

Evolution of Trade Relations between Peru and South Korea Eleven Years after the Free Trade Agreement (FTA)

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Introduction

In 2011 a free trade agreement (FTA) between Peru and Korea entered into force, and from that year exports from Peru to Korea have increased, even if imports have not. Korea become the fifth biggest trade partner of Peru and its fourth largest export destination.

But not only trade have increased but also investment from Korea to Peru have. In this article the evolution of trade and investment since the FTA between Peru and Korea entered into force will be seen and what are the perspectives for the economic relations for the two countries.

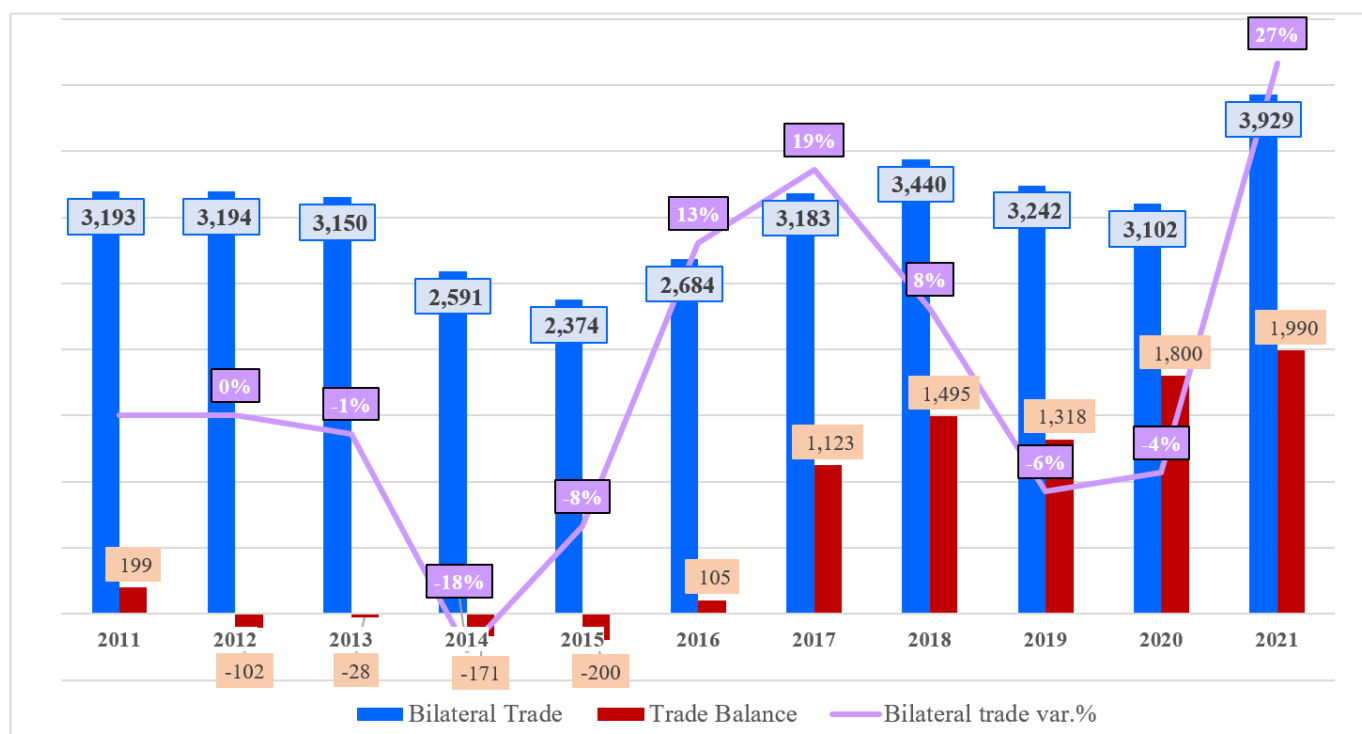
Evolution of Trade Relations between Peru and South Korea: In-Depth Analysis

Peru and South Korea established diplomatic relations on April 1, 1963, and since then relations have developed smoothly, especially in the economic field. This year (2023) marks the 60th anniversary of the establishment of diplomatic relations between both nations.

South Korea has become a strategic trading partner, especially since the middle of the last decade. Peru has had a constant trade surplus with Korea since 2016 and as it can be seen in Figure 1, bilateral exchange in 2021 was 3.9 billion dollars, compared with around 3.2 billion dollars of 2011. This result is because exports, of mainly raw materials, have increased, even if imports decreased in that period (See below).

In 2010, a year before the FTA entered into force, South Korea ranked as the eleventh trading partner for Peru. By 2021, this country became the fifth largest trading partner and the fourth destination market for Peruvian exports. In addition, between January and November of 2022, Korea was the fifth destination for Peruvian exports in the world after China, United States, Japan, and Canada, and the third most important market in Asia.

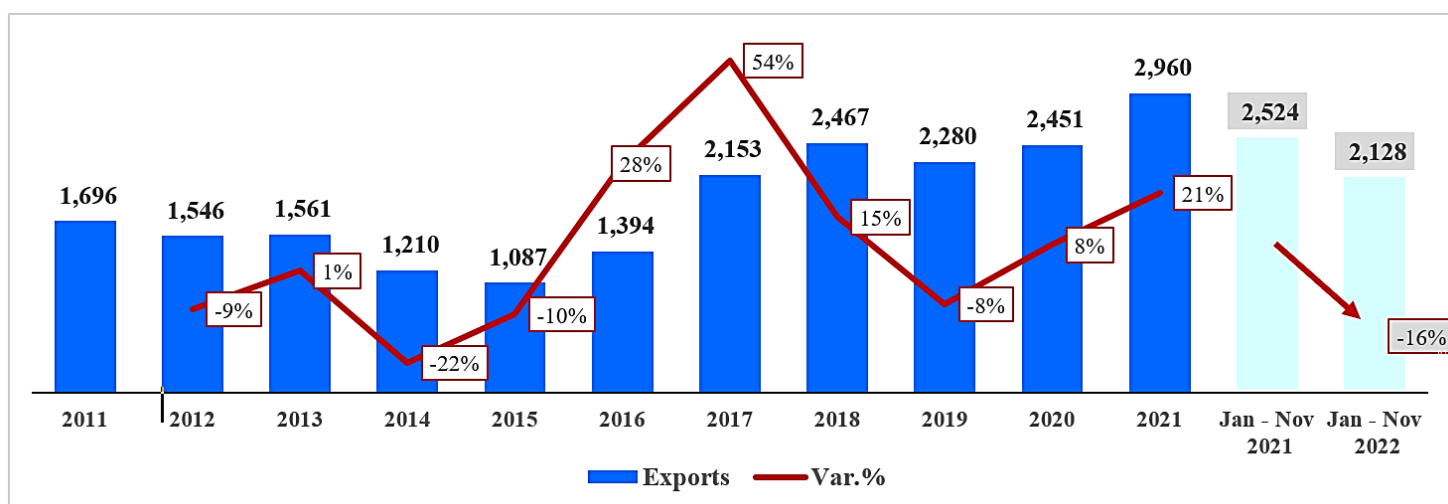
Figure 1: Peru – South Korea: Evolution of Bilateral Trade and Trade Balance
2011-2021, million US dollars



Source: Authors elaboration with data from Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT)

As can be seen in Figure 2, between 2011 and 2021 Peruvian exports to South Korea have almost doubled. In 2021, the percentage of Peruvian exports to Korea represented 5% of the total exported by Peru, while imports represented 2% of the total.

Figure 2: Peru: Exports to South Korea 2011-2022 Million USD



Source: Authors elaboration with data from Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT)

As seen in Table 1 and Table 2, bilateral trade between Peru and Korea is complementary. Peruvian exports are mainly concentrated in a few products, especially raw materials (called traditional products). In 2011, when the FTA entered into force, the five main products exported to South Korea represented 90% of the total exported to this country, these being mainly minerals and natural gas.

10 years later, the core structure of the export basket to South Korea have changed little. The value of the amount exported have increased, but the five main products participation have decreased from 90% to 81%. But thanks to the FTA, Peruvian exports to Korea of called non-traditional products have increased. For example, in the case of the export of agricultural products, they went from 3% of the total exported by Peru to Korea in 2011 to 7% in 2021. Korea opened an important part of its agricultural sector to Peru and import duties for these goods were reduced or eliminated.

According to the Ministry of Foreign Trade of Peru, agricultural exports to Korea reached a record amount in 2021 (US\$ 204 million), due to higher shipments of fruit (+79%), mainly avocado (+159%), grapes (+ 119%), Brazil nuts (+66%) and mango (+33%). According to The International trade Centre, South Korea imported fruits for US\$ 1.8 billion in 2021, and Peru become its 5th biggest supplier that year (7% of the total). In the year 2011, Peru was the 14th biggest supplier accounting for only 0.2% of the total¹. Also, there are products from the chemical sector that saw its participation in total exports increase from 0.3% of the total in 2011 to 1% in 2021 and fishery products from 4% to 5%.

As described before, the exports of mining products and fuels to South Korea continue to be the ones that increased the most. For Korea, Peru is an important supplier of mining goods, since it ranked as its second largest supplier of copper and lead.

¹ See International Trade Centre, Trade Map: List of supplying markets for the product imported by Korea, Republic of in 2021

Product: 08 Edible fruit and nuts; peel of citrus fruit or melons

https://www.trademap.org/Country_SelProductCountry.aspx?nvpm=1%7c410%7c%7c%7c08%7c%7c%7c2%7c1%7c1%7c1%7c1%7c2%7c1%7c1%7c1

Table 1: Comparison of the five first products exported by Peru to South Korea in 2011 and 2021

HS Code	Product	Thousand USD	Share
2603000000	Copper ores and concentrates	551,601	33%
2607000000	Lead minerals and their concentrates	413,282	24%
2711110000	Liquefied natural gas	223,892	13%
2608000000	Zinc ores and concentrates	197,372	12%
2616100000	Silver minerals and its concentrates	144,116	8%
Total amount of the five first products		1,530,264	90%
Total exported to South Korea by Peru and its share in Peru's total exports		1,696,092	4%
Peru's total exports amount to the world		46,386,027	

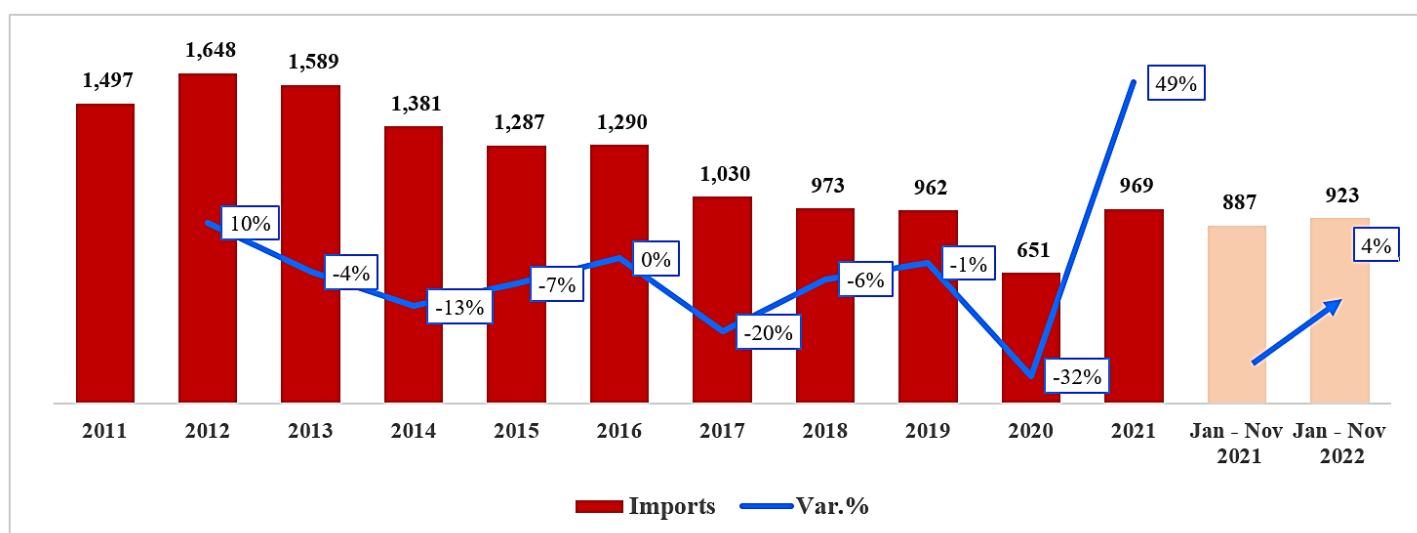
HS Code	Product	Thousand USD	Share
2603000000	Copper ores and concentrates	1,134,667	40%
2607000000	Lead minerals and their concentrates	403,187	14%
2711110000	Liquefied natural gas	386,163	14%
2608000090	Zinc ores and concentrates	329,675	12%
2616100000	Silver minerals and its concentrates	61,976	2%
Total amount of the five first products		2,315,669	81%
Total exported to South Korea by Peru and its share in Peru's total exports		2,844,834	5%
Peru's total exports amount to the world		58,634,852	

Authors elaboration with data from International Trade Centre (ITC)

On the other hand, as can be seen in Table 2, imports from South Korea are characterized for being mainly inputs, of products of high technology, such as capital goods, and final consumer goods, therefore, purchases are highly diversified. In 2011 the first five products imported represented 37% of the total and in 2021 these represented only 29% of the total imported. In 2021, imports from South Korea were divided into 28% from the automotive sector and heavy industry, 18% of plastic industry products, 10% of fuels, 7% of pharmaceutical products, 5% of steel products, 5% chemical products, 4% cement and 2% electrical appliances.

Figure 3: Peru: Imports from South Korea

Millions USD



Authors elaboration with data from Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT)

Even so, Peruvian imports from South Korea are declining, particularly since 2016. This may be explained by the fact that many of the Korean companies that produce mobile phones, cars, televisions, or other electric appliances have moved operations to countries like Mexico, Brazil, China, or Southeast Asian countries. Peru continues buying Korean products, but not assembled in Korea itself, but from its companies established in other countries.

Table 2: Comparison of the five first products imported from South Korea by Peru in 2011 and 2021

HS Code	Product	Thousand USD	Share
8703239020	Automobiles for the transport of a maximum of 16 people (...)	240,567	16%
8528720000	Television receiving apparatus	107,990	7%
8703229020	Assembled vehicles with a piston engine (...)	77,767	5%
8702101000	Automobiles for the transport of a maximum of 16 people (...)	64,219	4%
8402900000	Parts of steam boilers, except those for central heating (...)	56,559	4%
Total amount of the five first products		547,101	37%
Total imported by Peru from South Korea and its share in Peru's		1,497,252	4%
Peru's total imports amount from the world		37,891,039	

HS Code	Product	Thousand USD	Share
2710192111	Diesel with a sulfur content less than or equal to 50 ppm	75,891	8%
8703239020	Other assembled vehicles (...)	69,040	7%
3901200000	Polyethylene of a density greater than or equal to 0.94, in primary forms	55,125	6%
2523100000	Clinker cement	54,935	6%
8429520000	Machines whose superstructure can rotate 360°	30,939	3%
Total amount of the five first products		285,930	29%
Total imported by Peru from South Korea and its share in Peru's total		972,977	2%
Peru's total imports amount from the world		51,218,406	

Authors elaboration with data from International Trade Centre (ITC)

This can be seen from the data of imports from 2011 to 2022 of the main Korean companies of tech appliances established in Peru. For example, LG Electronics Imports Peru purchased in 2011 around 268 million dollars, of which 45% came from South Korea. In contrast, in 2022 it imported products for 200 million dollars but from Korea only 10% of the total, and from Mexico 59%; China 14% and Thailand 12%.

Another good example is Kia Import Peru, that purchased from the world a total amount of 158 million dollars in 2011 and 99.9% of that came from South Korea. In 2022, this scenario changed. Of the total 201 million it imported, goods from South Korea represented 50% of the total; India 21%; China 20% and Mexico 9%².

Overview of Korean Investment in Peru

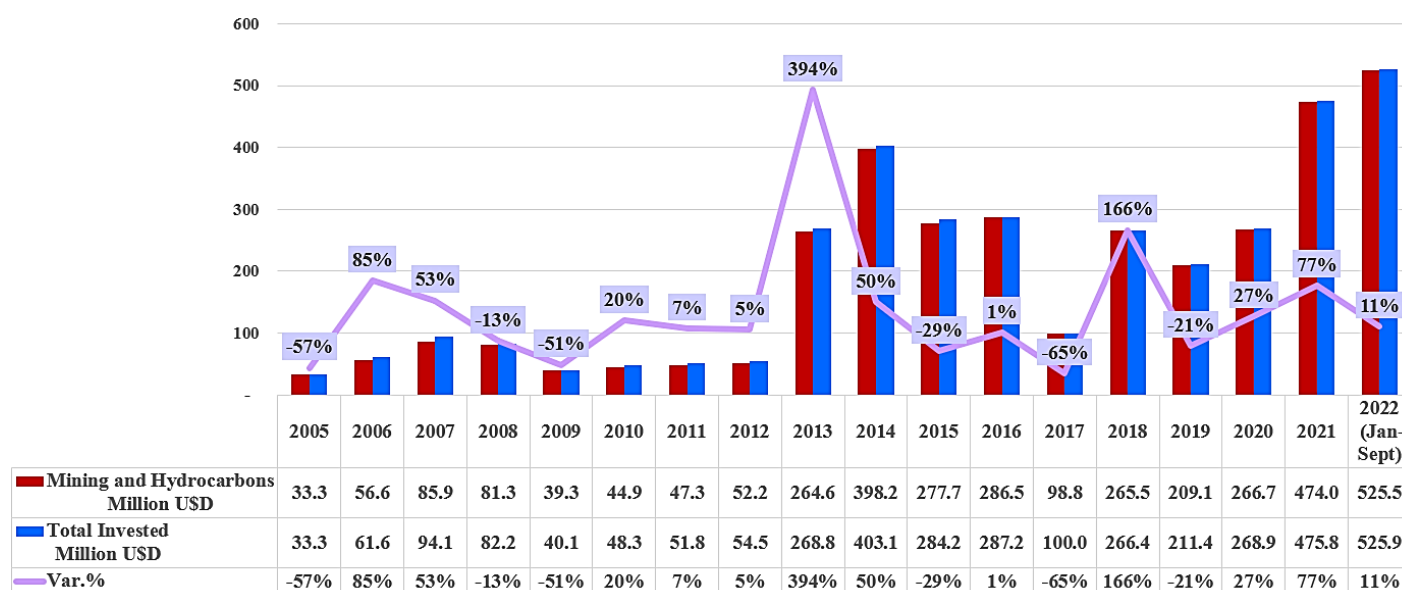
Regarding investment, the FTA has helped to increase Korean investments in Peru, going from 51.8 million dollars in 2011 to 475.8 million dollars in 2021, increasing eight times more. In 2021, Peru was the third largest destination of Korean investments in Latin America and the Caribbean contrasting with the number eight position in which it was in

² Source: data from SUNAT, consulta por importador / exportador http://www.aduanet.gob.pe/cl-ad-itconsultadwh/ielTS01Alias?accion=consultar&CG_consulta=1

2011. (See Figure 4). The FTA includes a chapter on investment and this replaced the Bilateral Investment Treaty.

Korean investment arrived in Peru in the 1990s, during the first wave of internationalization of the companies of that country and amid the reforms and economic opening that Peru was going through. Between 1994 and 2021 investment from Korean companies in Peru were mainly concentrated in the mining and fuel sector, accounting for 98% of total stock between those years.

Figure 4: Korean Investment Flow in Peru between 2005 – 2022*, Millions USD



*Data from January to September

Author's elaboration with data from Korea Export – Import Bank

For example, in 2018, Korean Japanese consortium LS Nikko Copper Inc. a trader dedicated to sell molten copper, subscribed an agreement for one billion dollars with Peruvian company MINSUR to buy copper concentrates between 2021 and 2030.

On the other hand, companies like Samsung, LG, and Daewoo have been in Peru since the late 1990s and are very popular for their electrical appliances and electronics sold in department stores and their own stores, but they do not have assembly plants in the country.

In the construction sector, three projects for the construction of gas power plants carried out by POSCO were completed in 2012 and 2016. Likewise, the consortium Korea

Airports Corp. (KAC) is involved in the construction of the Chincheros International Airport from 2019.

And finally, in the food industry sector, the only Korean company in this area is Freeko Peru S.A., which was established in 1997, and stands out for being one of the largest packers of frozen pre-cooked fish and shellfish, and it operates in the Paita Special Development Zone in the Piura region.

Korean investment stock in Peru between 1994 and 2021 accounted for around 3.5 billion dollars, according to the data published by the Korea Export Import Bank.

Conclusion and Future Expectations

Regarding the evolution of trade between Peru and Korea, imports from Korea would continue to decrease, not only because less Korean goods would be bought from Korea itself (but bought from other countries where Korean companies are established) but also because there are goods from China competing very strongly, in fields like automobiles, electronic, mobile phones. Chinese goods are cheap and increasingly of better quality. As Korean goods before replaced Japanese goods, now Chinese goods are replacing Korean goods.

One reason for expecting that imports from Korea will decrease in spite of a FTA can be seen from the fact that in the case of Peru trade with Japan, a country with which Peru signed FTA that went in force in 2012, imports from Japan also fell in 2021 compared with the level of 2012. In the case of Japan imports fell from a level of 1.5 billion dollars in 2012 to 957 million dollars in 2021. Many Japanese goods in Peru are imported not from Japan but from Brazil or Mexico, in automobiles for example, or from China, in the case of TV sets. Also, because Japanese goods are competing with ones from Korea and China.

Regarding Peruvian exports, there is a potential for increasing Peru exports of agricultural goods to Korea, specially of fruits and vegetables. Peru has become a big player in the international market for those goods. For example, Peru now is the biggest exporter of berries, of grapes, in the world, and the second of avocados and asparagus. One problem for increasing the exports of agricultural goods to Korea is that this

country has very strict phytosanitary requirements and takes a long time to give approval to imports.

Peru has also potential to increase exports of fishery goods, as it shares a long coastline of Pacific Ocean with rich marine resources. More investment in this field will be necessary to exploit these resources. Also, Peru territory is nearly 50% of Amazon area and there is plenty of wood there, but not enough transport means exist to bring these goods to the ports in the coast and export them (and to process the wood and create a wood industry).

Investment from Korea could increase more because Peru has plenty of natural resources, like minerals, oil and natural gas, and lithium, but probably a more stable political and social situation in the country is needed for foreign investment to exploit these resources. Also, the manufacturing sector could attract investment as Peru is signatory to many FTAs that would allow access to many markets for the products made in the country, but again a more stable situation and policies to promote this sector will be needed. Perhaps if Korea become a member of the Pacific Alliance, which Peru is a member with Mexico, Chile, and Colombia, a biggest common market will make Peru a more attractive place for Korea investment.