Peru’s Economic Boom and the Asian Connection

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  - South Korea: partnership for the future
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Introduction

- Peru’s success story: minerals + sound policy + trade expansion
- Relations with Asia key
  - China, Japan, Rep. of Korea
  - Demand for minerals
- Risks of dependency? (resource curse)
- Responses
  - Global standards in mining /CSR
  - FTAs / Diversification of trade
- Results? Net positive, dynamism, not case of de-industrialization.
Peru - Asia history: how important?
Peruvian trade with Asia

- APEC 1997 - 18 FTA 2013 (5 Asia)
- 92% with 3 countries
- China #1 trade partner, 17% exports
  - 83% = copper, iron, lead, fishmeal
- Imports from China
  - 54% goods for industry, 17% consumer
  - Mixed impact / net positive
- FTA: dynamism & diversification
Peruvian Trade Agreements

**En vigencia**
- Comunidad Andina
- Estados Unidos
- China
- Singapur
- México
- Chile
- Tailandia
- Japón
- Panamá
- Unión Europea
- Costa Rica
- Guatemala
- Venezuela

**En negociación**
- Alianza del Pacífico
  - El Salvador
  - Chile
  - Colombia
  - Australia
  - Brunei
  - Canadá
  - Chile
  - Malasia

- Asociación Transpacífico (TPP)
  - Honduras
  - Tailandia
  - México
  - México
  - Nueva Zelanda
  - Singapur
  - Estados Unidos
  - Vietnam
Asian trade summary

- Increased total trade, total number of Peruvian exporters, number and variety of non-traditional goods
- 95% traditional (minerals prices), but non-traditional growing fast
- Manufacture exports grew 46% to China, vs 13% world
- Chemicals, agro, metallurgical
- Japan similar, Korea more value-added
Figure 1. LAC exports to Asia, by destination country 1990 - 2011
(share of total exports to Asia)

Source: Authors’ calculations based on UN COMTRADE
Figure 2. Peru exports to Asia, by destination country 1990 - 2011 (percentage of total exports to Asia)

Source: Authors’ calculations based on UN COMTRADE
Figure 3. Penetration of imports from China into the Peruvian market, by sector

Source: Cárdenas and Gavilano (2013)
Figure 4. Peru exports by sector to Asia main trading partners and the World, 1997, 2008, 2011
(share of total exports to main destinations)

Source: Authors’ calculations based on UN COMTRADE
Figure 5. Peru export structure to main destinations, 1997 - 2008

(percentage of total exports from main destinations)

Source: Authors’ calculations based on UN COMTRADE
Notes: Sector classified by levels of technological sophistication, as Lall (2000): PG = Primary goods, NRB = Natural resources based manufactures, LTM = Low technology manufactures, MTM = Medium technology manufactures, HTM = High technology manufactures.
Figure 6. Peru export structure to Asia main trading partners and the World, 1997, 2008, 2011
(share of total exports to main destinations)

Source: Authors’ calculations based on UN COMTRADE
Notes: Sector classified by levels of technological sophistication, as Lall (2000): PG = Primary goods, NRBM = Natural resources based manufactures, LTM = Low technology manufactures, MTM = Medium technology manufactures, HTM = High technology manufactures
### Table 9. Top 10 Peruvian exports/imports to/from China on 2011

<table>
<thead>
<tr>
<th>Level of technology sophistication</th>
<th>Sector</th>
<th>Commodity Code (HS)</th>
<th>Commodity Description</th>
<th>Trade Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NRBM</td>
<td>Mining &amp; Oil</td>
<td>260300</td>
<td>Copper ores and concentrates</td>
<td>2,417,569,333</td>
</tr>
<tr>
<td>PG</td>
<td>Fishing</td>
<td>230120</td>
<td>Flour or meal, pellet, fish, etc., for animal feed</td>
<td>1,042,228,645</td>
</tr>
<tr>
<td>NRBM</td>
<td>Mining &amp; Oil</td>
<td>260111</td>
<td>Iron ore, concentrate, not iron pyrites, unagglomerate</td>
<td>1,000,887,459</td>
</tr>
<tr>
<td>NRBM</td>
<td>Mining &amp; Oil</td>
<td>260700</td>
<td>Lead ores and concentrates</td>
<td>723,723,644</td>
</tr>
<tr>
<td>PG</td>
<td>Fishing</td>
<td>740311</td>
<td>Copper cathodes and sections of cathodes unwrought</td>
<td>623,283,133</td>
</tr>
<tr>
<td>NRBM</td>
<td>Mining &amp; Oil</td>
<td>260800</td>
<td>Zinc ores and concentrates</td>
<td>256,397,372</td>
</tr>
<tr>
<td>PG</td>
<td>Mining &amp; Oil</td>
<td>790111</td>
<td>Zinc, not alloyed, unwrought, &gt;99% pure</td>
<td>125,165,953</td>
</tr>
<tr>
<td>NRBM</td>
<td>Fishing</td>
<td>160590</td>
<td>Molluscs and shellfish nes, prepared or preserved</td>
<td>122,360,116</td>
</tr>
<tr>
<td>PG</td>
<td>Mining &amp; Oil</td>
<td>740200</td>
<td>Unrefined copper, copper anodes, electrolytic refining</td>
<td>91,229,794</td>
</tr>
<tr>
<td>NRBM</td>
<td>Mining &amp; Oil</td>
<td>261610</td>
<td>Silver ores and concentrates</td>
<td>77,580,826</td>
</tr>
<tr>
<td>Imports</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>847120</td>
<td>Digital computers with cpu and input-output units</td>
<td>405,270,468</td>
</tr>
<tr>
<td>HTM</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>852520</td>
<td>Transmit-receive apparatus for radio, TV, etc.</td>
<td>375,250,366</td>
</tr>
<tr>
<td>HTM</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>871120</td>
<td>Motorcycles, spark ignition engine of 50-250 cc</td>
<td>142,141,509</td>
</tr>
<tr>
<td>MTM</td>
<td>Various (inc. jewelry, crafts)</td>
<td>852810</td>
<td>Colour television receivers/monitors/projectors</td>
<td>126,808,238</td>
</tr>
<tr>
<td>HTM</td>
<td>Various (inc. jewelry, crafts)</td>
<td>950390</td>
<td>Toys nes</td>
<td>109,711,716</td>
</tr>
<tr>
<td>MTM</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>851730</td>
<td>Telephonic or telegraphic switching apparatus</td>
<td>98,330,643</td>
</tr>
<tr>
<td>HTM</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>870422</td>
<td>Diesel powered trucks weighing 5-20 tonnes</td>
<td>79,168,676</td>
</tr>
<tr>
<td>MTM</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>847192</td>
<td>Computer input or output units</td>
<td>76,538,742</td>
</tr>
<tr>
<td>LTM</td>
<td>Various (inc. jewelry, crafts)</td>
<td>640299</td>
<td>Footwear, outer soles/uppers of rubber or plastic, ne</td>
<td>74,444,463</td>
</tr>
<tr>
<td>HTM</td>
<td>Metal-Mechanical &amp; Electronics</td>
<td>847330</td>
<td>Parts and accessories of data processing equipment nes</td>
<td>72,323,698</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on UN COMTRADE
Asian investment in Peru

- FDI lags well behind EU (Spain, UK), US
- Japan
  - 1960s & 70s: instability & crisis, moved to Colombia, Chile
  - 2013: mining
- S. Korea today: mining
  - FTA 2011, strategic association
  - Airplanes (KOTRA), industrial & tech coop
## Table 6. Actual and announced investments from Japanese companies

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project</th>
<th>Japanese Company</th>
<th>Investment (in million USD)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>Bayovar</td>
<td>Mitsui &amp; Co. Ltd. 1/</td>
<td>275 (in 2010)</td>
<td>Holds 25% of Bayovar phosphate mine project. Bought from Vale (Brazil)</td>
</tr>
<tr>
<td></td>
<td>Huanzala</td>
<td>Mitsui Mining &amp; Smelting Co. Ltd. 2/</td>
<td>50 (in 2011) 38 (in 2010) 21 (in 2009)</td>
<td>Through its subsidiary Compañía Minera Santa Luisa S.A.</td>
</tr>
<tr>
<td></td>
<td>Antamina</td>
<td>Mitsubishi3/</td>
<td>n.a.</td>
<td>BHP Billiton (33.75%) Xstrata (33.75%) Teck (22.5%) Mitsubishi Corporation (10%)</td>
</tr>
<tr>
<td></td>
<td>Quellaveco</td>
<td>Mitsubishi 4/</td>
<td>3300</td>
<td>Anglo American Quellaveco S.A (81.9%). Mitsubishi (18.1%) Environmental impact assessment (EIA) approved. Probably starting operations in 2016</td>
</tr>
<tr>
<td></td>
<td>Quechua (Espinar, Cusco)</td>
<td>Pan Pacific Copper Corp., JX Nippon Mining Holdings, Mitsui Mining &amp; Smelting Co. Ltd. 5/</td>
<td>490</td>
<td>Exploration</td>
</tr>
</tbody>
</table>

Sources:
3 / Antamina.Official Website.
### Table 7. Actual and announced investments from Korean companies

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project</th>
<th>Korean Company</th>
<th>Investment (in million USD)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil &amp; Gas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Block Z46 (Trujillo basin, La Libertad)</td>
<td>SK Energy 1/</td>
<td>482.62</td>
<td>Exploration in progress</td>
</tr>
<tr>
<td></td>
<td>Block 8 (Trompeteros y Yanayacu, Loreto)</td>
<td>SK Energy, Daewoo, Korea National Oil Corporation (KNOC) 2/</td>
<td>n.a.</td>
<td>Project in production phase. Korean interest is divided: SK Energy 8.3%, Daewoo 11.6%, Korea National Oil Corporation (KNOC) 20%, Pluspetrol Norte S.A. holds 60% of the project and is property of Pluspetrol Resources Corporation (55%) and China National Petroleum Corporation, CNPC (45%)</td>
</tr>
<tr>
<td></td>
<td>Savia Peru Block Z-2B (Talara, Piura)</td>
<td>Korea National Oil Corporation (KNOC) 4/</td>
<td>n.a.</td>
<td>Korea National Oil Corporation (KNOC) 50%, Ecopetrol 50%. Project in production/exploration phase</td>
</tr>
<tr>
<td><strong>Mining</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mina Justa</td>
<td>Korea Resources, LS-Nikko Copper 5/</td>
<td>744</td>
<td>Environmental impact assessment (EIA) approved. Starting operation in 2015 Brescia Group (CumbresAndinas) 70%, Korea Resources 15%, LS-Nikko Copper 15%.</td>
</tr>
<tr>
<td></td>
<td>San Juan de Marcona, Pachapaqui</td>
<td>Korea Zinc 6/</td>
<td>200</td>
<td>In progress</td>
</tr>
<tr>
<td></td>
<td>Desalination Plant - Cerro Lindo</td>
<td>Doosan 7/</td>
<td>n.a.</td>
<td>To be completed by 2013</td>
</tr>
<tr>
<td><strong>Fishery</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pesquera Diamante S.A. acquisition</td>
<td>Dongwon Industries Co 8/</td>
<td>n.a.</td>
<td>Not confirmed</td>
</tr>
</tbody>
</table>

**Sources:**
1 / Central Reserve Bank of Peru. "Inflation Report March 2013";
2/3/4 / Korea National Oil Corporation, Operations
Table 8. Actual and announced investments from Chinese companies

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project</th>
<th>Chinese Company</th>
<th>Investment (in million USD)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>Toromochio</td>
<td>Chinalco Peru (Chinalco) 1/</td>
<td>2150</td>
<td>Possibly completed on 2014</td>
</tr>
<tr>
<td>Mining</td>
<td>El Galeno</td>
<td>China Min Metals Corporation 2/</td>
<td>2500</td>
<td>Possibly completed on 2014-2015 China Min Metals Corporation (60%), Jiangxi Copper Company Ltd. (40%)</td>
</tr>
<tr>
<td>Mining</td>
<td>Extension of Marcona mine</td>
<td>Shougang Hierro Peru (Shougang Corporation) 4/</td>
<td>1200</td>
<td>In progress</td>
</tr>
<tr>
<td>Mining</td>
<td>Pampa de Pongo</td>
<td>Nanjingzao Group 5/</td>
<td>3005</td>
<td>Investment over 2010-2014</td>
</tr>
<tr>
<td>Mining</td>
<td>Rio Blanco</td>
<td>Zijing Mining Group 6/ Tongling Nonferrous 7/ Xiamen C&amp;D 8/ (former Monterrico Metals y Majaz)</td>
<td>1500</td>
<td>Investment over 2009-2014. Zijing Mining Group(45%) Tongling Nonferrous (35%) Xiamen C&amp;D (20%)</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Cercana project</td>
<td>June field Group 9/</td>
<td>to be defined</td>
<td>Exploration</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Llama TY01</td>
<td>Jintong Mining 10/</td>
<td>to be defined</td>
<td>Exploration</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
<td>Shandong Exploration 11/</td>
<td>n.a.</td>
<td>Exploration</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
<td>Anhui Exploration 12/</td>
<td>n.a.</td>
<td>Exploration</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
<td>Hebei Exploration 13/</td>
<td>n.a.</td>
<td>Exploration</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Block 111/113 (Madre de Dios)</td>
<td>China National Petroleum Corporation (CNPC) 15/</td>
<td>n.a.</td>
<td>Project in exploration phase</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Block 1AB (Olaya, Loreto)</td>
<td>China National Petroleum Corporation (CNPC) 16/</td>
<td>n.a.</td>
<td>Already in production. Holds 45% of the project. Pluspetrol Resources Corporation holds the 55%.</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Block 8 (Trompeteros y Yanayacu, Loreto)</td>
<td>China National Petroleum Corporation (CNPC) 17/</td>
<td>n.a.</td>
<td>Already in production. Holds 27% under its stake in Pluspetrol Norte S.A. Other partners are SK Energy (8.3%), Daewoo (11.6%), Korea National Oil Corporation, KNOC (20%) and Pluspetrol Resources Corporation (33%).</td>
</tr>
</tbody>
</table>
Chinese investment in Peru

- 1992: Shougang – Hierro Peru
  - First major China overseas investment
  - 1994: CNPC (Talara)
- 2007-2008: Boom in new investment
- China today is #10, but single largest in mining, 23% projected mining portfolio
- Obstacles to investment in other sectors, role of government weak
China and global standards
Final remarks

- Deep historical ties, and new relations
- Asia trade reinforces Peru as mineral exporter, but does not significantly de-industrialize
- FTA help diversify trade, non-traditional exports increase
- Post-FTA: largely private initiative
- Weaknesses of State & political leadership
Thank you

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