accounts for almost 70% of imports reaching US$ 1,077 millions in 2006. The passenger transport and other sub sectors registered increases over 40% and 55% in their imports for the period of analysis and accounted for US$ 245 millions and US$ 137 millions in 2006, respectively.

Chart 4.14 Trade in Transportation Services (1997-2006) (millions of US$)

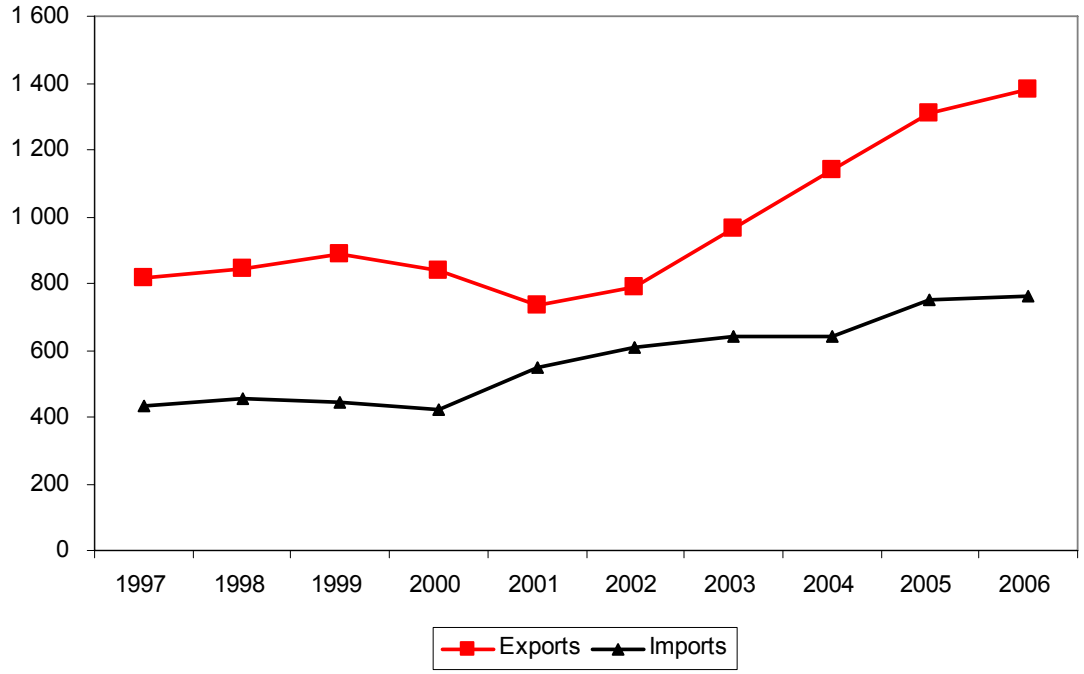


Source: Central Bank of Peru
Prepared by ADEX

Travel Services is the only sector that registered a commercial surplus mostly explained by the strong growth of exports. These flows has shown an annual growth rate of 13% since 2001, and reached a value of US$ 1,381 millions 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 millions in 2006.

Chart 4.15 Trade in Travel Services (1997-2006) (millions of US$)

Also included are passenger services carried out within an economy by non resident carriers. Freight services include the loading on board or the unloading of goods in carriers if contracts between owners of goods and carriers require that the latter provide that service. The sub sector Others mainly includes port expenses of ships and airships, and commission of transports.

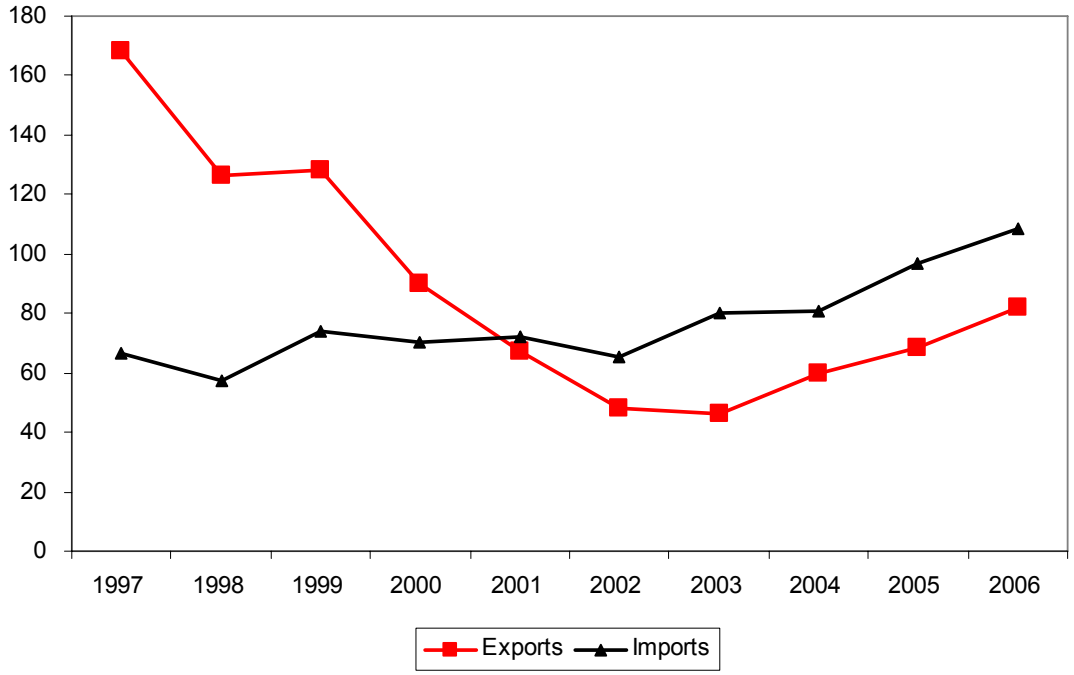


Source: Central Bank of Peru
Prepared by ADEX

The evolution of the arrival of Korean residents to Peru is a good proxy on the increased importance of the Peruvian exports of travel services to Korea. According to the General Directorate of Immigration and Naturalization (DIGEMIN), from 2001 to 2006, the number of residents in Korea coming to Peru rose from 3,298 to 7,422 persons which represent a growth rate of 125.0%, higher than the growth rate of people coming to Peru (56.5%).

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

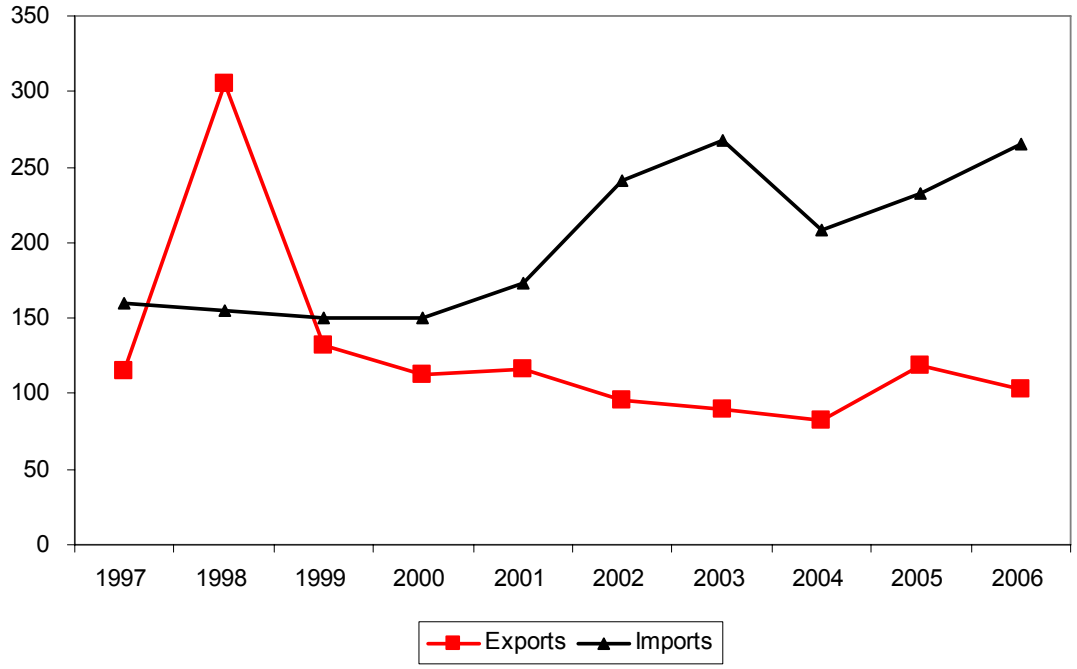
Chart 4.16 Trade in Communication Services (1997-2006) (millions of US$)



Source: Central Bank of Peru
Prepared by ADEX

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

Chart 4.17 Trade in Insurance and Reinsurance Services (1997-2006) (millions of US$)



Source: Central Bank of Peru
Prepared by ADEX

Finally, the sector Other[71] has shown a large but vaguely decreasing deficit during the period of analysis. Exports registered a total of US$ 160 millions and US$ 361 millions for years 1997 and 2006, respectively; and an annual rate of 0.4%. Imports in this sector totaled US$ 777 millions and US$ 806 millions for the same years, respectively.

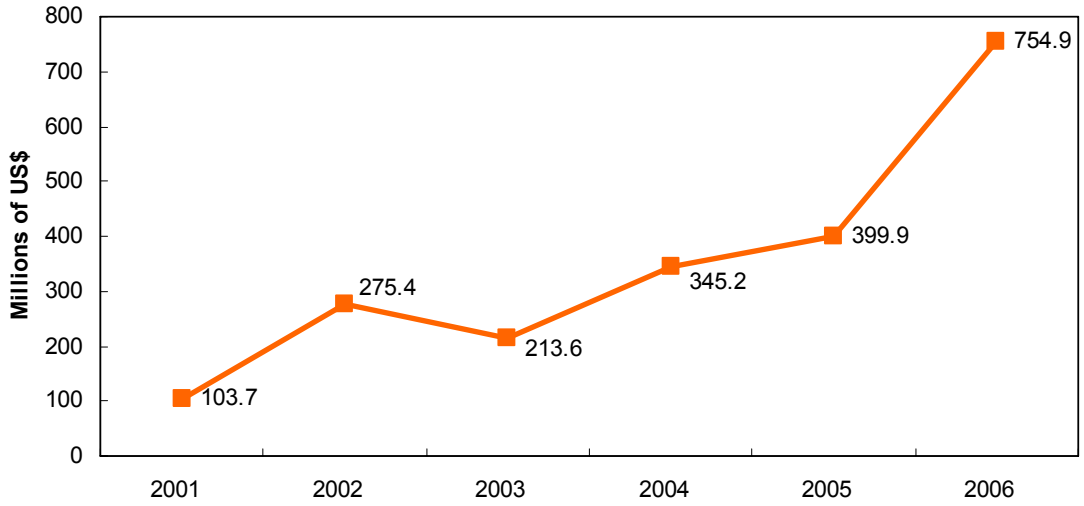
4.3 Bilateral Investment

KOREA

Along with the general rise of FDI outflow of Korea to the world as a whole, Korea's investment in the Latin American region has maintained a continuous increase. Korea's FDI in Latin America increased from US$ 103.7 million in 2001 to US$ 754.9 million in 2006.

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

Chart 4.18 Korea's Outward FDI to Latin America (millions of US$)

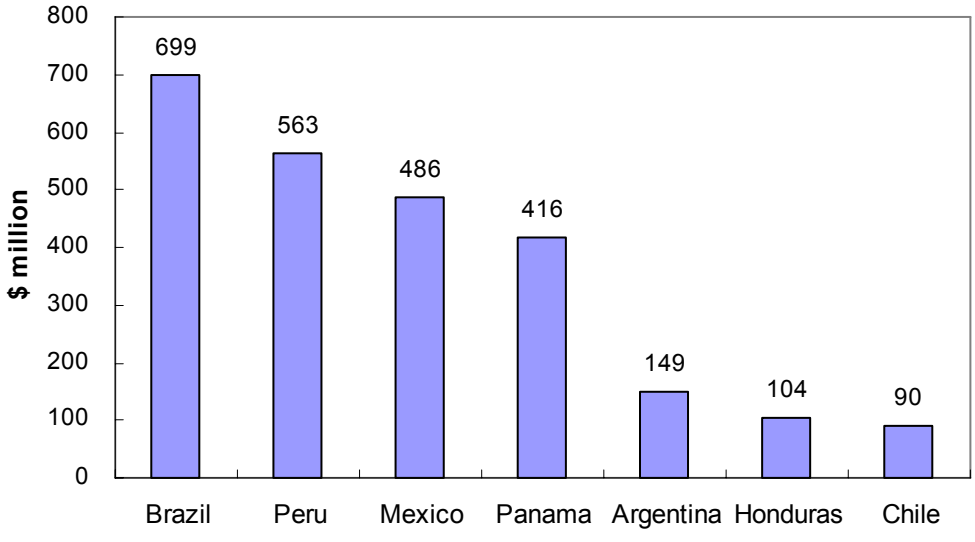


Source: Export-Import Bank of Korea

Some notable characteristics of FDI outflow from Korea to Latin America are that large scale investments have been increasing. These investments are not confined to traditional labor-intensive manufacturing sectors, but involve more technology-intensive and natural resource-oriented industries. The economic impact derived from such trend will not be negligible to the domestic economies in Latin America in terms of employment, enhancing industrial structure, and technology transfer. Korea's investments to Latin America are expected to play a more important role.

Among Latin American countries, Brazil was the largest recipient of Korea's FDI, receiving US$ 699 million up to 2006. Peru received US$ 563 million of Korea's FDI and Mexico US$ 486 million.

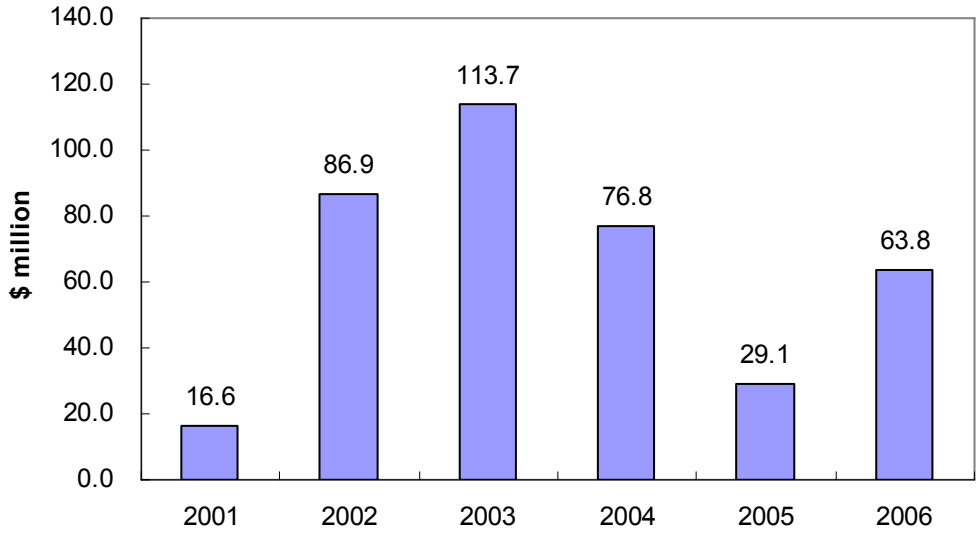
Chart 4.19 Korea's Outward FDI to Latin American Countries, 1980~2006 (millions of US$)



Source: Export-Import Bank of Korea

Korea's investment in Peru reached a peak in 2003 with US$ 113.7 million and then decreased to US$ 29.1 million in 2005. In 2006, it increased once more and reached US$ 63.8 million.

Chart 4.20 Korea's Outward FDI Korea to Peru (millions of US$)



Source: Export-Import Bank of Korea

Table 4.20 Korea's Outward FDI to Peru by sector, 1980-2006 (thousands of US$)

Total	563,037
Manufacturing	6,590
Retail and whole sale	21,925
Minery	478,956
Construction	235
Transportation	566
Agriculture and Fishery	128

Source: Export-Import Bank of Korea

Korea's major investment sectors in Peru can be categorized into 3 sectors: mining, retail and whole sale, and manufacturing. As mentioned previously, Korea's relative scarcity of resources gives it great incentive to resort to countries with resource abundance and Peru is no exception. Enterprises such as SK, Daewoo International, and Korea National Oil Corporation have been eager to invest in the Peruvian mining sector with companies such as Pluspetrol Norte S.A. and Camisea. In the case of Pluspetrol Norte S.A., the investment amount registered in the Export-Import Bank of Korea was US$ 286 million. The amount invested in Camisea and Transportadora de Gas del Peru S.A. was US$ 168 million and US$ 80 million, respectively[72]. For retail and whole sales, Daewoo, with its fine quality of automobile technology, has been providing accessories and final products to Peru.

[72] The registered amount may be underestimated as it only includes the amount remitted from Korea.

The intrinsic needs of the Korean firms originated from the cost and market factors, and at the same time the overall improvement of the Latin American economy coming from the growing domestic market potential due to the increase in middle-income class, are important elements that give more incentive for Korean firms to invest in Latin America.

PERU

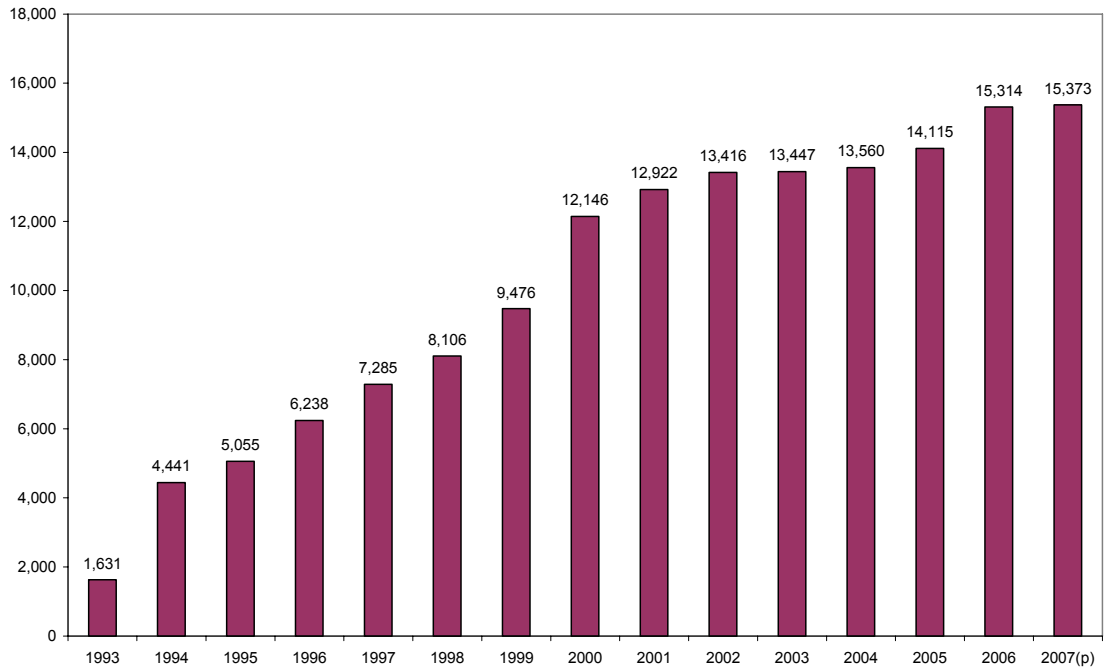
Numerous international groups from all regions of the world maintain a presence in Peru. Such foreign direct investment (FDI) comes mainly from both European and North American countries. In addition, in recent years, South American countries have registered increasing investment inward flows to Peru. As of June 30th, 2007, Spain and the USA are the main sources of investment for Peru[73] making up 47.5% of investment stock, while the first 10 countries originate 87.6% of accrued investment.

As to the sectors receiving FDI, 31.6% of investments were destined to the communications sector, mainly made in landline telephony in the past decade. The mining sector accumulates 18.8%, and industry and finance sectors reach 15.0% and 12.5% 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' internalization strategies in the case of investment originating from Asia, Africa and Oceania, the most important are related to mining, hydrocarbons and also large corporations providing machinery and electrical goods.

As it was mentioned in chapter 1, 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 has done so before, taking the lead in upgrading Peru's credit risk. Furthermore, Peruvian's responsibility in handling macroeconomics indicators makes this country pass with no suffering the actual financial crisis in world capital markets.

[73] It is important to mention that Peruvian figures for FDI could be sub valued because the registration of FDI in Peru is voluntary.

Chart 4.21 Stock of Foreign Direct Investment (millions of US$)



(p) June 2007
Source: PROINVERSION
Prepared by ADEX

According to official statistics from the Peruvian Private Investment Promotion Agency (PROINVERSION), the stock of FDI in Peru totaled US$ 15.4 billions at the end of June 2007, while Korean FDI stocks in Peru accounted for US$ 48.2 millions, mostly focused in transportation (41.3%).

Table 4.21 FDI Stock by Main Countries (June 2007)[74]

Country	millions of US$	%
Spain	4,622.26	30.07%
United States	2,676.64	17.41%
United Kingdom	2,552.89	16.61%
Panama	870.4	5.66%
Netherlands	821.24	5.34%
Chile	520.81	3.39%
Mexico	437.16	2.84%
Colombia	351.25	2.28%
Brazil	335.97	2.19%
Switzerland	272.22	1.77%
Japan	242.79	1.58%
Canada	241.22	1.57%
Uruguay	175.35	1.14%
Australia	155.79	1.01%
Italy	144.62	0.94%
Singapore	123.5	0.80%
China	122.16	0.79%
Bahamas	108.52	0.71%
Germany	104.51	0.68%
Belgium	79.28	0.52%
Sweden	53.98	0.35%
Ecuador	53.57	0.35%
Korea	48.25	0.31%
Luxemburg	39.15	0.25%
Portugal	37.29	0.24%
Argentina	35.31	0.23%
France	27.98	0.18%
Total	15,372.64	100.00%

Source: PROINVERSION
Prepared by ADEX

Some Korean firms with offices in Peru are LG Electronics, Daewoo International Corporation, Daewoo Electronics, Samsung Electronics, SK Energy and Freeko, among others. Only Freeko is located out of Lima, in Piura.

LG Electronics, founded in October 1958, is a major competitor in the market for consumer electronics and telecommunications, operating 72 subsidiaries around the world with over 55,000 employees worldwide. LG Electronics is focused on the development of Digital TV devices, CD-RW, DVD, CD-ROM and DVD-ROM drives, monitors, cell phones, plasma screens and conventional. LG Electronics is reinforcing its strengths base further to support its reputation as the "Digital Leader" in electronic products and equipment in the digital era. In Peru, LG began operations since 01 September 1997, with a presence in the areas of Electronics (Audio Visual), Home

[74] Peruvian figures for FDI could be sub valued because the registration of FDI in Peru is voluntary.

Appliances (Washing, Refrigerators, Microwave, vacuum cleaners and air conditioning), and Computer Products (Monitors , optical devices and Storage Media).

Daewoo International Corporation consists of 106 Global Business Networks located throughout the World, emerged as a company dedicated to international trading and investments when the international trading and construction sector of Daewoo Corporation was spun off into three (3) companies: Daewoo International Corporation, Daewoo Engineering & Construction Company Limited and Daewoo Corporation. Since the completion of workout on Dec. 27, 2003, Daewoo International Corporation has been growing again to fulfill the vision of becoming a “World Best Global Trading & Investment Company".

Daewoo Electronics was founded on September 1971 its main fields are electronics, home appliances and digital technology.

Samsung Electronics Co. Ltd. is the global leader in semiconductors, telecommunications, electronic communication, digital environments and digital convergence technologies. Consists of five business units: Digital Devices, Digital Media, Liquid Crystal Displays, Semiconductor Business and Telecommunication Network. Recognized as one of the rapidly growing global brands, Samsung Electronics is a leading producer of digital televisions, memory chips, mobile phones and TFT - LCD's. In 1996 Samsung Electronics Branch Peru began operations locally with the aim to consolidate and increase brand presence in the Peruvian market.

SK Energy has enhanced its global competitiveness in the energy and chemical sectors –its core business area– while focusing its resources on building a foundation for future growth. As a result, it has successfully become Korea’s first refinery company. In July 2007 a holding company structure was adopted in order to ensure transparency in corporate governance and to raise shareholder value. SK Energy, the operating company of the new structure, plans to lead the global market by complete its globalization program with a special focus on China. The South American branch is located in Lima, Peru.

Freeko Peru S.A. started commercial operations in 1997, is the unique company in processing hydro biological products with presentations pre-cooked, breaded, and ultra frozen based on surimi for European, Asian, South and North American markets. Its matrix firm is Santa Freeko. Co. Ltd.. Freeko Peru is located in the Centre for Export Processing Industry, Marketing and Services (CETICOS) in Paita (northern region of Peru) a zone of special treatment applying customs tax exemptions and benefits to encourage national and foreign investment, promote exports of value-added products and generate sustainable development areas improving live standards of people.

4.3.1. Investment Environment

PERU

a. Mining

Guarantees on Foreign Investment

Foreign investors, and the companies in which they participate, have the same rights and obligations as local investors and companies. The national legal system makes no distinction between local or foreign investors or companies.

Local and foreign investors enjoy the same rights with respect to the properties that they acquire within the national territory; however the Political Constitution of Peru[75] stipulates that foreign investors may not, under any title, directly or indirectly acquire or hold mines, terrain, forests, waters, fuel or power plants within 50 km. of the borders, excluding those particular cases specifically authorized by means of a Supreme Decree[76] approved by the Cabinet.

In the case of foreign investments, the national legal framework provides that they are automatically authorized and, once they are made, must be registered with PROINVERSION (basically for statistical purposes),

In addition, foreign investors are guaranteed the right to makes transfers abroad (after paying the taxes) in freely convertible currencies, using the exchange rate most favorable at the time of carrying out the exchange operation, and without any prior authorization from any public authority or agency, of the following: (i) the whole of any capital originating from the investments made; and, (ii) the whole of the dividends or earnings originating from their investments.

Legal and Tax Stability of Investment

In Peru there are two kinds of contracts that can be subscribed by mining investors in order to obtain a regime of legal stability for their investments. The first are Legal Stability Agreements (broadly applicable to all private investors, including those investing in mining activities); the other we will refer to as Stability Contracts under the protection of the General Mining Law (applicable exclusively to those investing in mining activities). The Law allows the parallel subscription of both types of contracts and enjoyment of the combined benefits granted by both, as long as the requirements established for their application are met.

Legal Stability Agreements grant certain guarantees in order to provide a stable regime to those local and foreign investors that seek to pursue economic activities in any sector. This type of agreement is arranged with PROINVERSION, which also subscribes them in representation of the Peruvian State, as a step prior to execution of

[75] Art. 71 of the Political Constitution of Peru

[76] Arts. 2 to 5 and 7 of Legislative Decree No. 662

the respective investment. The signing of a Legal Stability Agreement grants its holder a guarantee on the invariability of the laws (that are detailed below) for a term of ten years counted starting from its subscription.
As regards mining matters, foreign investors or the Peruvian companies receiving this foreign investment may seek the protection of the legal stability regime, provided that they commit to make, at a minimum and within a term no greater than two years counted starting from the date of the Agreement's execution: (i) cash contributions channeled through the local financial system to the capital of an established company or one to be established or, (ii) to make risk investments formalized with third parties; for an amount that is not less than US$10 million.

The Article 72 of the TUO of the General Mining Law provides promotion measures applicable to those persons that undertake mining activity, including tax, exchange and administrative stability. In order for investors to exercise this benefit, they must execute a Stability Contract to be arranged and subscribed with the Ministry of Energy and Mines (MINEM), which signs it in representation of the State and is obliged to maintain the Contracts executed effective, not being able to modify them unilaterally.

There are different tax and administrative stability guarantees according to the length of the contracts. But both contracts give these same guarantees: tax stability, free disposition of currency generated by their exports; non-discrimination with regard to the exchange rate; free commercialization of mineral products.

4.4 Tariff Level Comparison Between Korea and Peru

KOREA

The types of tariffs applied by Korea include the Most Favored Nation Tariff Rate and the Preferential Tariff Rate. The M.F.N Tariff Rate is the lowest tariff rate among the General Tariff Rate, Provisional Tariff Rate, WTO Concessionary Tariff Rate and Concessionary Tariff Rate under bilateral tariff negotiation. The Preferential Tariff Rate, which is applied only to contracting parties, is one of the International Cooperation Tariffs that reflects the results of negotiations with international organizations such as UNCTAD, ESCAP and GATT. Currently Korea applies two different Preferential Tariff Rates to Peru for certain products; The Concessionary Tariff Rate under the Protocol relating to the Trade Negotiations among Developing Countries (TNDC) by WTO and The Concessionary Tariff Rate under the Agreement on the Global System of Trade Preferences (GSTP) by UNCTAD.

In 2007, the average applied tariff rate of Korea[77] was about 7.75% in the case of simple average, and 3.61% when weighted by average imports for the 2002-2006 period. In terms of tariff distribution, zero-tariff products of Korea account for 26.6% of the total imported products of 10-digit tariff headings. The most frequently applied tariff rate is 8% among Korean imports and it composes 35.5% of the total imports. Korea's tariff tends to be higher on agricultural and fishing products.

[77] 1. When different tariff rates are applied for the excess of specified quantity, the tariff within the quantity is used.
2. For the selective duty, the greater one between the ad-valorem duty and specific duty, ad-valorem is used
3. The specific duty is not considered.
4. The tariff data is based on HS 6 digit headings and each tariff of 6digit heading is simple average of tariff rates of 10 digit headings.

Table 4.22 Korea's Tariff Lines classified by industry (September 2007)

Industry	Average Tariff	Number of Tariff Lines
Agriculture	16.4	1434
Chemical & photographic supplies	4.7	4374
Electronical machinary	4.6	905
Fish and fishing products	17.3	401
Forest Products	4.0	459
Machinery and mechanical appliances; parts thereof	5.4	1348
Metal-mechanical	4.3	1005
Mineral products	3.7	483
Others	5.5	1280
Textile and clothing	8.9	1383
Vehicles other than railway or tramway rolling stock	4.3	363

Source: Calculated based on the information from Korea's Ministry of Finance and Economy

Table 4.23 Korea's Tariff Lines by HS Sections (September 2007)

HS Section	Description	average tariff (%)	number of tariff lines	share in tariff lines (%)
Section I	Live Animals, Animal Products	15.1	604	4.5
Section II	Vegetable Products	17.9	610	4.5
Section III	Animal / Vegetable Fats, Oils, Waxes	9.8	98	0.7
Section IV	Prepared Foodstuffs; Beverages, Spirits, Tobacco	18.0	523	3.9
Section IX	Mineral Products	4.0	459	3.4
Section V	Chemicals & Allied Industries	3.2	365	2.7
Section VI	Plastics, Rubbers	4.3	3172	23.6
Section VII	Raw Hides, Skins, Leather, Furs	6.9	379	2.8
Section VIII	Wood & Wood Charcoal, Cork, Straw, Plaiting Materials	7.5	262	2.0
Section X	Wood Pulp, Paper, Paperboard, Scrap/Waste Paper	0.1	280	2.1
Section XI	Textiles & Textile Articles	8.9	1383	10.3
Section XII	Footwear, Headgear, Umbrellas, Walking Sticks, Riding Crops	7.0	144	1.1
Section XIII	Stone, Plaster, Cement, Asbestos, Mica, Ceramic, Glass & Glassware	7.6	316	2.4
Section XIV	Pearls, Precious Stones / Metals ; Imitation Jewelry; Coins	5.2	118	0.9
Section XIX	Base Metals	3.7	87	0.6
Section XV	Machinery & Mechanical Appliances; Electrical Equipment / Appliances	4.3	1005	7.5
Section XVI	Vehicles, Aircraft, Vessels, Transportation Equipment	5.1	2253	16.8
Section XVII	Optical / Photographic / Measuring / Checking / Precision Instruments	3.8	504	3.8
Section XVIII	Arms & Ammunition	6.6	588	4.4
Section XX	Miscellaneous Manufactured Articles	5.4	270	2.0
Section XXI	Works Of Art, Collectors' Pieces, Antiques	0.0	15	0.1

Source: Calculated based on the information from Korea's Ministry of Finance and Economy

Table 4.24 Korea's Tariff Lines (September 2007)

Section of Harmonized Tariff Schedule	0	0.5-2.7	3	3.3-4.7	5-5.5	6.5	7-7.5	8	8.1-9.9	10	11-20	21-30	32.8-40	45-57	Total
Section I Live Animals, Animal Products	67	0	14	7	5	0	0	72	7	107	229	64	30	2	604
Section II Vegetable Products	45	16	50	2	33	0	1	150	2	8	72	158	6	67	610
Section III Animal / Vegetable Fats, Oils, Waxes	0	6	18	0	6	0	1	48	0	7	0	5	7	0	98
Section IV Prepared Foodstuffs; Beverages, Spirits, Tobacco	22	11	6	5	50	0	0	142	0	2	151	60	25	49	523
Section V Mineral Products	183	8	30	0	78	0	0	139	0	0	21	0	0	0	459
Section VI Chemicals & Allied Industries	69	52	135	1	52	0	25	26	5	0	0	0	0	0	365
Section VII Plastics, Rubbers	1,041	67	26	7	656	990	8	351	10	1	8	4	2	1	3,172
Section VIII Raw Hides, Skins, Leather, Furs	9	2	1	7	15	180	4	160	0	1	0	0	0	0	379
Section IX Wood & Wood Charcoal, Cork, Straw, Plaiting Materials	15	28	17	0	54	0	0	78	0	0	70	0	0	0	262
Section X Wood Pulp, Paper, Paperboard, Scrap/Waste Paper	274	0	0	6	0	0	0	0	0	0	0	0	0	0	280
Section XI Textiles & Textile Articles	127	59	0	3	0	0	4	492	0	301	397	0	0	0	1,383
Section XII Footwear, Headgear, Umbrellas, Walking Sticks, Riding Crops	44	0	0	0	0	0	0	58	0	0	42	0	0	0	144
Section XIII Stone, Plaster, Cement, Asbestos, Mica, Ceramic, Glass & Glassware	5	0	9	6	1	0	0	295	0	0	0	0	0	0	316

Section XIV Pearls, Precious Stones / Metals ; Imitation Jewelry; Coins	5	8	33	0	24	1	0	47	0	0	0	0	0	0	118
Section XV Base Metals	47	0	0	0	0	0	0	40	0	0	0	0	0	0	87
Section XVI Machinery & Mechanical Appliances; Electrical Equipment / Appliances	393	13	75	7	39	0	0	478	0	0	0	0	0	0	1,005
Section XVII Vehicles, Aircraft, Vessels, Transportation Equipment	781	2	30	1	43	1	2	1,389	0	0	4	0	0	0	2,253
Section XVIII Optical / Photographic / Measuring / Checking / Precision Instruments	251	0	0	0	62	0	0	147	0	44	0	0	0	0	504
Section XIX Arms & Ammunition	98	0	2	0	14	0	0	474	0	0	0	0	0	0	588
Section XX Miscellaneous Manufactured Articles	87	0	0	0	0	0	0	181	2	0	0	0	0	0	270
Section XXI Works Of Art, Collectors' Pieces,	15	0	0	0	0	0	0	0	0	0	0	0	0	0	15
Total	3,578	272	446	52	1,132	1,172	45	4,767	26	471	994	291	70	119	13,435

Source: Calculated based on the information from Korea's Ministry of Finance and Economy

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 5.03% (or 2.46% if weighted by average imports of 2007) at December 2007, with over 75.26% of Peruvian imports entering at a 0% tariff rate. Peru has been gradually lowering its tariff since the early nineties, and has done three recent significant reductions: one in July 2007, when tariffs were reduced to only five levels: 0%, 12%, 17%, 20% and 25%. Tariffs of 20% and 25% only apply to agricultural and textile goods. Another tariff reduction took place in October 2007, when tariffs were reduced to only four duty rates: 0%, 9%, 17% and 20%. The last tariff reduction took place last March 2008, when tariff were reduced to only three levels: 0%, 9%, and 17%. The commonest rate is 0%, which is applied to 53.6% of tariff lines, followed by 9% (35.6% of tariff lines) and 17% (10.8% of tariff lines).

Table 4.25 Peru's Tariff Lines (March 2008)
Number of tariff lines

Section of th Harmonized Tariff Schedule	0	9	17	Total # tariff lines
I, Live animals, animals products	192	100	13	305
II, Vegetable products	121	235	28	384
III, Animal or vegetable fats and oils and their cleavage products, prepared edible fats, animal or vegetable waxes	36	28		64
IV, Prepared foodstuffs, beverages, spirits, and vinegar, tobacco and manufactured tobacco substitutes	109	181	7	297
IX, Wood and articles of wood, wood charcoal, cork and articles of cork, manufacturers of straw, of esparto or of other plaiting materials, basket ware and wickerwork	28	79		107
V, Mineral products	138	64		202
VI, Products of the chemical or allied industries	969	495		1464
VII, Plastic and articles thereof, rubber and articles thereof	193	121		314
VIII, Raw hides and skins, leather, furskins, and articles thereof, saddlery and harness, travel goods, handbags and similar containers, articles of animal gut (other than silkworm gut)	9	70		79
X, Pulp of wood or of other fibrous cellulosic material, waste and scrap of paper or paperboard, paper and paperboard and articles thereof	91	155		246
XI, Textile and textile articles	63	217	686	966
XII, Footwear, headgear, umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding-crops and parts thereof, prepared feathers and articles made therewith, artificial flowers, articles of human hair		25	31	56
XIII, Articles of stone, plaster, cement, asbestos, mica or similar materials, ceramic products, glass and glassware	106	68		174
XIV, Natural or cultured pearls, precious or semiprecious stones, precious metals, metals clad with precious metal and, articles thereof, imitation jewelry, coin	14	43		57
XIX, Arms and ammunition, parts and accessories thereof		69		69
XV, Base metals and articles of base metals	498	202		700
XVI, Machinery and mechanical appliances, electrical equipment, parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	989	178	27	1194
XVII, Vehicles, aircraft, vessels and associated transport equipment	181	45		226
XVIII, Optical photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, clocks and watches, musical instruments, parts and accessories thereof	175	115		290
XX, Miscellaneous manufactured articles	31	119		150
XXI, Works of art, collectors' pieces and antiques		7		7
Total	3943	2616	792	7351

Table 4.26 Peru's Tariff Lines (March 2008)
Number of tariff lines

Sector	0%	9%	17%	Total Nº of tariff lines	Weighted average
Agriculture	315	555	51	921	6.4%
Fish and fishing products	148	12	0	160	0.7%
petroleum oils	21	2		23	0.8%
Wood, Pulp, Paper and Furniture	26	70		96	6.6%
Textile and Clothing	58	198	683	939	14.3%
Metal-mechanical	1335	360	27	1722	2.1%
Metals	11	40		51	7.1%
Chemical & Photographic Supplies	1202	633		1835	3.1%
Siderurgy and metalurgy	384	104		488	1.9%
Mineral products, Precious Stones & Metals	170	96		266	3.2%
Manufactured Goods n.e.s.	273	546	31	850	6.4%
Total	3943	2616	792	7351	5.0%

4.5 Analysis of Potential Products to be introduced in Korean - Peruvian Market (Model Calculation)

4.5.1 Methodology

In this section the methodology used by ITC[78] and FAO and ECLAC (1996)[79] in their studies about specialization profile and competitiveness of exports was adopted with some adjustments. These studies match the average annual growth of commerce of selected products of a country and the annual average of the participation of these products in total commerce.

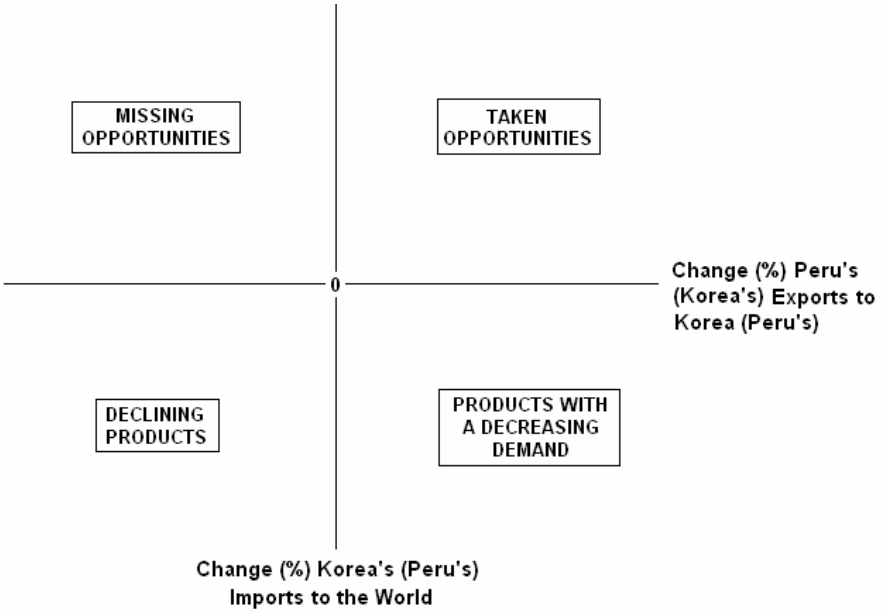
In this analysis, the average annual growth rate of each product imported by Peru (Korea) from the world and the average annual growth rate of each product exported by Korea (Peru) to Peruvian (Korean) market are compared. The analysis can assess whether Korean (Peruvian) export will respond in a positive way to the growth potential of the Peruvian (Korean) market.

The results are shown in the Potentialities Matrix, where four categories are identified for products:

a) *Taken opportunities*, these products show rising imports from the world by Peru (Korea) and rising exports to Peru (Korea) by Korea (Peru)
b) *Missed opportunities*, these products show rising imports from the world by Peru (Korea) and declining or stagnant exports to Peru (Korea) by Korea(Peru).
c) *Declining products*, these products show declining or stagnant imports from the world by Peru (Korea) and declining or stagnant exports to Peru (Korea) by Korea (Peru).
d) *Products with a decreasing demand*, these products show declining or stagnant imports from the world by Peru (Korea) and rising exports to Peru (Korea) by Korea (Peru).

[78] http:/intraten.org/menus/countries.htm
[79] GUTMAN, Graciela E.; MIOTTI, Luis E. "Exportaciones agroindustriales de América Latina y el Caribe. Especialización, competitividad y oportunidades comerciales en los mercados de la OCDE". CEPAL – FAO 1996.

Chart 4.22 Potentiality Matrix



The analysis identifies products with a positive growth rate of Korean (Peruvian) exports to Peru (Korea) and those with a suspended demand in that market (Products with a Decreasing Demand). In addition, it is possible to identify which of Korea (Peruvian) products with a decreasing growth rate to Peru (Korea) have limited growth potential due to the lower demand of Korea (Declining Products).

It is also possible to identify Korean (Peruvian) export products that responds in a positive way to Peru's (Korea's) demand (Taken Opportunities) and those products that register a lower amount of exports or that are not being exported to that market although Peru (Korea) is demanding them more everyday (Missing Opportunities).

4.5.2 Results and Analysis

KOREA

The analysis was based on 5,168 items which were exported by Korea to the world and between 2002 and 2006. The products were classified by 6 digits level of the Harmonized tariff system.

The analysis identifies the Peruvian market condition with the response of Korean exports. Korea's exports to world are composed of a variety of 5,168 products. Among them, currently 4,942 products are actually being exported. There are certain products where the increase of Peru's demand can be seen. Korea takes advantage of such demand by increasing its export to Peru (Taken Opportunities) or loses the opportunity by decreasing the export (Missed Opportunities). There are other products, where Peru shows less demand. Korea decreases its export (Declining Products) or increases its export (Products with Decreasing Demand). The following Chart shows these four cases in different quadrants.

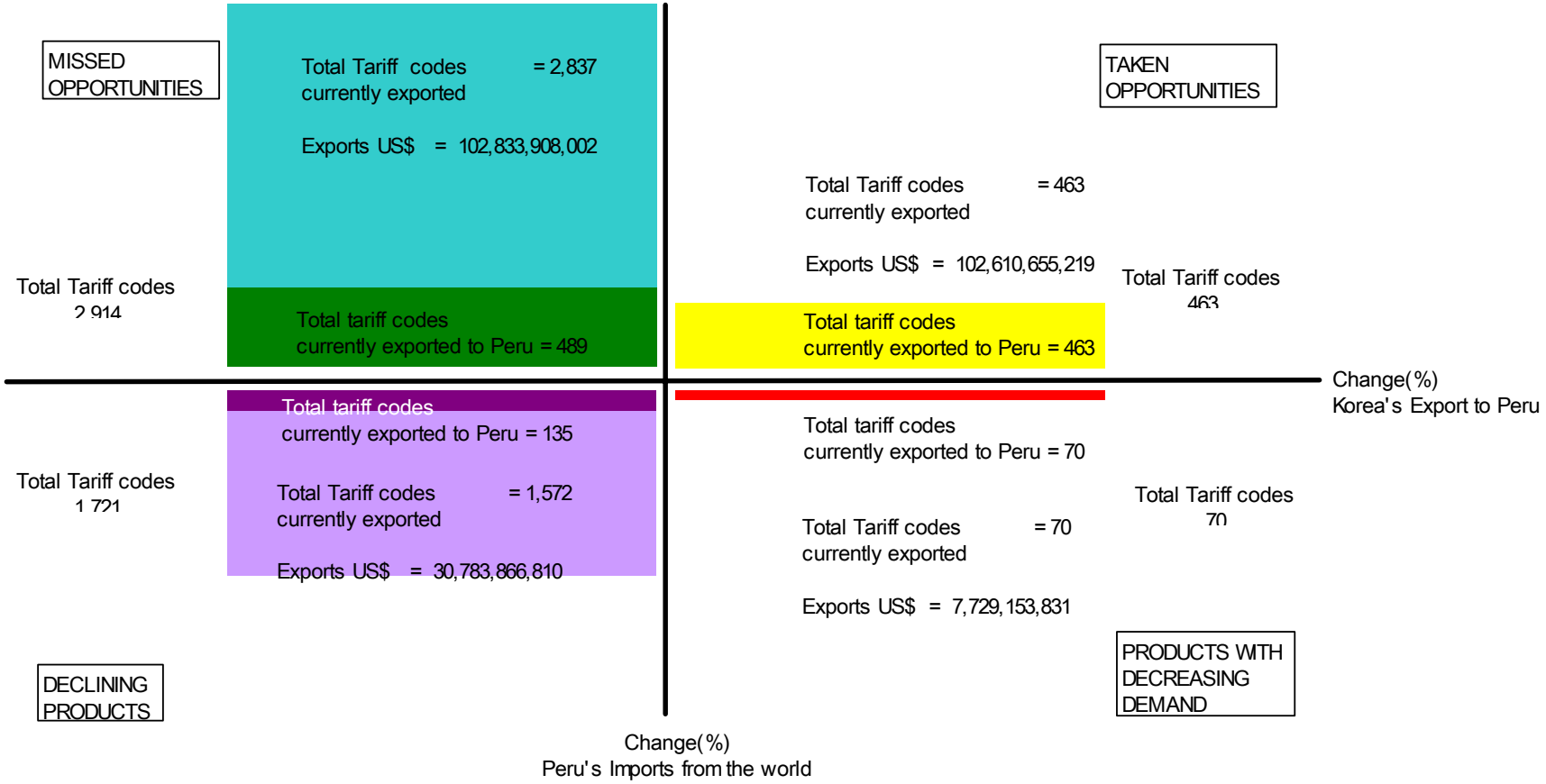
As shown in Quadrant 1 (Taken Opportunities), the Peruvian demand for 463 products is increasing. And all of them are already exported by Korea. Thus, Korea is taking such demand as an opportunity in the Peruvian market.

Quadrant 2 (Missed Opportunities) indicates 2,914 of exported products. Among them, 2,837 products are currently exported to the world market by Korea and Peruvian demand for these products is increasing. But Korea only exports 489 products to Peru out of 2,837, which means Korea is missing the opportunities in the market. Export to the world by Korea for 2,837 products amounts to US$ 102,833,908,002, which is the average export value between 2002 and 2006. If Korea takes the opportunity and increases its export to Peru, the export value will be well over the current one.

Quadrant 3 (Declining Opportunities) shows 1,721 of Korea's exported products. Among them, 1,572 products are currently exported to the world. Peruvian demand for these products are declining. At the same time, Korean export is also decreasing. Among 1,572 products, only 135 products are exported to Peru.

Quadrant 4 (Products with Decreasing Demand) shows 70 products. All of them are currently exported both to the world and Peru. The Peruvian demand for these products is decreasing while Korean export to Peru is increasing.

Chart 4.23 Korea's Potentialities Matrix for the Peruvian market
(Number of tariff lines/codes)



Source : Korea's Ministry of Finance and Economy, UN COMTRADE

Table 4.27 Potentialities Matrix by Sector (According to HS Section)

Description	Taken opportunities	Missed opportunities	total dynamic demands	Declining products	Products with a dereasing demand	Total tariff lines	Missd opp. /Dynamic demand	Missd opp. /Total	Currently eexported tariff lines of missed opportunities	Exports Value of missed opportunities (US$)
Vegetable Products	2	118	120	140		260	1.0	0.5	94.0	267490109.6
Animal / Vegetable Fats, Oils, Waxes		28	28	18		46	1.0	0.6	24.0	4085636.2
Prepared Foodstuffs; Beverages, Spirits, Tobacco	5	108	113	78	1	192	1.0	0.6	99.0	959954861.8
Mineral Products		48	48	35		83	1.0	0.6	45.0	69346087.4
Chemicals & Allied Industries	1	74	75	72	1	148	1.0	0.5	70.0	642010527.8
Plastics, Rubbers	59	488	547	248	9	804	0.9	0.6	477.0	6755007994.0
Raw Hides, Skins, Leather, Furs	56	123	179	27	6	212	0.7	0.6	123.0	5723668150.2
Wood & Wood Charcoal, Cork, Straw, Plaiting Materials	2	33	35	37		72	0.9	0.5	32.0	604187836.6
Wood Pulp, Paper, Paperboard, Scrap/Waste Paper	9	79	88	55	6	149	0.9	0.5	78.0	695195843.0
Textiles & Textile Articles	37	462	499	340	8	847	0.9	0.5	459.0	6803851513.8
Footwear, Headgear, Umbrellas, Walking Sticks, Riding Crops	1	37	38	17		55	1.0	0.7	37.0	661659873.2
Stone, Plaster, Cement, Asbestos, Mica, Ceramic, Glass & Glassware	5	94	99	39	2	140	0.9	0.7	93.0	583410428.0
Pearls, Precious Stones / Metals ; Imitation Jewelry; Coins	2	22	24	26		50	0.9	0.4	22.0	2117626274.6
Base Metals		14	14	7		21	1.0	0.7	13.0	87058169.2
Machinery & Mechanical Appliances; Electrical Equipment / Appliances	51	368	419	153	6	578	0.9	0.6	367.0	11548901368.0
Vehicles, Aircraft, Vessels, Transportation Equipment	148	469	617	165	16	798	0.8	0.6	468.0	49358502477.6
Optical / Photographic / Measuring / Checking / Precision Instruments	17	67	84	40	5	129	0.8	0.5	67.0	8057199261.8
Arms & Ammunition	44	129	173	62	4	239	0.7	0.5	127.0	6888784406.6
Miscellaneous Manufactured Articles	24	71	95	30	5	130	0.7	0.5	71.0	493216130.8
Works Of Art, Collectors' Pieces, Antiques		3	3	4		7	1.0	0.4	3.0	119281666.6
Service				1	1	2		0.0		
Total	463	2914	3377	1721	70	5168	0.9	0.6	2837.0	102833908002.4

Source : Korea's Ministry of Finance and Economy, UN COMTRADE

PERU

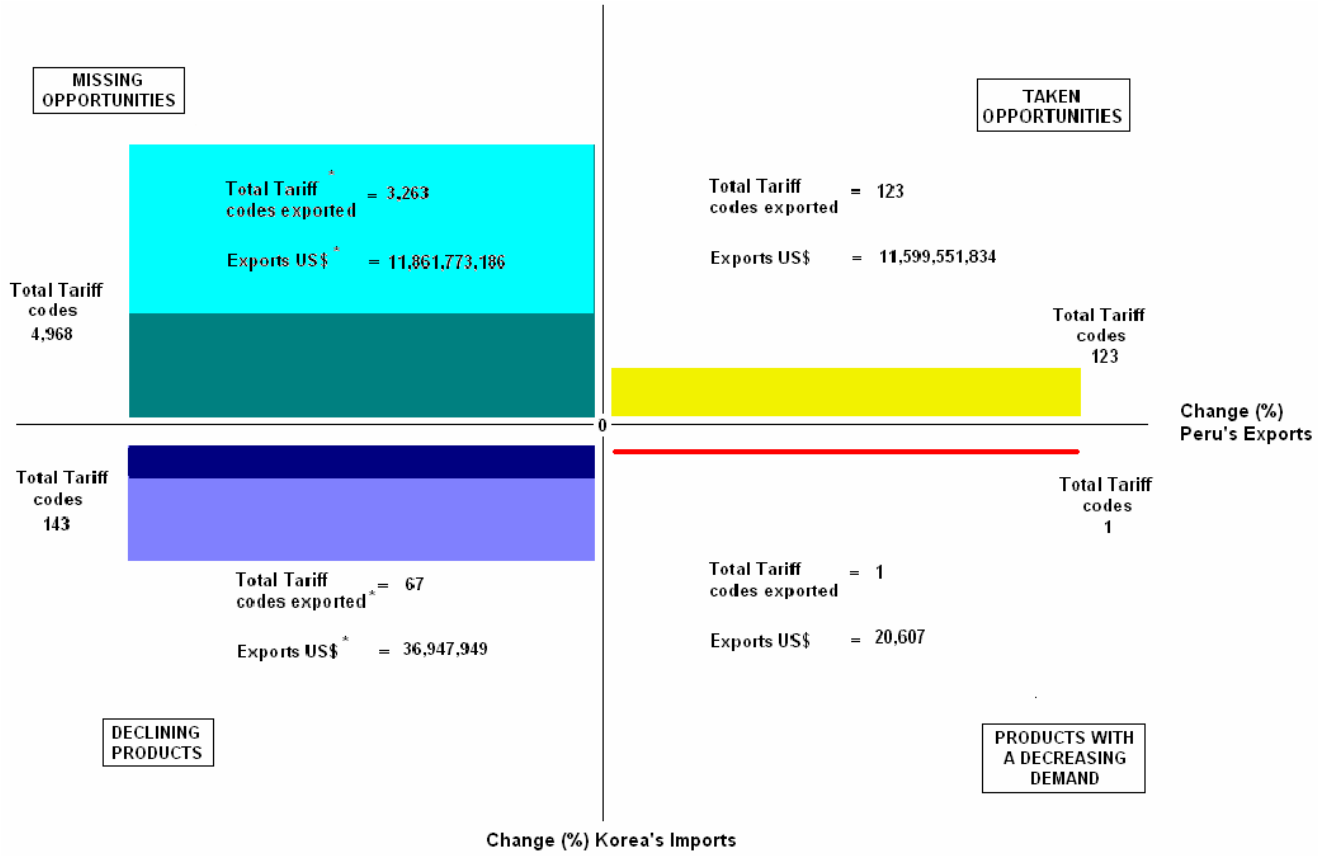
Taking into account that Korea imports a variety of 5,167 products from the world and Peru exports a variety of 5,235 products to the world, a fine analysis was made considering the evolution of Peruvian exports to the world and the evolution of Korean imports, the results are shown in Chart 3.9.

As it is shown in Quadrant 1 (Taken Opportunities) 123 products were consider for this classification, such as coffee not decafeinated, asparagus, aluminum waste and scraps, copper waste and scraps, cloride oxides and cloride hydroxides of cooper, fluor, meal and powder of the dried leguminous vegetables of sago or roots or tubers, octopus and dextrins and other modified starches, among others. It is important to mention that the 123 products are already being exported to Korea and 120 of them are exports of more than US$10,000. Quadrant 2 (Missed Opportunities) shows 4,968 products, 3,263 of them are exported nowadays and 334 has Korea as one of their market; a total of 1,888 products register exports higher than US$ 10,000. Among the missed opportunities are tin not alloyed; marble, travertine and alabaster; Vegetable materials and vegetable waste, vegetable residues and byproducts; unwrought antimony powders; whole hides and skins, of a weight exceeding 16 kg; cane sugar; unrefined copper and copper anodes; other corn; anthracite; iron ores and concentrates nonagglomerated.

Quadrant 3 (Declining Opportunities) includes 143 products, 67 of them present exports to the world and only one product is being exported to Korea; 35 of the 143 products are exports of more than US$ 10,000.

Finally, Quadrant 4 (Products with a Decreasing Demand) shows only 1 product (art objects like sculptures or statues) as the result of the analysis. This single product, which exports are higher than US$ 10,000, is already exported to the world, and Korea is one of the destinies.

Chart 4.24 Peru's Potentialities Matrix for Korean market
(Number of tariff lines/codes)



* Exports to the rest of the world
Prepared by ADEX

Table 4.28 Potentialities Matrix by Sector
(Number of tariff lines)

Sector	Taken Opprotunities	Missing Opportunities	TOTAL DYNAMIC DEMAND	Declining Products	Products with a decreasing demand	TOTAL Tariff Lines	% Missed Opp. / Dynamic Demand	% Missed Opp. / TOTAL	N° exported tariff lines of missed opportunities	Exports Value of missed opportunities
TRADITIONAL AGRICULTURE	1	34	35	3		38	97%	89%	24	47774371
AGROPECUARY AND AGROINDUSTRIAL	19	533	552	44		596	97%	89%	385	951318155
WOOD		76	76	2		78	100%	97%	47	212755184
METAL - MECHANICAL	15	1121	1136	27		1163	99%	96%	794	158149836
NON METALIC MINING	2	224	226			226	99%	99%	154	128064462
TRADITIONAL MINING	6	36	42	5		47	86%	77%	21	6391112025
FISHING	16	89	105	8		113	85%	79%	58	139265818
TRADITIONAL FISHING	1	2	3			3	67%	67%	1	181598017
OIL		8	8	1		9	100%	89%	7	1133553408
CLOTHING	18	216	234			234	92%	92%	202	190544796
CHEMICAL	9	1040	1049	23		1072	99%	97%	560	1269870641
SIDERURGY ANDY METALURGY	3	404	407	5		412	99%	98%	221	620665348
TEXTIL	16	576	592	6		598	97%	96%	364	176860382
OTHERS	17	609	626	19	1	646	97%	94%	425	260240745
TOTAL	**123**	**4,968**	**5,091**	**143**	**1**	**5,235**	**1**	**1**	**3,263**	**11,861,773,188**

Source: COMTRADE
Prepared by ADEX

These results will make Peruvian exporters to think about investment and production strategies best oriented to Korean market. However, it is important to mention that the investment plan for each identified product will consider additional variable beyond the scope of this study such as: price, marketing channels, consumers' preferences and characteristics, among others.

4.6 Analysis of Competitive and Complementary Industries (Model Calculation)

4.6.1 Main Indices

In this section, trade between Korea and Peru and the characteristics of each economy is evaluated. For the analysis 'key indices' are used, which measure the export competitiveness and complementary trade flow between two countries. The indices are Revealed Comparative Advantage Index (RCA), Revealed Purchase Capacity Index (RCP), Relative Importance of Export Index (RIX), Relative Importance of Import Index (RIM) and Trade Specific Coefficient (TSC).

The calculation methods of those indices are explained in the following table.

Table 4.29 Formulas of RCA, RPC, RIX, RIM, TSC

Indices	Formula	Description
Revealed Comparative Advantage (RCA)	$(X_{ih}/X_j)/(W_h/W)$	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 the good in global trade.
Relative Purchase Capacity (RPC)	$(M_{ih}/M_i)/(W_h/W)$	Allows to identify the sectors where the countries posses 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 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 of 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 toral 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.

4.6.2 Results of RCA and RPC Calculation

Trade date used in the calculation of indices is from UNCOMTRADE database. Each trade data is average value of recent 5 years between 2002 and 2006.

Korea's exports on 5,183 products are found in the database at six digit level of the Harmonized System. Among the products, Korea has export competitiveness, measured based on RCA, in 860 products. Especially, among the 30 main exporting products, 28 products have RCA rate above 1. They include machinery, mechanical appliances and parts, electrical machinery and equipment and parts, vehicles other than railway or tramway rolling stock, ships, boats and floating structures.

Table 4.30 RCA Indices of Mainly Exported Commodities

HS Code	Commodities	Export (Millions of US $)	RCA	Export Share (%)
854221	Monolithic integrated circuits, digital	16232.0	4.1	6.7
852520	Transmission app. for radio	16047.1	4.6	6.6
870323	Vehicles (excl. of 87.02 & 8703.10) princ.	11726.1	2.2	4.8
271019	Petroleum oils & oils obt. from bituminous mins.	9379.3	2.3	3.8
847330	Parts & accessories (excl. covers, carrying cases and the like)	8741.1	2.0	3.6
852990	Parts suit. for use solely/princ. with the app. of 85.25-85.28,	8020.5	4.4	3.3
890120	Tankers	7101.7	18.4	2.9
847160	Input/output units (of auto. data processing machines)	6165.9	3.5	2.5
890190	Vessels for the tpt. of gds. & for the tpt. of both persons & gds.	6156.1	11.1	2.5
870899	Parts & accessories of the motor vehicles	4522.8	2.1	1.9
901380	Liquid crystal devices not constituting arts.	3835.2	9.6	1.6
870322	Vehicles (excl. of 87.02 & 8703.10) princ.	3151.7	3.0	1.3
854229	Monolithic integrated circuits, other than digital	3065.5	1.8	1.3
870324	Vehicles (excl. of 87.02 & 8703.10) princ.	3060.8	0.9	1.3
870332	Vehicles princ. designed for the tpt. of persons	2822.8	1.3	1.2
852812	Reception app. for television	2417.1	2.2	1.0
271011	Light petroleum oils & preps.	2158.4	0.8	0.9
847170	Storage units (of auto. data processing machines)	1910.5	1.5	0.8
901390	Parts & accessories of the arts. of 90.13	1642.6	16.8	0.7
291736	Terephthalic acid & its salts	1519.5	14.0	0.6
847989	Machines & mech. appls. having individual functions	1446.9	1.6	0.6
854389	Other electrical machines & app., having individual functions	1430.7	3.4	0.6
390330	Acrylonitrile-butadiene-styrene (ABS) copolymers, in primary forms	1256.1	10.8	0.5
842952	Self-propelled mech. shovels & excavators	1215.0	3.4	0.5
853400	Printed circuits	1183.9	2.0	0.5
841810	Combined refrigerator-freezers, fitted with separate ext.	1168.2	8.5	0.5
401110	New pneumatic tyres, of rubber, of a kind used on motor cars	1115.3	2.3	0.5
390210	Polypropylene, in primary forms	1114.3	3.8	0.5
870333	Vehicles princ. designed for the tpt. of persons	1086.6	2.1	0.4
710813	Gold (incl. gold plated with platinum), non-monetary,	1034.3	3.6	0.4

Korea imports 5168 products at six digit level of the Harmonized System, and has RPC rate above 1 in 1322 products. Among the 30 main importing products, RPC is higher than 1 in 26 products. They include mineral fuels, mineral oils and products of their distillation, Iron, steel, machinery, mechanical appliances, electrical machinery and equipment.

Table 4.31 RPC Indices of Mainly Imported Commodities

HS Code	Commodities	Export (Millions of US $)	RPC	Import Share (%)
270900	Petroleum oils & oils obt. from bituminous mins., crude	34134.0	3.6	15.2
854221	Monolithic integrated circuits, digital	15959.9	4.4	7.1
271111	Natural gas, liquefied	7265.0	14.3	3.2
271011	Light petroleum oils & preps.	5765.3	2.4	2.6
270112	Bituminous coal, whether or not pulverised but not agglom.	3583.0	5.6	1.6
847989	Machines & mech. appls. having individual functions	3155.4	3.8	1.4
854229	Monolithic integrated circuits, other than digital	3105.0	2.0	1.4
847330	Parts & accessories (excl. covers, carrying cases and the like)	2377.6	0.6	1.1
852990	Parts suit. for use solely/princ. with the app. of 85.25-85.28,	1969.1	1.2	0.9
710812	Gold (incl. gold plated with platinum), in unwrought forms (excl. powder)	1739.0	3.5	0.8
760110	Aluminium, not alloyed, unwrought	1671.3	4.6	0.7
260300	Copper ores & concs.	1541.6	5.6	0.7
854389	Other electrical machines & app., having individual functions.	1398.0	3.6	0.6
847160	Input/output units (of auto. data processing machines)	1376.1	0.8	0.6
260111	Iron ores & concs. (excl. roasted iron pyrites), non-agglom.	1322.2	4.2	0.6
853120	Indicator panels incorp. liquid crystal devices	1317.3	11.7	0.6
720449	Ferrous waste & scrap (excl. of 7204.10-7204.41)	1304.2	4.7	0.6
740311	Cathodes & sections of cathodes, of ref. copper, unwrought	1273.1	2.7	0.6
100590	Maize (corn), other than seed	1186.5	4.7	0.5
720851	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more	1183.4	6.7	0.5
382490	Other chem. prods. & preps. of the chem./allied industries	1141.0	2.1	0.5
271112	Propane, liquefied	1070.0	4.7	0.5
271019	Petroleum oils & oils obt. from bituminous mins. (excl. crude) & preps.	1059.0	0.3	0.5
853400	Printed circuits	1036.9	1.9	0.5
720712	Semi-finished prods. of iron/non-alloy steel, cont. by wt. <0.25% of carbon	976.3	5.8	0.4
847170	Storage units (of auto. data processing machines)	971.0	0.8	0.4
851750	Apparatus for carrier-current line systems/digital line systems	946.1	2.0	0.4
720839	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more	922.2	5.5	0.4
720838	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more	917.4	10.8	0.4
381800	Chemical elements doped for use in electronics	882.4	5.4	0.4

a. Analysis of RIX and RIM Results

Results of RIX and RIM calculations show that Korea exports primarily manufactured products to Peru while its imports from Peru are concentrated on primary commodities. The tables below show the 30 products with highest RIX and RIM, respectively. Korea's exports of manufactured goods with higher relative importance include pneumatic tires of various kinds, and articles of steel/iron, etc. Among the Korean imports from Peru, natural resource commodities, agricultural products and aquatic products are found to have high relative importance.

Table 4.32 Products with Higher RIX Indexes

HS	Commodities	RIX
401211	Retreaded pneumatic tyres of rubber, of a kind used on motor cars (incl. st ...	229.4
950890	Roundabouts, swings, shooting galleries & oth. fairground amusements; trave ...	124.1
730210	Rails of iron/steel	109.3
401212	Retreaded pneumatic tyres of rubber, of a kind used on buses/lorries	108.8
590210	Tyre cord fabric of high tenacity yarn of nylon/oth. polyamides	106.6
681270	Compressed asbestos fibre jointing, in sheets/rolls	68.8
843710	Machines for cleaning/sorting/grading seed/grain/dried leguminous vegetable ...	53.4
330610	Dentifrices, in individual retail packages	50.9
611019	Jerseys, pullovers, cardigans, waist-coats & sim. arts., knitted or crochet ...	43.2
852813	Reception app. for television, whether or not incorp. radio-broadcast recei ...	41.9
732620	Articles of iron/steel wire	41.5
848230	Spherical roller bearings	40.1
400932	Tubes, pipes & hoses, of vulcanised rubber other than hard rubber, reinf./o ...	35.2
401193	New pneumatic tyres, of rubber (excl. those with herring-bone/sim.tread), o ...	34.1
320416	Reactive dyes & preps. based thereon	33.2
560811	Made up fishing nets of man-made textile mats.	30.2
401410	Sheath contraceptives of vulcanised rubber	29.6
610210	Women's/girls' overcoats, car-coats, capes, cloaks, anoraks (incl. ski-jack ...	29.5
481810	Toilet paper, in rolls of a width not >36cm/cut to size/shape	29.5
283711	Cyanides & cyanide oxides, of sodium	28.8
720241	Ferro-chromium, cont. by wt. >4% of carbon, in granular/powder form	27.1
560312	Nonwovens, whether or not impregnated/coated/covered/laminated, of man-made ...	26.9
250870	Chamotte/dinas earths	26.4
845230	Sewing machine needles	25.8
540333	Artificial filament yarn other than sewing thread/textured yarn, single, of ...	22.9
401162	New pneumatic tyres, of rubber, having a herring-bone/sim. tread, of a kind ...	22.1
901831	Syringes, with/without needles	21.8
401194	New pneumatic tyres, of rubber (excl. those with herring-bone/sim.tread), o ...	21.7
560221	Felt (excl. needleloom felt & stitch-bonded fibre fabrics), not impregnated ...	21.6
230990	Preparations of a kind used in animal feeding other than dog/cat food put u ...	20.3

Table 4.33 Products with Higher RIM Indexes

HS	Commodities	RIM
790400	Zinc bars, rods, profiles & wire	318.3
510820	Yarn of fine animal hair, combed, not put up for retail sale	303.1
790700	Articles of zinc n.e.s. in Ch.79	257.6
510810	Yarn of fine animal hair, carded, not put up for retail sale	250.6
051199	Animal prods., n.e.s.; dead animals of Ch.1, unfit for human consumption	158.1
260800	Zinc ores & concs.	147.2
580110	Woven pile fabrics & chenille fabrics (excl. of 58.02/58.06), of wool/fine ...	145.6
030520	Livers & roes of fish, dried/smoked/salted/in brine	144.7
510539	Fine animal hair, carded/combed, other than of Kashmire (cashmere) goats	138.5
260700	Lead ores & concs.	100.2
510990	Yarn of wool/fine animal hair, put up for RS (excl. of 5109.10)	85.5
260112	Iron ores & concs. (excl. roasted iron pyrites), agglom.	74.1
230120	Flours, meals & pellets of fish/of crustaceans, molluscs/oth. aquatic inver ...	73.2
320300	Colouring matter of veg./animal origin (incl. dyeing extracts. excl. animal ...	67.4
160590	Molluscs & oth. aquatic invertegrates, prepd./presvd.	53.9
030749	Cuttle fish (Sepia officinalis, Rossia macrosoma, Sepiola spp.) & squid (Om ...	52.7
070920	Asparagus, fresh/chilled	52.1
320190	Tanning extracts of veg. origin other than quebracho extract/wattle extract ...	51.5
090111	Coffee, not roasted, not decaffeinated	46.3
282741	Chloride oxides & chloride hydroxides, of copper	39.8
510910	Yarn of wool/fine animal hair, put up for RS, cont. 85%/more by wt. of wool ...	38.4
260300	Copper ores & concs.	38.0
030420	Fish fillets, frozen	34.8
030371	Sardines (Sardina pilchardus, Sardinops spp.)/sardinella (Sardinella spp.)/ ...	34.2
511190	Woven fabrics of carded wool/carded fine animal hair (excl. of 5111.11-5111 ...	34.2
611110	Babies' garments & clothing accessories, knitted or crocheted, of wool/fine ...	26.9
140410	Raw veg. mats. of a kind used primarily in dyeing/tanning	26.7
740829	Wire of copper alloys (excl. of 7408.21 & 7408.22)	19.5
160530	Lobster, prepd./presvd.	18.7
160430	Caviar & caviar substitutes prepd. from fish eggs	17.0

b. Analysis of TSC Results

The TSC index was calculated for Korea's international trade with the average trade values between 2002 and 2006. Among all products, 1621 products were found to have the TSC value higher than 0 and 3562 of them had the TSC lower than 0.
Products with the positive value of TSC include some agricultural products, manufactured goods such as vehicles and electronic goods.

Table 4.34 TSC Indexes

HS	Commodities	TSC
020711	Meat of fowls of species Gallus domesticus, not cut in pieces, fresh/chille ...	1
020732	Meat of ducks/geese/guinea fowls, not cut in pieces, fresh/chilled	1
070200	Tomatoes, fresh/chilled	1
080930	Peaches, incl. nectarines, fresh	1
081010	Strawberries, fresh	1
190430	Bulgur wheat	1
260900	Tin ores & concs.	1
382561	Wastes from chem./allied industries, mainly cont. organic constituents, n.e ...	1
710210	Diamonds, unsorted	1
721041	Flat-rolled prods. of iron/non-alloy steel, of a width of 600mm/more, othw. ...	1
721691	Angles, shapes & sections of iron/non-alloy steel (excl. of 7216.10-7216.69 ...	1
811020	Antimony waste & scrap	1
811213	Beryllium waste & scrap	1
860120	Rail locomotives powered by elec. accumulators	1
870520	Mobile drilling derricks	1

HS	Commodities	TSC
010391	Live swine other than pure-bred breeding animals, weighing < 50kg	-1
010392	Live swine other than pure-bred breeding animals, weighing 50kg/more	-1
010420	Live goats	-1
010519	Live ducks/geese/guinea fowls, weighing not >185g	-1
010592	Live fowls of species Gallus domesticus, weighing >185g but not >2000g	-1
010631	Live birds of prey	-1
010632	Live birds (order Psittaciformes), incl. parrots/parakeets/macaws/cockatoos ...	-1
020110	Carcasses/half-carcasses of bovine animals, fresh/chilled	-1
020130	Meat of bovine animals, fresh/chilled, boneless	-1
020210	Carcasses/half-carcasses of bovine animals, frozen	-1
020311	Carcasses/half-carcasses of swine, fresh/chilled	-1
020421	Carcasses/half-carcasses of sheep (excl. lamb), fresh/chilled	-1
020422	Meat of sheep (excl. lamb & carcasses), fresh/chilled, bone-in	-1
020423	Meat of sheep (excl. lamb), fresh/chilled, boneless	-1
020430	Carcasses/half-carcasses of lamb, frozen	-1
020441	Carcasses/half-carcasses of sheep (excl. lamb), frozen	-1
020442	Meat of sheep (excl. lamb & carcasses), frozen, bone-in	-1
020443	Meat of sheep (excl. lamb), frozen, boneless	-1
020450	Meat of goats, fresh/chilled/frozen	-1
020690	Edible offal, n.e.s., frozen	-1

c. Analysis of Korea's export to Peru

Complementarities between Korea and Peru are examined using RCA of Korea and PRC of Peru. When RCA of Korea and RPC of Peru are both higher than 1, the HS code is expressed in gray. In this case, it can be said that two countries have complementary relation, which means Korea has potential supply and Peru has potential demand in that product.

Table 4.35 Complementarities Table between Korea's Export Supply and Peru's Demand

CHA	RCA Korea							RPC Peru		CHA
01								010210	010511	01
02								020622	020629	020727	02
03	030199	030341	030344	030346	030342	030343	030349	030269	030339	030375	03
	030710	030749	030799		030379	030791		030563	030623	030751	
04	040221	040229	040299	040390	040410	040490	040590	040819	040891	040210	04
05									050400	051110	05
07	070959	071239				071010	071310	071320	071333	071340	07
08	080240			080111	080121	080620	080810	080820	080940	081320	08
09			090230	090411	090610	090620	090700	090910	090930	091040	09
10			100110	100190	100300	100400	100510	100590	100630	100830	10
11				110812	110290	110422	110520	110710	110813	110900	11
12	121120	121220	120220	120710	120720	120750	120810	120921	120922	120925	12
										120991	
13	130219	130231					130120	130213	130220	130239	13
14										140190	14
15	150200	150500	150710	150790	151110	151211	151321	151550	151610	151620	15
							151710	151790	151800	152110	
16	160420	160430	160510	160590	160300					160414	16
17	170290	170410			170111	170199	170211	170219	170230	170490	17
18	180610										18
19	190230								190110	190190	19
20	200590	200600						200710	200860	200870	20
21			210112	210310	210111	210130	210210	210230	210610	210690	21
22	220600	220890						220290	220710	220840	22
23				230110	230240	230400	230630	230670	230690	230990	23
25	251830	252310	252329	250100	250510	250590	250810	251010	251200	251320	25
	251910	251990	252210	252230	252330	252400	252810	252921	253020	253090	
26	261900	262029							261000	261610	26
27	270710	270730	270750	270799	271019	271210	270112	270400	270900	271112	27
	271091	271320					271113	271220	271290	271311	
28	280490	280700	281290	281512	280300	280800	280540	280620	280920	281119	28
	281700	282300	282410	282510	281520	283711	281122	281123	281310	281511	
	282739	283640	283692	284190	283719	284150	281530	281640	281830	282010	
	284210	284990			284700	282090	282110	282490	282550	282619	
	282710	282720	282731	282735	282749	282810	282919	282990	283010	283110	
	283190	283210	283220	283230	283311	283321	283323	283329	283330	283340	
	283421	283429	283510	283522	283524	283525	283526	283531	283539	283610	
	283620	283630	283670	283720	283911	283919	283990	284011	284019	284020	
				284030	284110	284120	284130	284161	284290	284910	
29	290121	290122	290123	290124	290230	290244	290323	290361	290410	290420	29
	290211	290220	290241	290243	290312	290341	290511	290512	290515	290519	
	290250	290313	290314	290315	290342	290347	290543	290721	290820	290911	
	290321	290345	290531	290539	290516	290532	290943	290944	290949	290960	
	290711	290723	291030	291440	290541	290542	291211	291241	291242	291260	
	291513	291712	291736	291737	290544	290941	291412	291421	291522	291533	
	291739	292143	292419	293361	291411	291511	291535	291539	291550	291560	
					291521	291531	291570	291614	291615	291619	
					291532	291611	291631	291639	291719	291814	
					291612	291714	291815	291816	291821	292010	
					291731	291732	292090	292112	292146	292211	
					291734	291735	292213	292310	292320	292390	
					291890	292151	292630	293010	293020	293040	
					292241	292242	293219	293221	293311	293353	
					292511	292610	293372	293621	293624	293625	

					292700	292910	293626	293627	293628	293690	
				293623	293721	293739	293930	293962	294110	294140	
30	300220	300230	300290	300310	300410	300420	300432	300440	300450	300640	30
									300660	300670	
31	310390	310221	310430	310559	310100	310210	310230	310250	310260	310310	31
				310420	310490	310510	310530	310540	310560	310590	
32	320650	320730	320411	320412	320416	320500	320620	321210	321310	320110	32
	320120	320190	320210	320290	320413	320414	320415	320417	320420	320490	
	320611	320619	320630	320641	320643	320710	320720	320740	320890	321000	
							321100	321511	321519	321590	
33	330111	330112	330290	330410	330420	330430	330491	330510	330590	330610	33
						330620	330690	330720	330741	330790	
34	340211	340311	340111	340119	340212	340213	340219	340220	340290	340391	34
	340399	340410	340420	340490	340510	340520	340530	340540	340590	340700	
35			350610	350211	350220	350300	350400	350691	350710	350790	35
36	360610							360200	360300	360500	36
37	370295	370590	370110	370130	370220	370243	370244	370251	370254	370320	37
									370390	370790	
38	381090	381800	382420	381400	381700	380210	380290	380400	380520	380590	38
	380610	380810	380820	380830	380840	380890	380991	380992	381111	381119	
	381121	381129	381190	381300	381590	381600	381900	382000	382410	382440	
								382460	382479	382490	
39	390320	390330	390390	390521	390110	390120	390422	390430	390530	390599	39
	390610	390710	390730	390740	390130	390210	390690	390910	390940	391000	
	390799	391110	391722	391810	390230	390311	391220	391231	391290	391310	
	392051	392059	392062	392069	390319	390410	391390	391610	391710	391721	
	392092	392119	392190	392310	390720	390760	391732	391739	391740	391910	
	392340	391239	391731	391990	392049	392091	392010	392020	392043	392113	
				392112	392114	392220	392329	392350	392410	392640	
40	400211	400259	400270	401033	400219	400220	400122	400249	400520	400591	40
	401110	400300	400941	401032	401034	401120	400700	400821	400911	400912	
	401212	401219	401290	401310	401410	401694	400921	400922	400931	400942	
	401011	401012	401013	401019	401031	401036	401039	401140	401150	401161	
	401162	401163	401169	401193	401194	401199	401211	401320	401390	401511	
							401519	401692	401695	401699	
41	410631	410791	410792	410799	411200	411320	411390	411420		411410	41
42								420229	420299	420610	42
43	430220										43
44	440310	440610	440690	441031	441032	441039	441111	441121	441139	442190	44
45										450490	45
46									460191	460290	46
47							470311	470321	470329	470720	47
48	480431	480511	480990	481430	480441	481013	480100	480230	480254	480255	48
	481950	482210	481019	481039	482010	482110	480256	480257	480258	480300	
	480411	480421	480429	480451	480512	480519	480525	480592	480620	480630	
	480820	480830	480890	480910	480920	481029	481092	481099	481141	481151	
	481610	481620	481630	481690	481840	481890	481930	482020	482050	482320	
49	490810	491000				490191	490199	490700	490890	491199	49
50	500720	500790						500200	500390	500600	50
51	510620	511120						510219	510529	510539	51
52	520299	520624	520831	520852	520523	520524	520100	520512	520513	520515	52
	520853	520931	520932	520952	520623	520625	520522	520526	520528	520541	
	521011	521012	521022	521031	520959	520547	520615	520622	520821	520822	
	521032	521039	521041	521042		520832	520922	520941	520942	521021	
	521049	521131	521132	521139			521122	521141	521142	521143	
	521151										
53	530610								530590	531010	53
54	540110	540120	540241	540610	540220	540233	540210	540231	540251	540410	54

	540751	540761	540772	540781	540242	540243	540490	540744	540753	540773	
	540782	540791	540792	540794	540249	540252					
	540821	540822	540831	540832	540262	540720					
	540834		540742	540752	540754	540769					
55	550190	550330	550340	551020	550120	550130	550390	550410	550610	550630	55
	551030	551219	551221	551229	550320	550620	550921	550922	550951	550953	
	551291	551322	551411	551441	550810	550820	551311	551312	551341	551342	
	551449	551512	551519	551522	551211	551321		551343	551433	551511	
	551599	551612	551624	551641	551421	551443					
	551642			551614	551621	551622					
56	560314	560490	560790	560890	560391	560392	560229	560393	560710	560729	56
	560394	560500	560749	560750	560811	560819	560900				
57								570210	570252	570330	57
58	580123	580125	580132	580135	580421	580710		580122	580136	580620	58
	580220	580410	580429	580632	580790	581091					
	580900	581010	581092	581099							
59	590220	590320	590210	590310	590390	590700	590900	591000	591120	591131	59
										591190	
60	600121	600122	600191	600192	600110	600410	600532	600632	600533	600633	60
	600199	600290	600320	600340	600634						
	600390	600490	600522	600531	600534	600542	600543	600590	600622	600624	
	600631	600641	600642	600644	600690						
61	610443	610444	610453	610520	610620	610791	611030	610130	610230	611239	61
	611519	611591	611592	611593	611610	611691	611693	611780			
62	620413	620431	620530	620792	620722	621520	620113	620312	620323	621111	62
	621310	621320	621390	621430	621510	621710	621790		621220	621290	
63	630140	630293	630710	630900	630240	630291	630510	630533	630539	630691	63
	631010	631090									
64	640620	640699				640192	640220	640291	640299	640419	64
65	650510	650590	650610	650691	650699	650700				650100	65
67	670411	670419	670490							670210	67
68	680410	680421	680510	680520	680430	681190	680423	680690	680911	681110	68
	680530	680800			681270		681260	681290	681310	681599	
69			690210	690290	690310	690390	690890	691090	691110	691200	69
70	701120	701190	701890	701911	700420	700490	700239	700312	700319	700529	70
	701919	702000			700510	700521	700991	701090	701200	701321	
	701329	701332	701339	701510	701610	701690	701720	701790	701820	701931	
									701951	701990	
71	710510	710691	710700	710813	711292	711719			711420	711790	71
72	720292	720450	720826	720827	720120	720219	720211	720221	720229	720230	72
	720836	720838	720890	720915	720837	720839	720249	720310	720390	720449	
	720990	721011	721030	721049	720851	720854	720529	720720	720840	720852	
	721069	721070	721090	721190	720916	720917	720853	721041	721210	721310	
	721220	721230	721250	721650	720918	720926	721391	721420	721621	721622	
	721710	721899	721911	721912	720927	720928	721631	721640	721922	721923	
	721913	721921	721933	722011	721012	721050	721924	721990	722530	722540	
	722012	722090	722100	722300	721061	721129	722550	722611	722790	722880	
	722519	722599	722693	722694	721240	721410	721633	721720	721730	722920	
	722990	721790	721934	721935	722511	722699	722830	722860			
73	730630	730723	731029	732182	730512	730531	730210	730240	730300	730410	73
	732310	732393	732599	730539	730590	730610	730421	730429	730431	730439	
	730620	730690	730729	730791	730792	730793	730451	730490	730511	730640	
	730799	730840	730890	730900	731100	731210	730650	730711	730719	730722	
	731450	731581	731700	730820	731010	731021	731290	731300	731412	731413	
	731419	731431	731511	731512	731519	731520	731582	731589	731590	731811	
	731815	731816	731821	731822	731824	731910	731920	731990	732020	732111	
					732391	732392	732394	732410	732591	732611	
74	740120	740321	740322	740323	741490	741910			741012	741521	74

	740500	740721	740811	740819	740821	740822	740921	740931	740940	740990	
	741011	741021	741110	741122	741210	741510	741700	741999			
75	750300									750521	75
76	760519	760611	760612	760691	760711	761519	760310	760511	760900	761300	76
								761410	761490	761610	
78	780191	780300	780411		780600						78
79	790111	790112	790120		790310					790390	79
80	800300	800700									80
81	810110	810195	810196	810296	810720	811213	811292	810920			81
82	820590	820720	820730	820770	820150	820160	820110	820130	820140	820190	82
	820790	821191	821599	820210	820239	821000	820220	820231	820240	820291	
					821420	820310	820320	820340	820411	820412	
	820420	820510	820520	820530	820540	820559	820713	820719	820830	820890	
			821192	821193	821210	821220	821300	821410	821510	821520	
83	830300	830810	830890	831130	831110	831120	830110	830130	830140	830220	83
					830250	830510	830520	830590	830790	830990	
84	840290	840410	840490	840733	840212	840219	840211	840420	840510	840690	84
	841430	841510	841590	841950	840220	840810	840732	840790	840890	840999	
	842630	842833	843069	844340	841221	841340	841011	841012	841013	841090	
	845012	845090	845121	845390	841810	841899	841229	841239	841311	841320	
	845510	845699	845710	845811	841989	842381	841370	841381	841382	841391	
	845891	845940	845969	845970	842382	842720	841392	841420	841440	841459	
	846029	846190	846239	846299	842951	842952	841460	841480	841490	841610	
	846320	846920	847160	847170	843141	843149	841620	841710	841720	841780	
	847330	847510	847940	847960	843710	844351	841790	841821	841830	841850	
	847981	847989	847990	848010	844400	844530	841869	841891	841931	841932	
	848020	848030	848041	848049	844590	844621	841939	841940	841960	841990	
	848071	848079	844630	844711	844712	844790	842010	842111	842112	842119	
	844841	844851	845011	845020	845129	845180	842121	842123	842129	842131	
	845229	845230	845290	845310	845320	845380	842191	842199	842220	842310	
	845530	845899	846310	847050	847432	847751	842320	842330	842389	842390	
	842410	842481	842511	842519	842520	842611	842641	842810	842832	842911	
	842919	842920	842940	842959	843041	843049	843050	843061	843139	843143	
	843221	843359	843360	843410	843420	843621	843629	843691	843780	843790	
	843810	843820	843830	843840	843860	843880	843920	844010	844090	844110	
	844140	844180	844210	844312	844329	844330	844359	844390	844511	844512	
	844513	844519	844520	844540	844610	844629	844720	844819	844820	844831	
	844832	844833	844839	844842	844849	844859	845019	845130	845140	845150	
	845190	845221	845420	845521	845819	845939	845951	846019	846039	846231	
	846249	846711	846719	846781	846789	846791	846792	847021	847029	847150	
	847210	847290	847410	847420	847439	847490	847720	847730	847740	847759	
	847780	847982	848050	848110	848130	848140	848180	848210	848220	848230	
	848250	848280	848299	848320	848330	848340	848360	848390	848410	848490	
										848590	
85	850131	850423	850490	850519	850134	850434	850133	850152	850153	850163	85
	850780	850790	850910	851120	850710	851190	850164	850213	850239	850410	
	851140	851430	851529	851610	851650	851780	850421	850422	850432	850433	
	851632	851690	851810	851829	851850	852110	850530	850610	850740	850920	
	851830	851840	851890	851993	852190	852311	850940	851110	851180	851230	
	852090	852290	852313	852499	852390	852520	851310	851420	851511	851539	
	852530	852692	852790	852821	852713	852812	851621	851633	851640	851679	
	852822	852910	852990	853120	854420	854460	851719	851750	851822	852039	
	853190	853222	853223	853224	854470	852320	852330	852431	852440	852451	
	853225	853290	853400	853669	852712	852719	852731	852739	852813	852830	
	853921	853939	853990	854011	853210	853510	853521	853530	853540	853620	
	854012	854040	854060	854071	853649	853661	853720	853910	853922	853929	
	854089	854091	854099	854121	853931	853932	854511	854520	854590	854620	
	854129	854190	854221	854229					854690	854790	

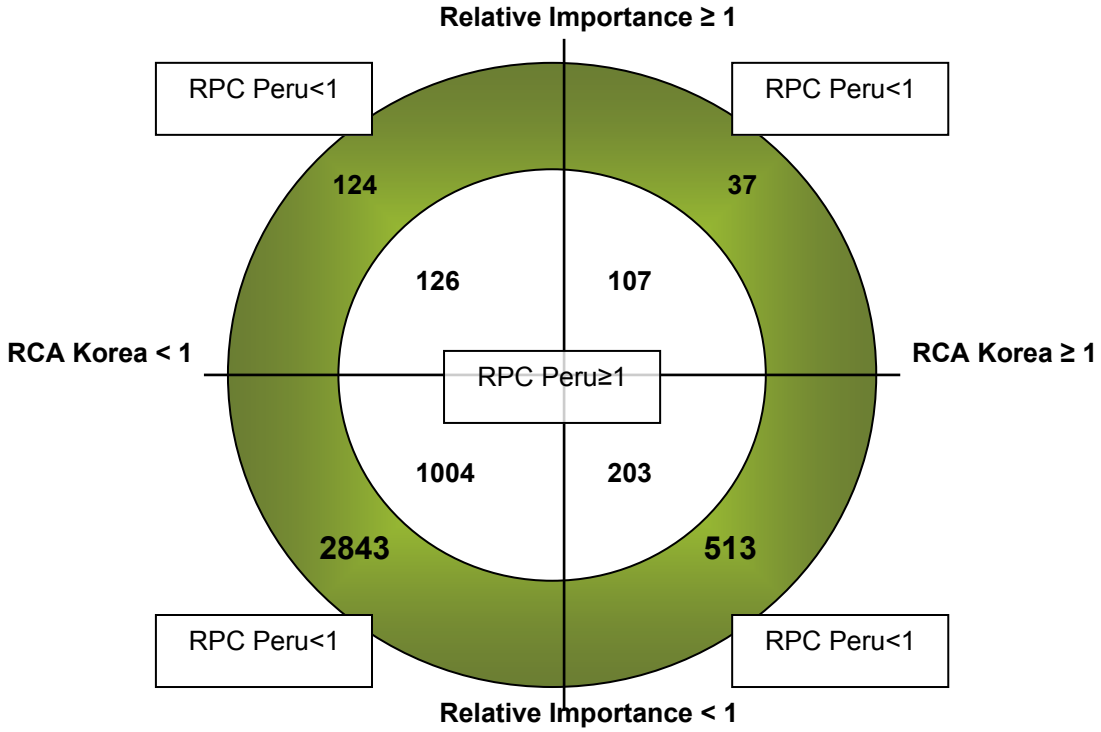
	854389	854411	854419	854710							
	854720	854890									
86	860310							860120	860210	860729	86
87	870290	870321	870323	870331	870210	870322	870110	870120	870410	870422	87
	870332	870333	870490	870899	870421	870423	870520	870530	870540	870600	
	871390	870880	870893	871120	871310	871411	871419	871492	871493	871494	
						871495	871496	871499	871500	871631	
88	880400									880212	88
89	890120	890190	890310	890510	890520	890590	890790	890400			89
90	900110	900120	900150	900190	901812	900140	900490	900630	900640	900653	90
	900220	900319	900661	900662	900711	900911	900921	900922	901010	901060	
	900830	900912	900991	900992	901180	901480	901520	901600	901730	901780	
	900993	901380	901390	901710	901831	901832	901850	902000	902121	902213	
	901790	903130	903281	902219	902229	902300	902480	902511	902519	902580	
			902590	902610	902730	902810	902820	902830	902890	903039	
91		911290	910219	910291	910310	910390	910519	910521	910529	910610	91
92	920120	920290	920910		920790	920190	920600	920710	920810	920920	92
	920992	920994	920999								
93	930591							930200	930610	930621	93
94				940130	940150	940210	940370	940429	940430	940530	94
95	950310	950632	950710	950730	950720	950100	950210	950330	950341	950349	95
	950790	950350	950370	950380	950390	950430	950440	950510	950661	950662	
										950691	
96	960622	960630	960860	960200	960329	960330	960610	960621	960629	960711	96
	960719	960720	960920	960990	961590	961620	960321	960350	960390	960400	
	960810	960820	960831	960910	961100	961210	961220	961511	961519	961610	
										961700	

The commodities of which Korea has potential supply and Peru has potential demand are concentrated on chapter 29(Organic chemicals), 39(Plastics and articles thereof), 40(Rubber and articles thereof), 54(Man-made filaments), 55(Man-made staple fibers), 72(Iron and steel), 73(Articles of iron or steel), 84(Machinery and mechanical appliances; parts thereof), 85(Electrical machinery and equipment and parts thereof) and 96(Miscellaneous manufactured articles)

d. Korea's Exportable Supply to Peru

The following graphic shows Korea's exportable supply to Peru for 2307 products. **Quadrant 1(upper right)** indicates 144 products in which Korea has comparative advantage and presents a relatively high importance in export to Peru. **Quadrant 2(upper left)** indicates 250 products in which relative importance of Peru is high for Korea's export although Korea doesn't have comparative advantage in those products. **Quadrant 3(lower left)** corresponds to 3748 products in which Korea doesn't have comparative advantage and relative importance of export for Korea is low. **Quadrants 4(lower right)** indicates 716 products which do not present a high relative importance in Korea's export to Peru although Korea has its comparative advantage. Among them, Peru has high relative purchasing capacities for 203 products. In sum, there is an opportunity that export from Korea to Peru will expand in those 203 products after FTA is enforced.

Chart 4.25 Analysis of Korea's Export Supply to Peru



e. Analysis of the Korean Import Demand

Complementarities between Korean demand and the Peruvian export supply were analyzed using the RPC of Korea and the RCA of Peru. As in the previous analysis of the Korean supply and the Peruvian demand, when the value of both indices exceeds 1, it is expressed in gray and it means Korea has potential demand and Peru has potential supply in those products.

Table 4.36 Complementarities Table of Korea's Import Demand and Peru's Export Supply

CHA	RPC KOREA								RCA	PERU	CHA
01	010310	010619			010620	010511	010512	010632	010639	010690	01
02	020220	020230	020329	020629	021093					020725	02
03	030192	030193	030199	030374	030375	030379	030110	030250	030270	030321	03
	030264	030269	030322	030380	030490	030559	030349	030371	030420	030510	
	030332	030333	030339	030624	030721	030749	030520	030563	030611	030613	
	030344	030345	030360	030751	030759	030791			030729	030741	
	030614	030622	030623	030799							
04	040490	040610							040291	040700	04
05	050100	050790	050800	051000	051191				050590	051199	05
06									060410	060499	06
07	070610	070690	071140	071190	071080	071290	070310	070519	070810	070890	07
	071231	071232	071332	071410	070920	071010	071022	071040	071120	071220	
								071331	071333	071339	
08	080232	080430	080510	081050	080121	080122	080290	080300	080420	080440	08
					080450	080520	080610	081110	081190	081400	
09	090610				090420		090111	090620	091030	091040	09
10	100190	100200	100590	100620	100820					100890	10
11	110813	110819					110423	110620	110630	110812	11
12	120100	120720	120740	120810	120799	121190	121220	120991	120999	121130	12
	120929	121110	121230	121300	121410	121490					
13					130219			130190	130214	130239	13
14	140490									140410	14
15	150200	150430	150600	150710	151221	151229	151590	150410	150420	151610	15
	151311	151319	151519	151521	151540	152190				152000	
16	160290	160300	160430	160419	160590	160413	160414	160415	160416	160420	16
17	170211	170290	170310	170390	170111						17
18							180320	180400	180610	180632	18
19									190219	190531	19
20	200390	200580	200811	200892	200899	200190	200290	200551	200560	200570	20
	200911	200969					200590	200891	200939	200980	
21	210112	210120	210130	210220	210330				210210	210410	21
22	220710	220720	220830								22
23	230320	230330	230400	230649	230230	230610	230800	230120	230210	230990	23
	230650	230660	230690								
24	240391										24
25	250410	250510	250629	250700	250100	252010	250200	250610	250840	250900	25
	250820	250850	250860	251010	252329	252890	251020	251110	252310	252321	
	251311	251319	251320	251622	251830			252620	252810	252910	
	251910	251990	252100	252510	252520						
	252530	252610	252921	253010	253090						
26	260200	260600	261310	261400	260111	260112	260900	261100	261390	261610	26
	261510	261800	261900	262011	260300	260700	261690	262030			
	262190				260800						
27	270111	270112	270119	270710	271011	271112			270750	271019	27
	270730	270791	270799	270900							
	271111	271113	271119	271490							

28	280429	280461	280469	280480	280540	281000	280110	280450	280490	280610	28
	280512	280910	281111	281119	282550	283525	280700	281121	281511	281512	
	281122	281210	281290	281310	283990	284020	281700	282410	282733	282741	
	281410	281610	281640	281810	284290	283322	283325	283326	283329	284329	
	281830	281910	281990	282010	282090	282110	282200	282300	282510	282520	
	282530	282560	282580	282590	282611	282619	282620	282690	282710	282720	
	282734	282735	282739	282759	282760	282919	283010	283020	283030	283090	
	283110	283190	283210	283311	283319	283324	283327	283340	283410	283421	
	283429	283510	283524	283529	283620	283640	283660	283691	283692	283919	
	284019	284130	284150	284169	284170	284190	284420	284430	284510	284610	
	284690	284800	284920	284990	285000						
29	290121	290122	290124	290220	290230	292242		290410	293010	293991	29
	290241	290243	290250	290270	290290	290312	290314	290315	290319	290322	
	290323	290330	290343	290349	290359	290490	290511	290512	290516	290517	
	290519	290531	290539	290541	290542	290543	290544	290549	290612	290614	
	290621	290712	290713	290715	290719	290721	290722	290723	290810	290820	
	290911	290930	290943	290944	290949	290960	291020	291030	291221	291260	
	291412	291413	291422	291440	291450	291521	291523	291529	291531	291532	
	291533	291534	291535	291539	291611	291613	291614	291619	291631	291632	
	291634	291635	291711	291712	291713	291734	291739	291811	291821	291823	
	291829	291890	291900	292010	292119	292121	292129	292141	292142	292143	
	292146	292151	292159	292211	292213	292221	292222	292310	292390	292419	
	292421	292511	292520	292610	292700	292990	293020	293040	293211	293213	
	293331	293361	293371	293379	293410	293949	293951	293959	294120	294140	
30	300340	300390									30
31	310210	310390	310420							310100	31
32	320210	320411	320412	320413	320290	320500			320190	320300	32
	320414	320416	320490	320611	320630	320641	320649	320650	320730	320740	
	320890	321000	321290								
33	330491				330190	330499			330113	330790	33
34	340311	340391	340399	340540	340590	340700				340510	34
35	350220	350400	350510	350610							35
36									360200	360300	36
37	370110	370199	370241	370242	370243	370244	370256	370291	370310	370390	37
	370590	370610	370690	370790							
38	380110	380190	380210	380400	382420					380290	38
	380610	380993	381010	381090	381121	381129	381220	381400	381511	381512	
	381519	381590	381700	381800	382311	382312	382460	382479	382490	382590	
39	390290	390320	390430	390461	390469	390512	390521	392020	392330	392350	39
	390599	390610	390730	390740	390810	390890	390920	390940	391000	391211	
	391310	391910	391990	392051	392059	392061	392069	392073	392091	392099	
	392119	392340									
40	400110	400121	400122	400130	400231	400239	400249	400610	401120	401169	40
	400259	400270	400299	400300	400400	400700	400819	401013	401036	401039	
	401695										
41	410150	410390	410449	410221	410411	410419	410510	410190	410210	410229	41
	410799	411200	411310	410530	410622	410692	411390	410310	410621	410632	
	411330										
42	420219	420229	420239	420321						420610	42
43	430110	430213	430220	430230	430310					430390	43
44	440122	440200	440320	440399	440729	441213	440724	440799	440920	441214	44
	440500	440725	440726	440839	441299					441292	
	440890	441029	441039	441090	441121	441131	441229	441900			
46	460120										46
47	470311	470321	470329	470500	470610	470710	470720	470730			47
48	480210	480441	480449	480452	480592			480530	481930	482020	48
	480610	480910	480990	481031	481149	481151	481320	481610	481630	481690	
49	490890				490591			490191	491110	491191	49

50	500200	500310	500390	500400	500790						50
	500500	500600	500720								
51	510130	510211	510330	510531	510219	510320	510111	510119	510539	510710	51
	511000	511111	511119	511300	510529	511190	511290	510820	510910	510990	
52	520100	520513	520522	520532	520411	520512	520210	520420	520531	520541	52
	520533	520535	520621	520622	520523	520524	520543	520544	520612	520790	
	520623	520624	520625	520645	520526	520527	520822	520839	520841	520853	
	520811	520812	520813	520912	520528	520546	520859	520921	520922	520929	
	521011	521012	521039	521112	520547	520548	520942	520959	521041	521049	
					520613	521129		521139	521142	521213	
53	530310	530390	530519	530529	530610	530810	530820	530890	530921	531090	53
	531100										
54	540233	540242	540249	540259	540262	540331	540332			540620	54
	540333	540339	540342	540349	540490	540610	540730				
55	550410	550490	550510	550610	550330	550130	550630	550999	551110	551120	55
	550921	550922	550931	550932	550951	550952	550953	551130	551341	551513	
	550961	550962	550969	551011	551090	551211	551311	551312	551321	551411	
	551412	551599	551611	551632	551641						
56	560122	560130	560221	560290	560811	560229	560410	560600	560750	560819	56
	560393	560394	560490	560790	560890						
57	570249	570390									57
58	580211	580639			580500						58
59	590210	590220	590290	591120	591132	591140					59
60	600122	600590					600121	600521	600522	600533	60
61	610791	611720			610431	610451	610520	610110	610120	610210	61
	610220	610322	610331	610342	610422	610441	610442	610452	610462	610510	
	610610	610620	610711	610721	610821	610831	610891	610910	610990	611019	
				611020	611120	611420	611430	611591	611691	611710	
62	620111	620212	620213	620291	620211	621420	620422	620520	620630	620791	62
	620312	620332	620333	620343	620411	620431	620433	620530	620620	620711	
	620792	620799	620819	620891	620892	620910	621131	621220	621520		
63	630532				630533			630120	630130	630190	63
64	640191	640319	640510	640610					640110	640192	64
65										650692	65
66	660191	660199									66
67	670419										67
68	680223	680229	680299	680410	680221	681290				681310	68
	680422	680430	680620	680790	681490						
	680800	681120	681270	681390	681510						
69	690100	690290	690310	690390	690710	690810	690911	690919	691090	691390	69
	690990	691010	691410	691490							
70	700100	700220	700231	700239	700312	700420	700490	700510	700721	700992	70
	700521	700529	700600	701110	701120	701190	701310	701810	701820	701932	
	701952	702000									
71	710410	710490	710510	710610	710812	710310	710691	710811	711319	711411	71
	710700	711011	711021	711031	711230	711610				711719	
72	720110	720211	720221	720229	721420			721621	721622	722830	72
	720230	720241	720249	720250	720260	720292	720293	720310	720390	720421	
	720449	720521	720529	720610	720711	720712	720720	720810	720836	720837	
	720838	720839	720851	720852	720890	720918	721020	721049	721090	721129	
	721260	721320	721391	721399	721410	721499	721590	721610	721633	721640	
	721650	721669	721790	721911	721912	721913	721921	721922	721990	722012	
	722090	722100	722219	722230	722240	722410	722490	722599	722620	722691	
	722692	722699	722790	722810	722840	722860	722880	722910	722990		
73	730410	730439	730441	730449	730459	731300	731441	731442	732591	732611	73
	730490	730721	730791	730799	731029	731100	731414	731512	731589	731600	
	731930	731990	732392	732599							

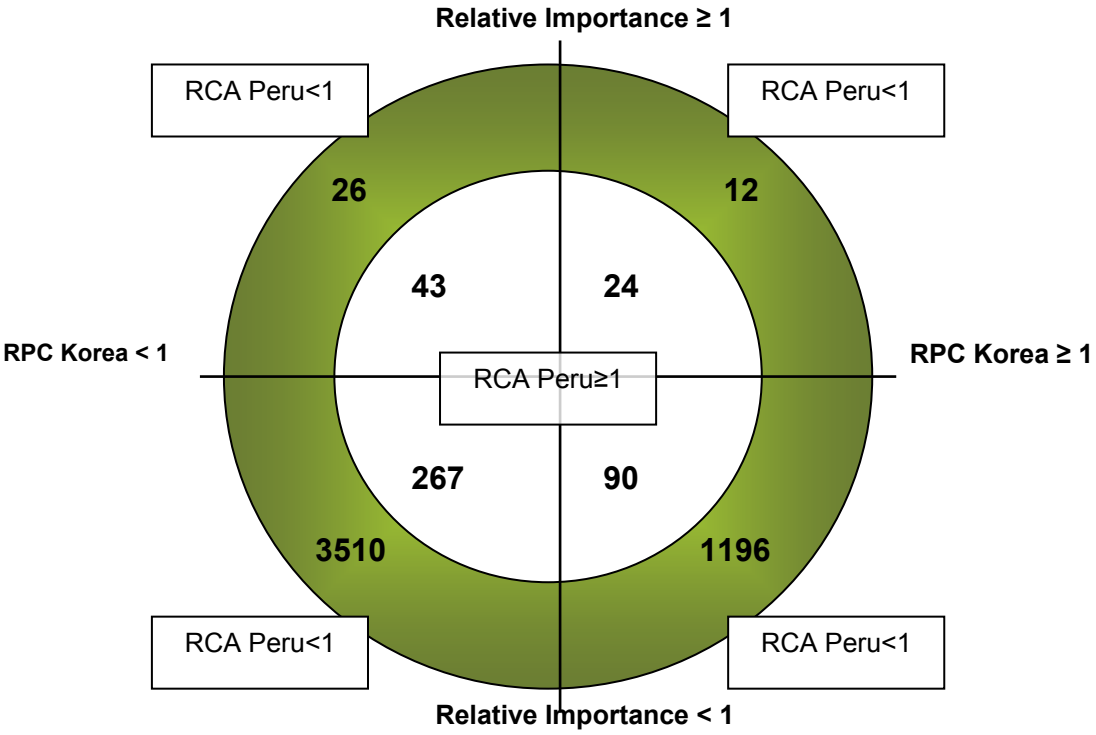
74	740110	740313	740319	740329	740200	740311	740120	740312	740321	740710	74
	740400	740610	740929	740931	740829	740919	740811	740819	740821	741510	
	740939	740940	740990	741011	741012	741021	741022	741121	741122	741129	
	741529	741999									
75	750120	750210	750400	750521	750522	750610	750620	750712	750720	750890	75
76	760110	760120	760200	760320	760691	760692	760519			761210	76
78	780420				780110				780191	780199	78
79					790390	790111	790112	790120	790500	790700	79
80	800500				800110	800120					80
81	800500	810110	810195	810196	810790	811010	810600	810720	811020	811251	81
	810199	810210	810295	810296	811292						
	810299	810411	810520	810820	810890	810990	811090	811100	811229	811230	
	811259	811299									
82	820220	820340	820412	820420	820580	820750	820760	821191		821410	82
83	830150	830890	831120	831130				830170	831110	831190	83
84	840110	840211	840219	840410	840212	842520	841012	841013	847490	847920	84
	840510	840590	840610	840681	840690	840890	840910	840999	841011	848490	
	841229	841239	841280	841319	841330	841381	841410	841430	841480	841490	
	841620	841630	841710	841939	841989	842121	842320	842389	842410	842420	
	842489	842531	842539	842611	842619	842620	842630	842649	842699	842832	
	842833	842840	842860	842890	843010	843230	843621	844319	844329	844351	
	844359	844512	844513	844720	844859	845410	845420	845430	845521	845522	
	845530	845610	845620	845630	845691	845699	845710	845730	845891	845899	
	845929	845940	845961	845969	846021	846029	846031	846040	846090	846120	
	846130	846140	846150	846190	846210	846241	846249	846299	846320	846410	
	846420	846490	846595	846620	846693	846711	846781	846789	846820	847210	
	847220	847290	847529	847810	847950	847981	847982	847989	847990	848010	
	848020	848180	848240	848250	848280	848291	848299	848310	848340	848360	
	848510										
85	850110	850151	850213	850239	852453					850740	85
	850431	850432	850433	850440	850450	850490	850511	850519	850780	850790	
	851410	851420	851430	851440	851490	851519	851580	851632	851750	851810	
	851829	851830	851840	851850	851890	851993	852090	852210	852320	852390	
	852431	852440	852491	852610	852712	852822	852830	852910	852990	853010	
	853120	853221	853222	853223	853224	853225	853229	853230	853321	853329	
	853339	853340	853400	853669	853710	853890	853921	853932	853939	853941	
	853949	853990	854012	854071	854079	854089	854091	854110	854121	854130	
	854140	854160	854190	854221	854229	854311	854320	854389	854511	854590	
	854710	854790	854810	854890							
86	860400									860120	86
87	870821	870840	870919	871000							87
88	880400	880510	880521	880529							88
89	890510	890610	890710	890800							89
90	900120	900190	900211	900220	900290	900640	900669	900720	900840	900630	90
	900930	901049	901050	901090	901120	901180	901210	901320	901380	901390	
	901410	901480	901600	901720	901730	901790	902129	902213	902219	902221	
	902229	902410	902480	902590	902710	902720	902730	902780	902810	902990	
	903020	903039	903040	903082	903083	903089	903090	903110	903130	903141	
	903149	903180	903190	903281	903289	903290					
91	910119	910219	910299	910519	910529	910599	910819	910890	910919	911220	91
	911290										
92	920110	920210	920300	920590	920910	920930	920991	920992	920994	920999	92
93	930111	930120	930190	930390	930591	930610	930621	930690	930630		93
94	940169									940370	94
95	950349	950619	950631	950632	950640	950659				950662	95
	950669	950670	950790	950890							
96	960310	960630	960720	960860	960891	961590		960200	960711	960820	96

Complementary commodities are found mainly in the chapters 03(fish and crustaceans, mollusks and other aquatic invertebrates), 41(hides, skins and leather products), 51(wool, fine or coarse animal hair; horsehair yarn and woven fabric), 52(cotton). It is also found that in the chapters such as 29(organic chemicals), 72(iron and steel products), 84(machinery and mechanical appliances), 85(electrical machinery and equipments), and 90(optical, photographic, cinematographic products, etc), where Korea's import demand is relatively high though there is little potential export supply from Peru.

f. Korean Import Demand for Peru

The following diagram visualizes the Korean demand of imports from Peru for 5168 categories of commodities. **Quadrant 1** (upper right) indicates 36 of the commodities in which Korea has high RPC and imports from Peru with high relative importance. Within this group, Peru turns out to have comparative advantage in 24 subheadings. **Quadrant 2** (upper left) includes the commodities in which Peru stands as an important supplier for Korea, despite the low RPC of Korea. In **Quadrant 3** (lower left), one can find 3777 products of which Korea shows low RPC and low importance of Peru as a supplier at the same time. Finally, **Quadrant 4** (lower right) covers the products in which Peru's export supply has not shown high importance yet, despite the high purchasing capacity of Korea. Within these products, Peru was found to have comparative advantage in 90 products. In sum, based on this analysis, a Free Trade Agreement between the two countries is expected to provide an opportunity for Korea to satisfy its internal demand for these products by expanding imports from Peru.

Chart 4.26 Analysis of Korea's Import Demand from Peru



4.7 Analysis on a Possible Trade Deviation from the Chile – Korea FTA

4.7.1 Tariff Benefits Comparison

Taking into account that Korea has signed a Free Trade Agreement with Chile the next step in this study is to analyze in comparative way Chilean products with tariff preferences and the Peruvian opportunities for them in Korean market.

Making an analysis of Peruvian and Chilean export, it is possible to find some matches. Chile is exporting to Korea around 284 products, from this universe, 223 of them Peru is already exporting them to the world and 110 of these exports includes Korea as one of their markets. These leaves 113 products as potential ones to Korean market, because Peru has production and evidences of export and because Korea is demanding them from another partners, and one of their suppliers is Chile.

It will be useful to analyze the situation of the products that Peru is already exporting to Korea with MFN tariff and that Chile is also exporting to that market but with their preference tariff. For example, Peru is exporting 21 products with 0% as tariff, while Chile exports 47 at that same tariff level. Products like tomato and vegetable seeds, modems, napkins, are already beneficiaries from a 0% MNF tariff just like Chile.

There are cases in which Peruvian exports are paying 3% as tariff and Chilean products are paying half of the tariff (see table 4.37)

In the case of the maximum tariff levels in the analyze products, it is possible to find that actual Korean tariff goes up to 144%, while Chile has as the maximum tariff of 104%. This shows that for the same products, Peruvian one is entering Korean market paying 40% in addition in comparison with the Chilean product.

Peruvian exports to Korea are concentrated in sectors such as Fishing, Agropecuary and Agroindustrial and Traditional Minning.

About Peruvian products with opportunities in the Korean market and their tariff situation it is possible to see differences between Korean tariff that is applied to Peru and the tariff preference that Chile receives.

In the case of those products that pay 0% of tariff, in the case of Peru, only 16 products of the 121 potential ones may actually pay no tariff if they decide to enter to Korean market, against 62 Chilean products that has already the same level of tariff to pay for. Some of these products are sheets, cardboard boxes, units of digital processing, and so on.

Another case is the one of 33 products that Peru could export to Korea will have to pay 8% to enter to that market. Our neighbor Chile is exporting them at tariff level of 0% - 4% - 5.6%, most of them concentrated at 0% tariff (see table 4.38).

It is important to mention that Peru's potential products to Korea are concentrated in Agropecuary and Agroindustrial and Metal-Mechanical sectors.

The following Table shows the number of products exported from Peru to Korea which actually also are exported from Chile to Korea and the custom tariff applied on them. For example, there is one case where Peruvian product pays 800% custom tariff while Chilean one pays 0% custom tariff.

Table 4.37 Products Exported to Korea: Tariff distribution

Number of Tariff Codes	Preferential Tariff to Chile							
Korean Tariff	0%	2% to 4%	21.81 - 104.688%	5% to 7.5%	Excluded	Mix from 0% to 10%	Mix from 0% to 18.75%	Total
0%	21							21
0 - 3 - 8%	1							1
0 - 6.5 - 8%	3							3
1 - 8%	1							1
1%	4							4
3%	1	2						3
5%	3	5						8
6%	1							1
7%	2							2
5 - 8%	2					2		4
8%	7	4		1				12
10%				10		10		20
15%				11				11
14 - 20 %						1		1
20%						1	4	5
8 - 30%							1	1
10 - 20 - 45%							1	1
11 - 20 - 45%							1	1
12 - 20 - 45%							1	1
13 - 20 - 45%							1	1
14 - 20 - 45%							1	1
50%					1			1
110%						1		1
120%							1	1
30 - 144%			1					1
210%						1		1
220%							1	1
800%	1							1
Total	47	11	1	22	1	16	12	110

Source: Trade Map
Prepared by ADEX

Table 4.38 Potential Products: Tariff distribution

Number of Tariff Codes	Preferential Tariff to Chile													
Korean Tariff	0%	3%	4% - 5%	6.5% - 7.5%	14%	18.175% - 20%.	19.629% - Excluded	21.81% - 23%	26%	33%	Mix from 3% to 36%	Quota	Excluded	Total
0%	16													16
2%	1													1
3%	4													4
5%	2	2												4
6%	2													2
7%	5			2										7
8%	24		9											33
10%	1		1	1										3
15%				1										1
20%	1													1
25%						6								6
27%					1	2	1							4
30%						1		2						3
36%									1					1
45%								1		5				6
50%											5			5
0 - 5 - 6.5 - 8 %	1													1
27%						4								4
3 - 8%	1													1
5 - 5.4 - 8 - 30 - 36 - 40%											1			1
5 - 8%	1													1
6.5 - 8%	1													1
8 - 30%	1													1
Quota	1											4	1	6
Total	62	2	10	4	1	13	1	3	1	5	6	4	1	113

Source: Trade Map
Prepared by ADEX

This analysis shows that Peruvian exports that compete with Chilean exports in the Korean market are in disadvantage because of the free trade agreement that Korea has with Chile. Therefore, an agreement between Peru and Korea will offer the possibility to amend Peruvian exports conditions in Korea. In addition, in the negotiation process, these products should be a priority to achieve a short schedule of tariff elimination.

4.7.2 Analysis and Results

a. Methodology

A complementary exercise was done following Mincetur's methodology[80] in order to explore the possibility of trade diversion derived from the Chile-Korea FTA signed in 2003. Since Korea has a preferential agreement with Chile, but not with Peru, in this section the hypothesis of trade triangulation from Korea towards Peru by means of Chile is considered. The objective of the analysis in this section is to detect evidence of trade triangulation in some tariff lines. In order to make this, the trade flows between the three countries were analyzed for two different time periods: 2002-2003 (period previous to the signature of the agreement between Chile and Korea) 2005-2006 (subsequent period of the treaty). Since not all the tariff lines are useful for the analysis, from the list conformed by all the products immersed in trades between the three countries, only those that fulfilled the following characteristics were selected for the analysis:

- Existence of Peruvian imports of the good/service from the world for 2005-2006 period.
- Existence of Peruvian imports of the product from Korea in the previous or later period to the FTA between Chile and Korea.
- Positive variation of the Chilean imports of the product from Korea after the start-up of the FTA between Chile and Korea.

Once identified the tariff lines with these characteristics (a total of 934), two methodologies were used to analyze the possible existence of triangulation in them. The first one consisted in analyzing the variation of absolute commercial flows. For this analysis, a second identification from the tariff lines previously selected was necessary, this time those that fulfilled the following peculiarities:

- Those in which the Peruvian imports from Chile have been increased after the enter into force of the FTA between Chile and Korea (second analyzed period).
- Those in which the variation of the Chilean imports from Korea is superior to the variation of the Peruvian imports from Korea.

[80] Mincetur (2008) "Potencial desviación de comercio entre Corea, Chile y Perú". Consulta Nº 123-2008 - MINCETUR/VMCE/OGEE

Under the second methodology the objective was to evaluate the variation in the market quotas suring the analyzed time periods. Indications of triangulation were considered in those products in which the following existed:

- The market quota of Chile within the Peruvian imports has been increased.
- The variation of the quota of Korea within the Chilean imports is greater than the variation of the market quota of Korea within the Peruvian imports.

b. Results[81]

Under the first methodology (absolute commercial flows) 293 tariff lines were detected in which evidence of triangulation of Peruvian imports from Korea by means of Chile would exist. These products represented 42.8% of the import flow from Korea in the 2002-2003 period and 40.4% after the signing of the FTA between Chile and Korea; whereas, the imports from Chile in these products increased their participation from 13.5% to 21%. On 106 of these tariff lines, the Peruvian imports from Korea have diminished, a phenomena that could be considered a strong indication of commerce triangulation. In this subgroup, it is observed that the Peruvian purchases from Korea, after the signing of the treaty, reduced their market quota from 16.8% to 8.1%. During the same time period the Peruvian imports from Chile increased their market quota from 9.4% to 14.4%.

Under the second proposed methodology (market share) 194 tariff lines were detected in which evidence of triangulation exists. These products represented 36.3% of the import commerce from Korea in the 2002-2003 time period and 26,4% after the start-up of FTA between Chile and Korea; whereas, the imports from Chile for the same tariff lines increased their participation from 10.3% to 17.5%. In 127 of these products the participation of Korea in the Peruvian market has shrinked, reason why it is considered that a strong evidence of trade triangulation exists. Thus, during the 2002-2003 time period the market share on the total of imported goods from Korea was of 33.4%, whereas for the 2005-2006 time period it was of 22.4%. In the other side the share of Chile in our imports increased from 9.9% to 16.5%.

In synthesis, both analytical schemes show triangulation evidence in 185 products. In these products, it was found that between the analyzed time periods (2002-2003 and 2005-2006), there has been important variations in the share of Korea in the Peruvian imports (from 34.5% to 24.9%) and in the participation of Chile in the Peruvian imports (from 10.2% to 16.8%). Also, in 86 tariff lines, both schemes bring strong evidence of trade diversion. In these products the Korean share in our imports was reduced from 16.4% to 8% whereas the Chilean participation increased from 8.8% to 13.8%. However, as table 10 shows, the amounts involved in the potential trade deviations are very small.

[81] This section is based on Mincetur (2008) “Potencial desviación de comercio entre Corea, Chile y Perú”. Consulta Nº 123-2008 - MINCETUR/VMCE/OGEE

Table 4.39 Tariff lines (83) with strong evidence of trade deviation, 2002-2006 (US$)

	Imports 2002-2003	Imports 2005-2006	Difference
Peruvian imports from Korea	41,390	29,549	(11,841)
Peruvian imports from Chile	37,271	101,869	64,598
Chilean imports form Korea	82,706	374,160	291,454

Source: Mincetur

Table 4.40 Example of tariff lines with strongest evidence of trade triangulation under 1st Methodology (US$)

		Peruvian Imports form Korea		Peruvian Imports from Chile		Chilea Imports from Korea	
		2003-2003	2005-2006	2002-2003	2005-2006	2002-2003	2005-2006
845011	Fully automatic machines	5613.66	1817.61	540.35	624.31	17840.95	17886.50
841810	Combines refrigerator-freezers, fitted with separate external doors	8193.49	5505.09	491.41	2438.67	3892.86	4106.59
271019	Other petro oils and bitumin minerals (o/ than crude). Also Lubricating grases, mixture of hydrocarbonsand Petroleum oils & oils from bituminous minerals from petro oil/bitum min/70% +by wt. fr. petro.	21799.97	19557.58	32604.29	86937.40	52456.64	334976.80
842123	Oil or fuel filters for internal combustoin engines	1516.87	510.66	4.00	5.14	1294.58	1739.97
401199	Other new pneumatic radial tires of rubber	681.75	1.93	223.10	532.32	2683.87	3511.30
392112	Cellular products, of polymers of vinyl chloride	528.67	224.55	398.21	436.16	80.05	147.14
730630	Iron or nonalloy steel, welded, w/cire	513.84	257.99	210.30	625.90	576.29	1037.14
842131	Intake air filters for internal combustion engines	937.02	781.75	1.08	4.83	705.97	1301.21
580421	Mechanically made lace, in the piece, in strips or in motifs	188.89	78.49		1.18	23.60	53.49

Source: Mincetur

Table 4.41 Example of tariff lines with strongest evidence of trade triangulation under 2nd Methodology

		Peruvian Imports form Korea		Peruvian Imports from Chile		Chilea Imports from Korea	
		2003-2003	2005-2006	2002-2003	2005-2006	2002-2003	2005-2006
600490	Knitted or croacheted fabrics, width exceeding 30 cm	40.64%	2.57%	0.00%	48.21%	8.48%	18.96%
841810	Combined refrigerator - freezers, fitted with separate external doors	49.86%	16.67%	2.99%	7.39%	28.72%	14.92%
845011	Fully automatic machines	43.11%	12.32%	4.15%	4.23%	64.26%	40.11%
730630	Iron or nonalloy steel, welded, w/cire	25.28%	5.63%	10.35%	13.65%	7.82%	5.33%
580421	Mechanically made lace, in the piece, in strips or in motifs	26.14%	7.64%	0.00%	0.11%	1.70%	3.90%
680430	Hand sharpening or polishing stones	14.58%	1.22%	0.00%	0.21%	0.00%	0.77%
842123	Oil or fuel filters for internal combustion engines	18.32%	5.29%	0.05%	0.05%	9.45%	6.37%
842131	Intake air filters for internal combustion engines	25.42%	13.40%	0.03%	0.08%	7.54%	10.57%
852520	Transmission apparatus incorporating reception apparatus	22.67%	12.80%	0.00%	0.04%	9.31%	15.63%
392190	Nonadhesive plates, sheets, film, foil, strip, of noncellular plastics	23.86%	14.01%	0.38%	1.65%	10.62%	9.51%
732010	Iron or steel, leaf springs & leaves therefore	8.65%	0.20%	0.00%	0.06%	0.04%	0.19%

Source: Mincetur

5. IMPACTS OF TRADE AND INVESTMENT LIBERALIZATION

This chapter estimates the economic impact of a Free Trade Agreement (FTA) between Peru and Korea. The analysis developed in section 4.1, will focus only on the impact of tariff elimination. A descriptive analysis of the potential effects of liberalization of bilateral trade in services and liberalization of bilateral investment is presented in sections 4.2 and 4.3 respectively.

5.1. Model Analysis on Bilateral Trade in Goods

The results were obtained using three different methodologies. First, we used a Computable General Equilibrium (CGE) Model, the GTAP model (the methodology is explained in section 4.1.1). Then, an alternative approach was used, a Partial Equilibrium Model (PEM), that focus merely on markets directly affected by the agreement. Afterwards, as a complementary exercise, we focused on the effects of trade diversion derived from the Chile-Korea FTA signed in 2003. The impacts are presented on section 4.1.2.

5.1.1. Approaches Used: CGEM, PEM, Trade Diversion

a. Computable General Equilibrium (CGE) Model

A standard version of the GTAP model, developed by Purdue University (Hertel and Tsigas, 1997), will be used for this purpose. This is a static, multi-region, multi-sector and neoclassical model, which assumes perfect competition in all goods and service markets, constant returns to scale and decreasing marginal productivity in all production functions. Additionally, it assumes full employment of factors, thus any policy shock would be absorbed through movements in different relative prices; as well as the impact over the productive structure, maintaining fixed the initial provision of factors. In other words, 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. However, two modifications 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. This way, the presence of unemployment in the non qualified labor market is introduced as well as the possibility of obtaining movements (positive and/or negative) over the sectoral demand of non qualified labor.

- Second, in order to capture the long term impact of trade liberalization, the possibility to accumulate capital or not, was introduced. By incorporating this in the model, trade liberalization will impact the investment demand, which will grow or diminish the stock of capital in each country, depending on the effect that is obtained over the rate of return of capital.

a.1 Database and Tariff Updates

In order to update the model's database, specific tariffs from each country or region are needed. It is important to remember that the quality of the results that are obtained from CGE models will depend on both the model specification and the databases employed.

In terms of data, version 6 of the GTAP database (benchmarked in 2001) was used as a starting point (this is the latest version). The database includes information of the sectoral production, commercial flows, national accounts, taxes and production, and exportation or importation subsidies from 87 countries or regions and 57 sectors. For the purposes of this report, the sectors and the countries and regions have been selected and regrouped according to the object of the analysis, the operational complexity, and the availability of information. Thus, the 87 countries or regions were regrouped in 12 countries or regions, trying to keep the largest level of desegregation possible for Peru's main commercial partners as for those countries with whom it has preferential agreements.

Table 5.1 Regrouped Countries

Countries or regions	
1 Chile	7 Rest of Alca
2 China	8 Rest of Asia
3 Korea	9 Rest of Andean Community
4 Mercosur	10 Rest of the World
5 Newly Industrializing Countries	11 European Union
6 Peru	12 United States

Source: GTAP database version 6

On the other hand, in the sector's election, the GTAP sectors were grouped according to the actual commercial exchange between Korea and Peru; grouping the 57 sectors in 14 sectors: 13 of goods and one of services.

Table 5.2 Regrouped Sectors

	Sectors
1	Agriculture
2	Agroindustrial products
3	Fishing
4	Textiles
5	Wearing apparel
6	Leather products
7	Wood products
8	Paper products
9	Petroleum and petroleum products
10	Chemical, rubber, plastic products
11	Ferrous and non ferrous metal products
12	Electronic and Non electronic vehicles, machinery and transport equipment
13	Others
14	Services

Source: GTAP database version 6

As mentioned earlier, version 6 of the GTAP database is one of the most updated sources of consistent information of production, consumption and international commerce by country, region and sectors with tariffs updated until 2001. However, between 2001 and 2006, the Most Favored Nation and preferential tariffs from Korea and Peru have experienced important changes due to their respective unilateral commercial policies and for the commercial treaties that they have subscribed to. Therefore, corrections have been made to the database in order to capture the new Peru's tariff structure as well as those of Peru's main commercial partners during 2006. These corrections eliminate the possibility of overestimating the benefits of a Free Trade Agreement between Peru and Korea.

This actualization process was carried out in two stages:

- The first stage updated Peruvian tariffs and the tariffs from its main commercial partners, without changing the country's productive or commercial structure. This process was made using the ALTERTAX software.

- The second stage incorporated the main tariff changes produced by sub regional treaties such as the Andean Free Trade Zone, MERCOSUR, Economic Complementation Agreements and some of the main Free Trade Agreements subscribed between Latin-American countries or between a Latin-American country and a regional block. Also, unilateral preferences that the US offers to the Andean countries through the ATPDEA, and the preferences that the EU provided through the Generalized System of Preferences (GSP) for Andean countries were incorporated throughout a simulation of tariff changes produced between the year 2001 and 2006, in order to use the year 2006 as a new starting point, regarding the tariffs, for the Free Trade Agreement between Peru and Korea analysis.

Finally, taking into account that during the years 2001 and 2006 the commercial exchange between both countries has grown remarkably (nowadays, it is 2.54 times the amount registered in 2001), the commercial flows from both countries were

updated, in an ad-hoc way, with the purpose of not underestimating the result of a possible Free Trade Agreement between both countries. Tariff updates considered for the analysis for 2001 and 2006 are shown in the following two tables.

Table 5.3 Tariff Updates, corresponding to 2001

		Importer country											
		Chile	China	Korea	Mercosur	NICs	Peru	Rest of Alca	Rest of Asia	Rest of Andean Community	Rest of the World	European Union	United States
Exporter country	Chile		MFN	MFN			ECA 38					GSP-G	GSP
	China			MFN			MFN						
	Korea	MFN	MFN		MFN		MFN			MFN		MFN	MFN
	Mercosur		MFN	MFN			ECA 39 y 48			ECA 36, 39 & 48		GSP-G	GSP
	NICs			MFN			MFN						
	Peru	ECA 38	MFN	MFN	ECA 39 y 48					DECISION 414		GSP-D	ATPA
	Rest of Alca			MFN			MFN						
	Rest of Asia			MFN			MFN						
	Rest of Andean Community		MFN	MFN	ECA 36, 39 y 48		DECISION 414					GSP-D	ATPA / GSP
	Rest of the World			MFN			MFN						
	European Union			MFN			MFN						
	United States			MFN			MFN						

Notes: MFN refers to the Most Favored Nation tariff; ECA refers to the Economic Complementation Agreements between the countries of the ALADI; GSP refers to the U.S. Generalized System of Preferences; ATPA refers to the Andean Trade Preference Act provided by the U.S. to the Andean countries excepting Venezuela; GSP-G refers to the European Union Generalized System of Preferences; GSP-D refers refers to the European Union's Special Regime on its Generalized System of Preference supporting the fight against drug production and trafficking and finally, Decision 414 refers to the decision through which Peru is reincorporated to the CAN and initiates its tariff reduction process.

Table 5.4 Tariff Updates, corresponding to 2006

		Importer country											
		Chile	China	Korea	Mercosur	NICs	Peru	Rest of Alca	Rest of Asia	Rest of Andean Community	Rest of the World	European Union	United States
Exporter country	Chile		MFN	TNDC*			ECA 38					GSP-Plus	GSP
	China			BID			MFN						
	Korea	MFN			MFN		MFN			MFN		MFN	MFN
	Mercosur		MFN	GPS/MFN/TNDC			ECA 58			ECA 59		GSP-Plus	GSP
	NICs			MFN			MFN						
	Peru	ECA 38	MFN	TNDC*	ECA 58		MFN			FTA		GSP-Plus	ATPDEA
	Rest of Alca			MFN			MFN						
	Rest of Asia			MFN			MFN						
	Rest of Andean Community		MFN	GPS/MFN	ECA 59		FTA					GSP-Plus	ATPDEA/GSS
	Rest of the World			MFN			MFN						
	European Union			MFN			MFN						
	United States			MFN			MFN						

Notes: MFN refers to the Most Favored Nation tariff treatment, ECA refers to the Economic Complementation Agreements between the countries of the ALADI; GSP refers to the U.S. Generalized System of Preferences; ATPDEA refers to the The Andean Trade Promotion and Drug Eradication Act provided by the U.S. to the Andean countries excepting Venezuela; GSP-Plus refers to the European Union New General Regime on its GSP, FTA refers to the current Free Trade Areas effective at the moment between Peru and the rest of the Andean countries, finally, it is important to mention that Korea also applies a GSP to developing countries and at the same time, distinguishes a tariff denominated TNDC, which applies for those countries with it is negotiating (Peru, Brazil, Chile and Mexico). Also, it should be appointed that Korea makes a distinction in the information sent to the WTC and the Integrated Data Base; considers Peru, Chile, Brazil and Mexico as developing countries to whom is negotiating and gives them lower tariff than the MFN. Also maintains a GSP for the Developing Countries and other Less Developed Countries.
*Although the update do not include those tariffs corresponding to the treaty signed between Korea and Chile in 2006, it should be mention that a simulation of the impact over the Peruvian data of a complete liberalization of trade between Korea and Chile was made, finding a null impact.

Table 5.5 Bilateral trade flows and simple average tariff rates, by sectors

Sectors	Peruvian Exports to Korea 2006 (in US$)	Peruvian Imports from Korea 2006 (in US$)	Korean Tariffs 2006 (simple)	Peruvian Tariffs 2007 (simple)
Agriculture	419,801	472	28.00	8.72
Agroindustrial products	10,286,577	228	69.75	10.53
Fishing	32,246,140	26,233	40.11	10.92
Textiles	11,269,574	24,622,326	8.73	13.10
Wearing apparel	418,312	295,044	12.28	16.31
Leather products	149	1,608,181	8.64	11.23
Wood products	291,743	978,254	5.10	7.10
Paper products	323	8,383,531	0.26	5.73
Petroleum and petroleum products	492,264,850	923,531	5.65	3.56
Chemical, rubber, plastic products	981,249	108,195,238	6.61	3.11
Ferrous and non ferrous metal products	101	29,205,300	4.54	3.09
Electronic and Non electronic vehicles, machinery and transport equipment	133,282	185,472,453	5.87	2.38
Others	85,325	563,885	10.04	8.07
Total	**548,397,426**	**360,274,675**	**11.88**	**5.80**

Thus, it can be observed that the applied tariffs (using a simple average) by Peru (5.8%) are, on average, lower than those applied by Korea (11.9%). Nevertheless, due to the trade structure existing between both countries, when weighting the tariffs by the bilateral trade the opposite is observed: the applied tariffs by Korea (2.6%) are slightly lower than those applied by Peru (3.4%).

In the case of Korea, the sectors with the highest tariff rates are agroindustrial products, fishing, and agriculture; sectors that possess tariff levels above 25%; while the sectors with the lowest tariff rates are paper products, ferrous and non ferrous metal products, and wood products, with tariff below 4.5%. In the case of Peru, the sectors with the highest tariff rates are wearing apparel, textiles, and leather products; sectors that possess tariff levels above 11%; while the sectors with the lowest tariff rates are electronic and non electronic products, vehicles, machinery and transport equipment; chemical, rubber, plastic and prods; and ferrous and non ferrous metal products; with tariffs below 3.2%.

This analysis suggests that each economy could have some sensitive sectors or industries that could be affected with a complete liberalization.

b. Partial Equilibrium Model (PEM)

Partial equilibrium models (PEM's) focus on the impact of a policy change in the market(s) directly affected. One of their advantages is that they can work at a very fine level of detail; specifically, in the case of trade models, you can get the effect of a tariff reduction at a tariff line level. Another of the advantages of the partial equilibrium approach is its minimal data requirement; typically the exercise only need information of trade flows, tariffs, and elasticities, in order to make the model work.

However, the PEM's have been criticized because they do not take into account the economy wide effects of policy changes like inter-industry effects, or exchange rate effects, that the general equilibrium models already do. That is why they are generally

used as complements of the aforementioned with the aim to get disaggregated effects of a given policy.

In this section, the Trade Policy Simulation Model developed by the UNCTAD, will be employed to provide information on the direct trade effects of a unilateral tariff elimination of Peruvian tariffs in favor to Korea.

The main assumptions in this model are:

- On the export supply side: The export supply elasticity is infinite. In other words, markets adjust only through quantity.

- On the demand side: The modeling approach is based on the Armington assumption. That means that there is imperfect substitution between goods produced in one country or another.

Then, two different effects will be calculated:

- The trade creation effect (TC_{ijk}) will be equal to the increase on the Peruvian demand for Korean goods "i" generated by the fall of its internal prices associated with the removal of tariff or non-tariff distortions (remember that one of the assumption was a full transmission of prices)

$$TC_{ijk} = M_{ijk} * \frac{Em * dt_{ijk}}{(1 + t_{ijk})}$$

  Where: Mijk is equal to the imports of product "i" made by country "j" from country "k", "j" refers to Peru and "k" refers to Korea; Em 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 Korean's imports and dt_{ijk} is the derivate of t_{ijk}.

- The trade diversion effect (TD_{ijk}) refers to the substitution of goods coming from one set of foreign suppliers for goods from another set of foreign suppliers (in this case, from Korean goods) in response to a change in the import price of supplies from Korea (after payment of duties) but not from the alternative sources. This occurs as a consequence of changes in the differential in the import tax rates which they face. Particularly it can occur through changes in the MFN rate, the preference rate, if any, or both.

$$TD_{ijk} = \frac{M_{ij \neq k} * M_{ijk} * dt_{ijk} * \sigma_{ijk \neq k}}{M_{ij} * (1 + t_{ijk})}$$

  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 (≠k).

The Partial Equilibrium Model is benchmarked in 2006; it means that world and bilateral trade structure, as well as world and bilateral tariffs are based on this year. The data of bilateral flows and tariffs was taken from TRAINS and COMTRADE, while the data of

elasticities was taken from the World Bank estimates (See: Olarreaga and Nicita, 2006).

5.1.2. Final Outcomes

a. Results Derived from the CGE Model

KOREA

The simulations used the average tariff lines weighted by bilateral trade. However, the simple average was introduced for the case of the agriculture and food agroindustrial products, in order to avoid a clear subestimation of the benefits in these two sectors, since there was a great difference between the simple tariff and the weighted tariff.
The outcomes suggest that the effects of FTA between Korea and Peru are small but positive to Korea. With the implementation of the Korea-Peru FTA, the welfare and real GDP of Korea would increase by 0.00629% and 0.01%, respectively. Both exports and imports would increase, but the increase rate of the imports would be a little bit higher than that of exports, resulting in a small deterioration in the trade balance. Investment and domestic consumption would increase also in a small scale.

Table 5.6 Macroeconomic Effects of Korea-Peru FTA on Korea

	Macroeconomic Indicators	change (%)
1	Welfare	0.00629%
2	Disposable Income per capita	0.01000%
3	Real GDP	0.01000%
4	Trade Balance	-0.00018%
5	Imports	0.03448%
6	Exports	0.03109%
7	Domestic Consumption	0.00585%
8	Tax Revenue	-0.00360%
9	Investment	0.02074%
10	Employment	0.00000%
11	Stock de capital	0.01000%

Korea's total production would rise by 0.0083%, but the employment rate would not change at all. Sectoral analysis shows that imports of food processing and fishing sector would increase the most. The sectors with the largest increase in export would be those of paper products, wood products and textile products. In the case of food processing and fishing sector, domestic production and employment rate would decrease, but in all the other sectors, domestic production would increase in a small scale, as well as employment rate.

Table 5.7 Sectoral Impact of the FTA on Korea

	Sector	imports	exports	producton	employment
1	Agriculture	-0.0078%	0.0240%	0.0060%	0.0125%
2	Food processing	0.5180%	0.0499%	-0.0282%	-0.0200%
3	Fishing	0.3714%	0.0413%	-0.0405%	-0.0349%
4	Textiles	0.1339%	0.1457%	0.0906%	0.1012%
5	Apparel	0.0311%	0.0125%	0.0018%	0.0157%
6	Leather products	0.0421%	0.0856%	0.0541%	0.0679%
7	Wood products	0.0213%	0.1508%	0.0105%	0.0221%
8	Paper products	0.0404%	0.1720%	0.0336%	0.0445%
9	Petroleum and Ptr. Prod.	0.0285%	0.0453%	0.0037%	0.0136%
10	Chemical, rubber, plastic products	0.0250%	0.0277%	0.0176%	0.0265%
11	Ferrous and non ferrous metal products	0.0193%	0.0149%	0.0055%	0.0150%
12	Electronic and Non elec. appl, transport equip.	0.0223%	0.0206%	0.0085%	0.0179%
13	Others	0.0071%	0.0221%	0.0118%	0.0219%
14	Services	0.0211%	-0.0240%	0.0051%	0.0152%
Total		0.0345%	0.0311%	0.0083%	0.0000%

PERU

As usual, the simulations used the average tariff lines weighted by bilateral trade. However, the simple average was introduced for the case of the agriculture and agro industrial products, in order to avoid a clear sub estimation of the benefits in these two sectors, since there was a great difference between the simple tariff and the weighted tariff.

The outcomes suggest that, with the implementation of the FTA between Peru and Korea, real GDP and the population's wealth for Peru would rise in 0.23% and 0.22% respectively. Also, the employment rate, the stock of capital and the investment rate would expand above 0.29%, 0.26% and 0.28% correspondingly. In terms of trade flows, the model shows that global and bilateral trade would increase. Particularly on the Peruvian side, aggregate exports to the world and Korea would increase by at least 0.66% and 15.02%, respectively; and aggregate imports from the world and Korea would increase by at least 0.65% and 27.0%, respectively. This exercise also suggest that Peru's trade balance and tariff revenues would face non significant changes, which means that the effect of the tariff reduction would boost the exports and imports in a similar way, neutralizing the impact on the trade balance and the fiscal collection.

Table 5.8 Macroeconomic Impacts of Peru-Korea Free Trade Agreement

Macroeconomic Indicators	Peru-Korea FTA
1 Welfare (Equivalent Variation in US$ Mills/GDP)	0.22%
2 Available Income per capita	0.24%
3 Real GDP (variation%)	0.23%
4 Trade Balance (US$ Mill/ GDP)	0.00%
5 Imports (var%)	0.65%
6 Exports (var%)	0.66%
7 Domestic Consumption (var%)	0.20%
8 Taxes Revenue (US$ Mill/GDP)	0.00%
9 Investment (US$ Mill/GDP)	0.28%
10 Employment	0.29%
11 Stock of Capital	0.26%

Source: GCE Simulations

The sectoral results show that, in average, the Peruvian total production would rise in 0.24%. The disaggregated results suggest that the sectors that would benefit the most are fishing, petroleum and petroleum products, agro industrial products, services, wood products and forestry and wearing apparel; with increases on production of 0.51%, 0.41%, 0.31%, 0.24%, 0.21%, 0.21% and 0.19%, respectively. On the other hand, the sectors that would lose the most are: leather products and electronic equipment and non electronic products, vehicles, machinery and transport equipment which would present production decreases by 0.03% and 0.11% correspondingly. Particularly, some of the potential winners like the agro industrial and wearing apparel sectors, would register high growth rates on its exports towards Korea of 1229.2% and 146.1%. However, since its initial low levels of exchanged bilateral trade, these augmentations would translate into increases of US$ 10 to US$ 1 million in absolute terms. Meanwhile the fishing and mining and petroleum sector, with modest growth rates (67.0% and 8.9% respectively) represent increases of 20 and 40 millions of dollars on the exports to Korea. On the other hand, some of the potentially not benefited sectors such as leather products and electronic and non electronic products, vehicles, machinery and transport equipment would register considerable increases on the imports coming from Korea (234.2% and 29.7% respectively) which would affect its local production levels, with cuts of 0.03% and 0.11%.

Finally, it is important to mention that 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.

Table 5.9 Sectoral Impact on Peruvian Total Production, Exports and Imports

	Sectors	Sectoral Impact on Peruvian Total Production	Sectorial Impact on Peruvian Exports	Sectoral Impact on Peruvian Imports
1	Agriculture	0.18%	-0.34%	0.61%
2	Agroindustrial products	0.31%	1.71%	0.87%
3	Fishing	0.51%	1.51%	0.41%
4	Textiles	0.13%	2.41%	3.51%
5	Wearing apparel	0.19%	0.14%	1.29%
6	Leather products	-0.03%	1.02%	3.59%
7	Wood products	0.21%	0.00%	0.74%
8	Paper products	0.12%	0.03%	0.68%
9	Petroleum and Ptr. Prod	0.41%	0.64%	0.49%
10	Chemical, rubber, plastic products	0.18%	0.27%	0.34%
11	Ferrous and non ferrous metal products	0.15%	0.23%	0.45%
12	Electronic and Non electronic vehicles, machinery and transport equipment	-0.11%	0.11%	0.80%
13	Others	0.21%	-0.01%	0.37%
14	Services	0.24%	-0.14%	0.34%
Total		**0.24%**	**0.66%**	**0.65%**

Source: GCE Simulations

Table 5.10 Sectoral Impact on Peruvian Total Exports and Imports to Korea and the World

		Exports		Imports	
	Sectors	South Korea	World	South Korea	World
1	Agriculture	386.37%	-0.34%	72.25%	0.61%
2	Agroindustrial products	1229.22%	1.71%	65.14%	0.87%
3	Fishing	66.96%	1.51%	43.49%	0.41%
4	Textiles	70.21%	2.41%	93.10%	3.51%
5	Wearing apparel	146.12%	0.14%	204.20%	1.29%
6	Leather products	48.36%	1.02%	234.21%	3.59%
7	Wood products	57.85%	0.00%	74.17%	0.74%
8	Paper products	0.07%	0.03%	59.20%	0.68%
9	Petroleum and Ptr. Prod	8.94%	0.64%	86.59%	0.49%
10	Chemical, rubber, plastic products	51.48%	0.27%	7.94%	0.34%
11	Ferrous and non ferrous metal produ	66.88%	0.23%	15.34%	0.45%
12	Electronic and Non electronic vehicles, machinery and transport	55.37%	0.11%	29.65%	0.80%
13	Others	61.38%	-0.01%	61.68%	0.37%
14	Services	-0.12%	-0.14%	0.32%	0.34%
Total		**15.02%**	**0.66%**	**27.00%**	**0.65%**

Source: GCE Simulations

b. Results Obtained from the PEM

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 Korea would generate a trade creation effect of approximately US$ 61.8 millions. This means that, Peruvian imports from Korea will increase in 17.18%. The sectoral imports that will grow the most are: leather

products (70.59%), wood and paper products (69.49%), wearing apparel (66.05%), others (39.29%) and textiles (26.44%). From those sectors, the sectors that will increase above US$ 1 million are: leather products and wearing apparel.

In the case of leather products, 11 subheadings will increase above US$ 1 million, among them: Other footwear with outer soles and uppers of rubber or plastics (like sandals, training shoes, etc); other footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather; other trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; traveling-bags, insulated food or beverages bags, toilet bags, with outer surface of plastic sheeting or of textile materials.

In the case of wearing apparel, 17 subheadings will increase above US$ 1 million, among them: Ties, bow ties and cravats of man-made fibers; men's or boy's shirts made of cotton; others men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, other than those of heading 62.03; other hair nets; trousers, bib and brace overalls, breeches and shorts made of cotton; Men's or boy's shirts of man-made fibers; Men's or boys' shirts, knitted or crocheted made of cotton.

On the other hand, the full liberalization would produce a trade diversion effect of US$ 31.6 millions. This effect represents around 8.77% of Peruvian imports from Korea, and 0.23% of Peruvian imports from other countries.

Textiles, leather products and electronic and non electronic vehicles, machinery and transport equipment and chemical rubber and plastic products; will be the most affected sector due to trade diversion effect. The effect in such sectors will account 0.74%, 0.40%, 0.37%, and 0.29%, respectively of Peru’s total import from other countries. In absolute terms, the greatest diversion will be experimented in the electronic and non electronic vehicles, machinery and transport equipment and paper products; where the diversion effect will reach US$ 16.7 million. This will be followed by the effect on chemical rubber and plastic products (US$ 7.1 million) and textiles (US$ 3.1 million).

Table 5.11 Trade Creation Value and Trade Deviation Value for Sector (US$ thousands)

Sectors	Peru's Total Import 2006	Peru Import from Korea 2006	Peru's Import from other countries	Trade Creation Value	Trade Diversion Value	Ratio of Trade Diversion in import from Korea	Ratio of Trade Diversion in import from other countries	Ratio of Trade Creation in import from Korea
1 Agriculture	947,244.69	0.47	947,244.21	0.12	0.16	34.29%	0.00%	26.04%
2 Agroindustrial products	60,959.62	0.23	60,959.40	0.02	0.04	19.32%	0.00%	10.10%
3 Fishing	238,750.14	26.23	238,723.91	5.06	6.85	26.12%	0.00%	19.27%
4 Textiles	457,027.18	24,622.33	432,404.85	6,509.04	3,184.38	12.93%	0.74%	26.44%
5 Wearing apparel	87,236.96	295.04	86,941.92	194.87	71.06	24.09%	0.08%	66.05%
6 Leather products	100,002.86	1,608.18	98,394.68	1,134.96	393.59	24.47%	0.40%	70.57%
7 Wood products	94,588.84	978.25	93,610.58	679.78	152.74	15.61%	0.16%	69.49%
8 Paper products	454,277.10	8,383.53	445,893.57	1,401.45	1,232.58	14.70%	0.28%	16.72%
9 Petroleum and Ptr. Prod	3,111,871.41	923.53	3,110,947.88	153.05	125.60	13.60%	0.00%	16.57%
10 Chemical, rubber, plastic products	2,537,433.15	108,195.24	2,429,237.91	16,517.03	7,112.46	6.57%	0.29%	15.27%
11 Ferrous and non ferrous metal products	1,071,002.38	29,205.30	1,041,797.08	4,527.24	2,534.90	8.68%	0.24%	15.50%
12 Electronic and Non electronic vehicles, machinery and transport equipment	4,726,057.53	185,472.45	4,540,585.08	30,550.06	16,695.25	9.00%	0.37%	16.47%
13 Others	255,525.78	563.88	254,961.90	221.53	92.65	16.43%	0.04%	39.29%
Total	14,141,977.64	360,274.67	13,781,702.97	61,894.20	31,602.26	8.77%	0.23%	17.18%

Source: SMART Model

5.2 Impact on Main Export Products

To analyze the impact of a Free Trade Agreement (FTA) between Korea and Peru on individual products, Korea's import from Peru was compared with those from Peru's neighboring countries. To reduce the error from yearly variation, we used the average import of 2005 and 2006.

The following assumptions were adopted in the analysis:

1. If Korea is importing a product from any of the Andean countries, this means that technical impediments such as increasing transportation cost, are not so strong as to prevent any kind of trade between Korea and Peru. Therefore, Korea is a potential market to Peru.
2. The effect of FTA will be stronger for the products with higher tariff before the establishment of the FTA.
3. If Korea's total import of the product is large, this means that Korea can be a good potential market to Peru in that product. The import from Peru may substitute the import from third countries, causing trade diversion.
4. If Korea's import from Peru has a large share of the total import, the elimination of tariffs may lead to trade creation. However, the increase in quantity imported from Peru can be smaller than the trade diversion case.
5. If Peru is already exporting some amount of that product to the third countries, this implies that Peru has enough capacity to expand its export to Korea.

As shown in Table 5.12, among the top 30 products Korea imported from Andean countries, 6 products were in the category of HS 26(ores, slag and ash), 5 products in HS 74(copper and articles thereof), 3 products each in HS 03(fish, crustaceans, mollusks, other aquatic invertebrate) and HS 44(wood and articles of wood, wood charcoal), and 2 products in HS 08(edible fruit and nuts, peel of citrus fruit or melon).

Table 5.12 Top 30 products which Korea imports from Andean countries (millions of US$)

	Korea's imports from:						Peru's total exports	Korea's tariff rate (%)
HS Code	Bolivia	Chile	Colombia	Ecuador	Peru	World		
Total	97.5	3,044.3	169.7	20.0	461.0	285,290.3	20,439.6	
260300	1.4	1,013.2	0.0	0.0	127.9	2,514.5	2,136.9	0
740311	0.0	891.4	0.0	0.0	1.7	1,832.2	2,391.2	3
260800	77.2	52.4	0.0	0.0	202.1	1,062.3	1,221.3	0
740200	0.0	198.1	0.0	0.0	4.6	411.5	174.4	0
290511	0.0	166.4	0.0	0.0	0.0	431.3	0.0	2
261310	0.0	119.2	0.0	0.0	0.0	440.5	0.0	0
740319	0.0	117.0	0.0	0.0	0.0	179.6	0.1	5
720260	0.0	0.0	113.2	0.0	0.0	592.0	0.0	TQ 1
020329	0.0	80.1	0.0	0.0	0.0	621.7	0.0	25
470321	0.0	62.2	0.0	0.0	0.0	309.9	0.0	0
260700	16.3	1.6	0.0	0.0	43.2	302.1	381.0	0
260112	0.0	34.7	0.0	0.0	25.9	373.7	123.1	0
470329	0.0	40.3	0.0	0.0	0.0	759.0	0.0	0
090111	0.0	0.0	26.5	0.0	8.6	135.3	410.5	2
230120	0.0	29.6	0.0	0.0	2.6	45.3	1,147.0	5
740110	0.0	31.1	0.0	0.0	0.0	35.1	0.0	0
260111	0.0	24.7	0.0	0.0	0.0	1,779.1	112.9	0
740400	0.1	8.2	10.6	4.7	0.9	892.7	14.0	0
080610	0.0	23.5	0.0	0.0	0.0	28.1	42.3	45
160590	0.0	4.0	0.0	0.0	12.6	128.4	47.0	20
470311	0.0	16.2	0.0	0.0	0.0	100.8	0.0	0
440710	0.0	13.0	0.0	0.0	0.0	100.0	0.6	5
220421	0.0	12.9	0.0	0.0	0.0	70.8	0.3	15
030322	0.0	12.1	0.0	0.0	0.0	25.4	0.0	10
270900	0.0	0.0	0.0	10.6	0.7	49,235.4	337.5	0~3
081050	0.0	10.1	0.0	0.0	0.0	58.0	0.0	45
030379	0.0	9.6	0.0	0.0	0.0	649.3	9.3	10
030420	0.0	2.9	0.0	1.0	5.0	98.5	40.4	10
170111	0.0	0.0	8.0	0.0	0.0	468.1	28.3	3
283691	0.0	7.2	0.0	0.0	0.0	8.3	0.0	5.5

The tariff rates on the products in HS 74 (copper and articles thereof) range from 0 to 5 Even if tariff reduction is not so large, we can expect a significant increase in the import of these products from Peru. For example, Korea's import of billets of refined copper (HS 740311) from Peru is only US$ 1.7 million. However, Korea's total import of the product is US$ 1832.2 million, more than 50% of that coming from Chile. The fact that Korea is importing a large amount of this product from Chile implies that there is no technical impediment in importing the product from South America. Here we can expect some trade creation effect as well as trade diversion effect. Peru would be able to expand its export to Korea as its total exports reached US$ 2,391.2 million, which is an amount much larger than what it is exporting to Korea.

In the case of coffee (HS 090111), Korea's total import was US$ 135.3 million, of which US$ 8.6 million was imported from Peru. Korea imports much larger amount of US$

26.5 million from Colombia. However, considering that Peru's total export of coffee was as much as US$ 410 million, and that there will be a tariff reduction of 2%, Korea's coffee import from Peru is expected to experience a significant increase after the establishment of FTA.

Peru's total export of flours, meals and pellets of fish (HS 230120) amounts to US$ 1,147 million. However, Peru exports just US$ 2.6 million of this product to Korea, which imports US$ 45.3 million in total. About 65% of the Korean import is coming from Chile. As shown in Table 4.4, the imports from Chile tripled after the Korea-Chile FTA with a small reduction of the tariff from 5% to 3%. Therefore, with the tariff reduction from Korea-Peru FTA, the import of this product from Peru is expected to increase in a very large scale.

At present, Korea is not importing fresh grapes (HS 080610) from Peru, probably because the tariff rate is 45%. But if tariff is reduced from FTA, Korea may import fresh grapes from Peru. The fact that Korea is actually importing more than half of its import from Chile, is an evidence that there aren't technical impediments in the trade between the two countries.

In the case of squids (HS 160590), Korea is importing US$12.6 million of this product from Peru, despite the high tariff rate of 20%. As Korea's annual import amounts to US$ 128.4 million, it is very likely that its import from Peru may increase with the tariff reduction after the establishment of FTA. A similar case is frozen fish fillets (HS 030420). Korea imports US$ 5.0 million from Peru, even with a tariff rate of 10%. As Korea's annual import amounts to US$ 98.5 million, if Korea's import tariff is reduced, it is very likely that its import from Peru may increase significantly.

Korea's import of conger eel (HS 030379) was as much as US$ 649.3. However, though Peru has some production capacity and exported US$ 9.3 million in total, that export did not reach Korea. If the tariff rate of 10% is reduced and the awareness increases after the establishment of FTA, Peru may begin to export to Korea. A similar case is cane sugar (HS 170111). Peru is not exporting to Korea even despite its production capacity. Considering that Korea's import demand for sugar is very high, trade may begin between the two countries with FTA.

The tariff rates on the products in HS 26 (ores, stag and ash), which account for 86% of the import from Peru, are all zero. Due to such situation, the effect of tariff reduction will not appear in these products. However, as in the case of Chile, the imports may increase after the establishment of FTA because of the effects other than tariffs. In Table 5.13, we can observe that in the case of Korea-Chile FTA, Korea's import of bleached wood pulp (HS 470329) and roasted molybdenum ores (HS 261310) from Chile increased drastically after the establishment of FTA in 2003, even without any reduction in tariff, which was already zero before the establishment of FTA. .

Table 5.13 Products with Large Import Increase after Korea-Chile FTA
(US$ Thousands, %)

	red wine	kiwifruit	streaky pork	Atrantic salmon	ingot	methanol	flours, meals and pellets of fish	bleached wood pulp	roasted molybden. ores
HS Code	220421	081050	020329	030322	740319	290511	230120	470329	261310
pre-FTA tariff	30	45	25	10	5	2	5	0	0
post-FTA tariff	5	29	17	3	0	0	3	0	0
1998	62	356	0	188	28,850	13,944	1,470	2,370	5,248
1999	312	588	0	0	30,304	17,045	3,336	14,156	8,355
2000	340	748	0	1,268	31,468	38,149	9,638	17,777	8,558
2001	421	647	0	625	29,333	30,902	14,653	16,604	3,954
2002	895	1,361	3,886	577	29,104	128	11,096	17,374	4,268
2003	2,366	1,758	23,081	399	29,182	82,877	14,942	19,980	10,307
2004	6,810	2,885	42,903	2,462	46,444	86,035	23,130	23,926	47,744
2005	10,251	7,996	49,883	5,770	82,804	137,583	24,263	38,282	162,178
2006	13,395	12,255	54,330	18,458	151,207	195,120	34,987	42,368	76,238

On the other hand, among the top 30 products Peru imported from China, Japan and Korea, 8 products were in the category of HS 87(vehicles other than railway), 6 products each in HS 85(electrical machinery and equipments, and parts thereof) and HS 84(machinery, mechanical appliances), and 3 products in HS 39(plastics and articles thereof), as shown in Table 4.5. In most of the main products exported to Peru, Korea is competing with either Japan or China.

Korean products in HS 84(machinery, mechanical appliances), such as parts and accessories for automatic data processing machines (HS 847330), input or output units (HS 847160), storage units (HS 847170), etc, are already paying zero tariff when entering the Peruvian market. Therefore, in the case of these products, there will be no trade creation or trade diversion effect coming from tariff reduction after FTA.

Table 5.14 Top 30 products which Peru imports from Asian countries (millions of US$)

	Peru's imports from:				Korea's total exports	Peru's tariff rate (%)
HS Code	China	Japan	Korea	World		
Total	1,280.8	488.3	354.3	13,860.1	304,890.9	
870323	0.4	72.7	16.5	152.6	14,039.4	9
851712	45.5	3.4	40.5	316.3	18,398.8	0
870322	0.3	60.0	3.0	65.9	4,036.5	9
847330	32.5	16.9	3.0	84.6	8,356.7	0
847160	40.0	4.9	2.0	81.8	6,175.8	0
870332	0.0	25.3	12.6	40.4	4,761.0	9
852871	26.4	1.4	8.7	121.6	2,357.9	9
852190	34.0	0.2	0.5	47.0	510.8	9
847110	31.4	0.8	0.5	38.2	177.0	0
847170	20.8	0.5	9.1	47.5	2,177.5	0
871120	29.2	0.7	0.0	43.7	70.4	9
870421	0.2	22.1	6.8	80.9	1,260.1	0
390120	0.2	0.0	27.6	78.5	1,306.0	0
852580	13.8	12.3	0.8	31.4	426.6	0
852791	23.5	0.0	0.1	30.7	3.4	9
721012	0.0	17.2	4.5	83.2	403.5	0
271019	0.0	0.0	19.6	529.0	14,768.3	0
640299	18.8	0.0	0.6	32.5	16.6	17
851761	18.3	0.2	0.2	46.2	434.6	0
401120	9.3	4.0	5.0	49.9	871.1	0
870422	0.3	11.8	6.1	33.5	54.3	0
390110	0.3	0.9	15.3	84.7	778.3	0
390760	10.4	0.0	4.9	106.4	1,009.7	0
842952	0.5	12.8	1.9	40.4	1,554.2	0
870333	0.0	8.8	6.2	17.9	1,402.1	9
600632	13.8	0.0	0.4	14.8	383.9	17
870210	0.7	6.1	6.5	58.0	466.5	0
283531	12.9	0.0	0.0	15.0	0.1	0
845229	8.2	3.9	0.5	19.0	79.4	0
521142	12.4	0.0	0.1	14.5	0.8	17

In the case of the products in HS 85 (electrical machinery and equipments, and parts thereof), there are two types of products. There are products, such as telephones for cellular networks (HS 851712), television cameras, digital cameras, and video cameras (HS 852580), and base stations (HS 851761), which are paying zero tariff, and others, such as monitors and projectors (HS 852871), video recording or reproducing apparatus (HS 852190), reception apparatus for radio-telephony (HS 852791), which are paying 9% tariff when imported to Peru. In the case of monitors and projectors (HS 852871), Korea's export amounts to US$ 2,357.9 million, but its export to Peru is just US$ 8.7 million. Peru is importing a large amount of this product from China. If FTA reduces the tariff to 9%, a significant increase in the Korean export is expected. China's share in the Peruvian import is even higher in video recording or reproducing apparatus (HS 852190). Similar effects of the previous case are expected from FTA.

There are also two types of products in HS 87 (vehicles other than railway). Products such as motor vehicles for the transport of goods, g.v.w. not exceeding 5 tones (HS 870421), motor vehicles for the transport of goods, g.v.w. exceeding 5 tones but not exceeding 20 tons (HS 870422), motor vehicles for the transport of ten or more persons (HS 870210), are paying zero tariff. However, other products, such as motor cars and other motor vehicles principally designed for the transport of persons (HS 870322, HS 870323, and HS 870332, HS 870333), motorcycles (HS 871120) are paying 9% tariff when exported to Peru. In the case of motor cars and other motor vehicles, principally designed for the transport of persons as Korea has a large export capacity and is competing with Japan, a tariff reduction of 9% would have a very strong effect on the Korean export of these products. The effect of FTA would be smaller in the case of motorcycles (HS 871120), due to the small export capacity of Korea.

Peru's import tariffs of other footwear with outer soles and uppers of rubber (HS 640299) and dyed other Knitted or crocheted fabrics (HS 600632) are 17%. The main exporter of these products to Peru is China, and Korea is exporting a very small amount of these products. A tariff reduction of 17% would give Korea's products additional price competitiveness. However, as China's price competitiveness in these products is much stronger than Korea, the effect on trade volume would not be so large.

5.3 Liberalization of Bilateral Trade in Services

As was mentioned in chapter four, the participation of services in Peru's GDP has been growing in the last years. Exports of services have also been showing an upward tendency, especially in the travel and transportation sectors (representing 56% and 24% of service exports respectively). It is expected that these activities will increase significantly if governments can achieve agreements on such issues as restrictions on market access and national treatment to remove barriers to trade in services. Furthermore, the trade in services is closely related to the trade in goods and direct investment. The possible Korea-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 Korea-Peru FTA will promote a bilateral trade in services.

5.4 Impact of Liberalization of Bilateral Investment

The Peru-Korea FTA will enhance the capacity to draw FDI from both countries. According to Proinversion, the Korean investment stock in Peru reached US$ 48.25 millions by June 2007, more than twice the level of investment reached in 2002 (US$20.69 millions). The Korean FDI focuses mainly in the finance sector, commerce and mining. It is expected that these numbers will continue to grow with the eventual FTA, despite the fact that, according to the Organization of American State's Foreign Trade Information System, Korea is a country with very low levels of investment

abroad[82]. In spite of this, it is expected that, as mentioned in chapter three, the investment flow will increase as a result of the upgrade of the investment grade in 2008. However, 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.

5.4.1 A Gravity Model Analysis

Gravity model was used to analyze the impact of Korea-Peru FTA on the bilateral investment from Korea to Peru. The gravity model of trade predicts that bilateral trade flows are dependent on the size of the two economies and the distance between them. Here, the gravity model is used for the analysis of Foreign Direct Investment between two countries. The basic model takes the form of:

$$X_{ij} = f(Y_i, Y_j, D_{ij})$$

where X_{ij} are FDI from country i to country j, Y_i and Y_j are the GDPs of country i and j, respectively. D is the distance between the capital cities of the two countries. The rationale behind the gravity model is that FDI is associated with economic size, measured as GDP, and is inhibited by distance.

For estimation purposes, the basic gravity is used in its log-linear form:

$$ln(X_{ij}) = \beta_0 + \beta_1 ln(Y_i) + \beta_2 ln(Y_j) + \beta_3 ln(D_{ij}) + \varepsilon_{ij}$$

The dependent variable is the accumulated FDI in logarithm form from Korea to country j by 2007, which is measured in thousands of US dollar and obtained from the Export and Import Bank of Korea. 142 countries where Korea has been investing were included in the regression. The size of the economy is measured by GDP per capita and population, which are the data of 2006 from the World Bank. GDP per capita is expressed in US dollar. The distance between Korea and other countries is measured as the distance between capital cities.

$$Ln(FDI\ Stock_j) = \beta_0 + \beta_1 Ln(GDP\ per\ capita_j) + \beta_2 Ln(Population_j) + \beta_3 Ln(Distance_j)$$

Two dummy variables were included: Landlocked and Latin America. The first one (Landlocked) takes the value of 1, if the host country is landlocked and does not have its own port facilities. The second one (Latin America) takes the value of 1, if the host country is located in Latin America. The main regression equation becomes:

$$Ln(FDI\ Stock_j) = \beta_0 + \beta_1 Ln(GDP\ per\ capita_j) + \beta_2 Ln(Population_j) + \beta_3 Ln(Distance_j) + \beta_4 LandLocked_j + \beta_5 LatinAmerica_j$$

[82] According to numbers in the World Investment Report, the Korean FDI accumulated in foreign countries in period 2000-2005 reached just US$ 10 billion, number that contrasts very unfavorably with other investors of the region such as Japan (US$ 108 billion), Hong Kong (US$ 82 billion), Australia (US$ 74 billion), Taiwan (US$ 31 billion) and China (US$ 19 billion).

FDI Stock$_j$	FDI stock value invested from Korea to country i by 2007
GDP per capita$_j$	GDP per capita of country j in 2006
Population$_j$	Population of country j in 2006
Distance$_j$	Distance between Korea and Country j
Land Locked$_j$	Dummy variable taking the value of 1 if country j is landlocked
Latin America$_j$	Dummy variable taking the value of 1 if country j is located in Latin America.

5.4.2 Results

The following table reports the results from the regression. All variables are significant. The adjusted R-square value denotes that about 48 percent of the variation in FDI stock value is explained by the variables used in the model. The positive effect of GDP per capita and Population and the negative effect of Distance indicate that Korea invests more on rich, highly populated and geometrically close countries. The negative sign of Land Locked dummy indicates that Korea's overseas investment is more directed to the countries which have port facilities. Also, the positive sign of Latin America dummy explains that Korea invests more on Latin American countries than other regions.

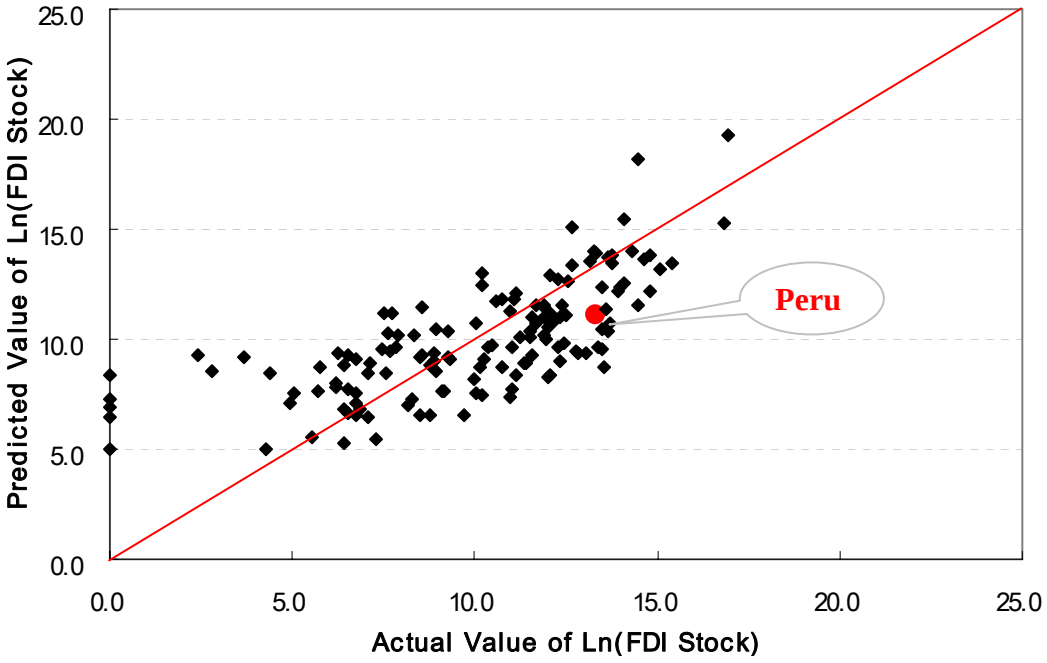
Table 5.15 Gravity Model: Regression Results

Variable	Coefficient
Constant	17.287 (3.686)***
Ln(GDP per capita)	0.750 (5.496)***
Ln(Population)	1.241 (7.694)***
Ln(Distance)	-1.838 (-3.810)***
Land Locked	-1.283 (-2.308)**
Latin America	1.424 (2.181)**
Adjusted R2	0.482
No. of observations	142

Note: ** Significant at the 5% level, *** Significant at the 1% level

The following graph compares the actual investment values and the expected investment values by the regression model for 142 countries. The investment values are expressed in logarithm.

Chart 5.1 Predicted and Actual value of FDI Stock



The red line is 45° inclined from both the x and y axis. The dots above the red line indicate the countries where Korea invests less than the prediction by the model while the dots below the line are the countries where Korea invests more than the prediction. Peru is marked by the red dot. It is located below the 45° line, which means Korea invests on Peru more than the predicted value by the model.

Table 5.16 Actual and Predicted FDI Stock of Latin American Countries (1,000 US$)

Countries	The actual value of FDI Stock	The predicted value of FDI Stock	Actual / Predicted
Bolivia	60,881.0	2,260.4	2693.4%
Chile	104,002.4	61,510.3	169.1%
Colombia	46,280.6	137,584.0	33.6%
Costa Rica	32,236.0	15,469.3	208.4%
Dominican Republic	4,106.9	26,587.9	15.4%
Ecuador	10,416.9	31,626.5	32.9%
El Salvador	36,084.5	17,479.8	206.4%
Guatemala	101,916.2	31,954.2	318.9%
Guyana	3,600.0	1,120.2	321.4%
Honduras	104,397.6	10,271.8	1016.3%
Jamaica	11,330.0	8,598.0	131.8%
Mexico	575,930.6	1,155,253.1	49.9%
Nicaragua	25,044.6	6,172.9	405.7%
Panama	466,776.3	11,671.3	3999.3%
Paraguay	3,927.1	1,473.3	266.6%
Peru	610,239.0	68,526.0	890.5%
Trinidad and Tobago	10.0	10,704.9	0.1%
Uruguay	603.1	6,937.0	8.7%
Venezuela	66,491.1	139,245.0	47.8%

The above table shows both actual and expected FDI stock of the Latin American countries. 12 countries out of 17 received more investment than predicted. According to the model, Korea is expected to invest about US$ 68,526 thousands to Peru. But the actual investment far exceeded that of the prediction. Korea invested on Peru about US$ 610,239 thousands by the year of 2007. The actual investment is about 890% of the predicted amount.

The gravity model used here does not explain why Korea's investments to the countries like Peru, or Chile, is higher than expected. One possible explanation is the abundance of natural resources in these countries. As natural resources are scarce in Korea, Korea's investment to resource rich countries is higher than to other countries.

Table 5.17 Country Risk Rating of Latin American Countries

	Sovereign risk ratings	Currency risk ratings	Banking sector risk ratings	Political risk ratings	Economic structure risk ratings	Overall country risk ratings
Argentina	B	BB	BB	B	B	BB
Bolivia	B	BB	B	CCC	B	B
Brazil	BB	BBB	BB	BBB	A	BBB
Chile	A	A	A	AA	A	A
Colombia	BB	BB	BB	BB	BB	BB
Costa Rica	BB	BB	BB	BBB	B	BB
Cuba	CCC	CCC	CCC	CCC	CCC	CCC
Dominican Rep.	B	BB	B	B	B	B
Ecuador	CCC	B	CCC	C	CCC	CCC
El Salvador	BB	BBB	BBB	BBB	BB	BB
Guatemala	BB	BB	BB	B	BB	BB
Honduras	B	BB	B	CCC	CCC	B
Jamaica	CC	CCC	B	B	CCC	CCC
Mexico	BBB	BBB	BBB	BBB	BBB	BBB
Nicaragua	CC	CCC	CC	CC	CCC	CCC
Panama	BB	BBB	BBB	BBB	B	BBB
Paraguay	B	BB	B	B	B	B
Peru	BBB	A	BBB	BB	BBB	BBB
Trinidad & Tobago	BBB	BBB	BBB	BB	BBB	BBB
Uruguay	B	BB	BB	BBB	B	BB
Venezuela	B	CCC	CCC	CCC	B	CCC

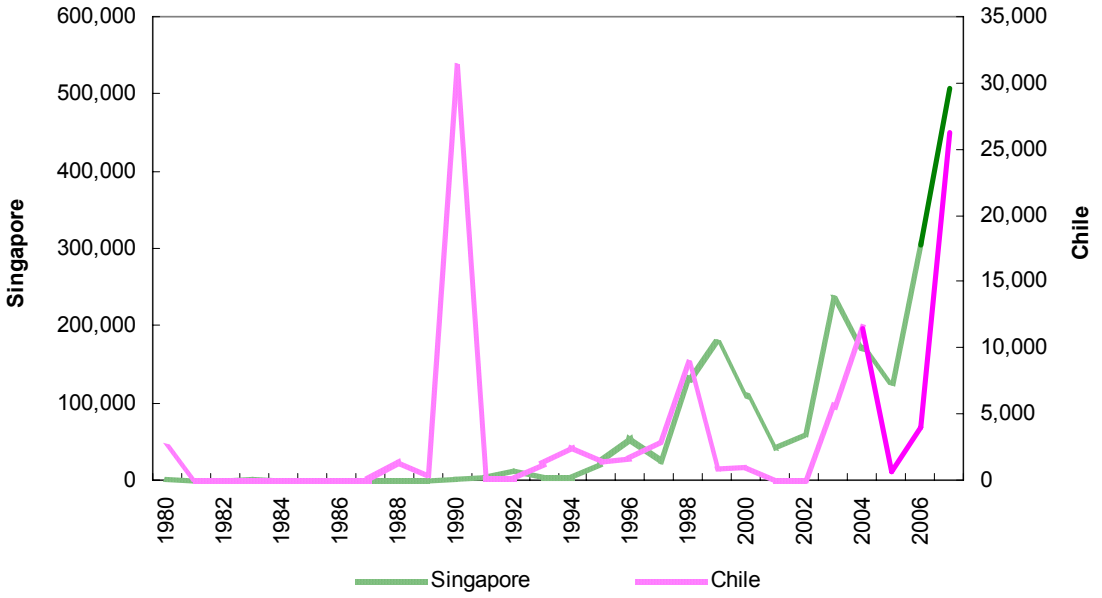
0-12	Sep-22	19-32	29-42	39-52	49-62	59-72	69-82	79-82	89-100
AAA	AA	A	BBB	BB	B	CCC	CC	C	D

Source : Economist Intelligence Unit
Note: Country risks are rated by 10 different categories where the rating ranges between 0 and 100. As the rating is closer to 100, the country is riskier.

Another reason may be the stable political conditions in the host countries. According to the data, Peru is the second most stable country in Latin America after Chile. This may enforce our assumption on the fact that political stability of Peru explains the high investment made from Korea.

Korea recently signed FTA with other countries. Except for the Chilean case, where FTA was signed in 2004, most of the Free Trade Agreements were signed in 2006 and 2007. Thus, it is difficult to show the effect of FTA on FDI through gravity model due to the limit of data.

Chart 5.2 Korea's Outward FDI to Chile and Singapore (Thousands of US$)



Source : The Export and Import Bank of Korea

Chile signed free trade agreement with Korea in April of 2004, and Singapore did in March of 2006. The bold lines indicate the FDI flow of each year since FTAs were in force. In both cases, after signing FTA, FDI from Korea to each country has increased. Thus, FTA is expected to increase the investment flow from Korea to the partner country. FTA between Peru and Korea is also expected to increase the investment flow from Korea to Peru.

6. CONCLUSIONS

Peru and Korea established diplomatic ties on April 1st, 1963. Since then, both countries have experienced a sound relationship, strengthened by the development of bilateral trade flows, investment opportunities and cooperation activities.

In this sense, Peruvian and Korean authorities agreed in November 2006, to start a Joint Feasibility Study that would allow to explore opportunities and analyze the probable impact of a FTA between them. This study was prepared by the Joint Study Group composed by representatives from business community and academia from Korea and Peru.

For the purpose of this study, Korea and Peru analyzed each chapter from its own perspective and reached common conclusions and recommendations as following:

Chapter 2: 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 Korea's GDP growth has been around 5.2%, while in the case of Peru, GDP growth has reached 8% in 2006. Additionally, this chapter shows that Korea and Peru are following a very active trade agenda, on a bilateral and multilateral basis.

Chapter 3: The most important features of the trade and investment policy of each country are briefly described, including among others: tariffs and non-tariff measures, customs procedures, customs valuation, standard and thecnical requirements, government procurement, state trading and trade policies. This chapter would contribute to have a better understanding of each country's policies and systems.

Chapter 4: Both countries analyzed bilateral trade (in goods and services) and investment statistics. This chapter shows that trade flows have experimented steady growth.

In 2006, Korea mainly exported machinery, transport equipment, chemicals and manufactured goods; while Peru exported metals including ores and concentrates of zinc, cooper, lead and iron, fish and fishing products, agriculture and textile and clothing.

This chapter also showed two methodologies using trade statistics and indexes that allowed to identify potential export products for both countries, and showed a high degree of complementarity between export supply and import demand of both countries. In the first case, 3,263 peruvian products (6 digit HS codes) with potential entry in Korean market: and 2,346 korean products with potential entry in Peruvian market were identified.

A tariff level comparison showed that Peru has a simple and weighted average applied tariff lower than Korea.

In addition, through an analysis of trade diversion from the Chilean – Korean FTA it was possible to identify that Peruvian exports that compete with Chilean exports in the Korean market are in disadvantage because of the FTA between those countries.

Chapter 5: A general and partial equilibrium models were used in order to assess the impact of a possible FTA between Peru and Korea. The results indicate that the FTA will clearly have a positive impact on general macroeconomic indicators such as GDP, trade, welfare and employment. With the implementation of the FTA, the welfare and real GDP of Korea would increase by 0.00629% and 0.01%, respectively. Both exports and imports would increase, but the increase rate of the total imports (0.034%) would be a little bit higher than that of exports (0.031%).

In the case of Peru, real GDP and the population's wealth would rise in 0.23% and 0.22% respectively. In terms of trade flows, the general equilibrium model shows that global and bilateral trade would increase. Aggregate exports to the world and Korea would increase by at least 0.66% and 15.02%, respectively; and aggregate imports from the world and Korea would increase by at least 0.65% and 27.0%, respectively. This implies that Korean exports to Peru would grow by 27.0%, while the growth rate of imports from Peru will be 15.02%.

In terms of investment, Peru is already the second main destination of Korea's outward FDI in Latin America. As in the cases of Chile and Singapore, FTA between Peru and Korea is also expected to increase the investment flow from Korea to Peru. Finally, the Joint Study Group expects an increase in bilateral trade in services due to the growth of trade in goods and investment, and by investment facilitation and improvement of investment dispute settlement.

Through the analysis of actual trade between Korea and Peru and Korea and Chile, it is possible to notice that a tariff reduction, even a small one, has a positive effect on exports. Therefore, it is expected to experience an increase in Peruvian and Korean trade with a FTA.

In the light of the above considerations and taking into account the long-term economic relationship to be developed between the two countries:

The Joint Study Group recommends that the governments of Korea and Peru enter into negotiations at an early date with a view to concluding a FTA within a reasonable period of time.

The Joint Study Group recommends that the FTA should be firmly built on the principles of comprehensiveness, substantial liberalization, enhancement of mutual benefits and consistency with WTO rules and regulations.

Tariff elimination should be complemented with the removal of unnecessary non tariff measures to improve trade between the two countries. Additionally, FTA negotiations should improve disciplines in areas such as technical barriers to trade, sanitary and phytosanitary measures, among others.