

Peru economic relations with Asia: a growing partnership

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Introduction

The importance of the Asian region in recent decades is seen in the economic resurgence of China as an economic superpower, by the technological hubs like South Korea and Japan, the resurgent of a populous India, and by the providers of cheap labour force of southeast Asian countries like Indonesia, the Philippines, and Vietnam.

Asia is home to the largest contributors to global trade, it is a manufacturing power centre, becoming the most dynamic part of the global economy. In 2022, world's total exports amounted for 24.611 trillion dollars where China was the largest exporter with 3.593 trillion of dollars representing 14.6% of the total amount exported, it was followed by Japan in fifth place with 3.1% of the total, and South Korea in the seventh place with 2.8% of the total.

Asia is also the world's largest market representing 60% of the world's total population and has an increasing middle class. It is also well-integrated in the largest world's value chains. In 2022, world's total imports were 25.370 trillion dollars where China positioned itself as the second largest importer of goods with an amount of 2.715 trillion of dollars representing 10.7% of the total. It was followed by Japan in the fourth place with a share of 3.6% of the total, India, and South Korea in the eight and ninth place with a share of 2.9 % each respectively.

On the other hand, Latin America (LA) and Asian countries have a long time complementary economic relationship. Countries like China, Japan and South Korea have been and continue to be the largest primary resource buyers and important investors of the LA region, specially of mining resources to process them and transform them in high value-added goods, products that later are imported by LA countries for its consumption or for the productive process of its industries.

These characteristics of the Asian region mentioned above are some of the main reasons why trade and investment with Latin America, and in this case Peru, rich in primary resources and with a huge need for investment in all sectors, have boosted economic relations in the recent two decades.

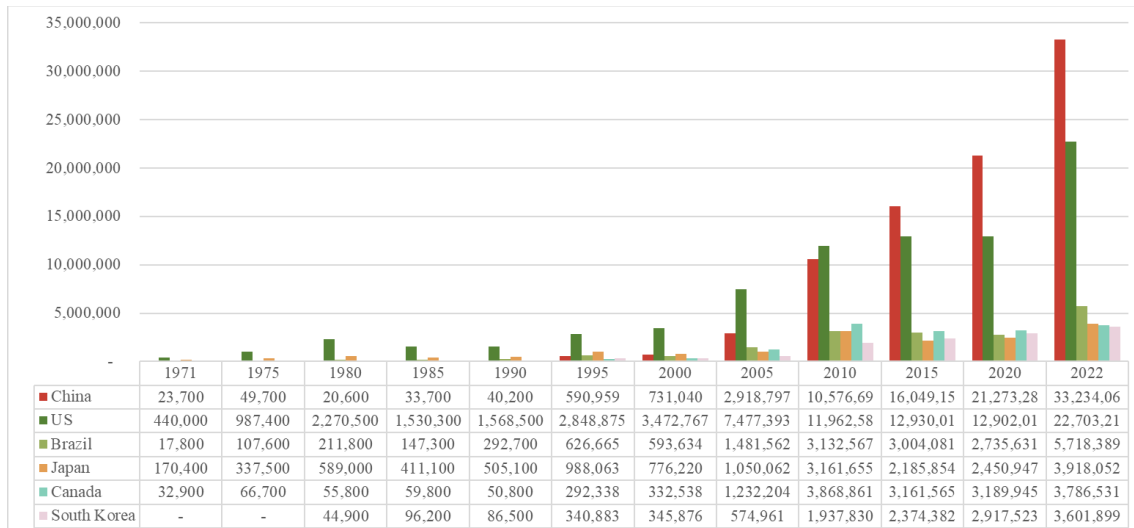
In this article Peru economic relations with Asia will be analysed, mainly focusing on trade of goods. First, the actual situation of Peru relations with Asia will be stated; Second the reasons for Peru growing relationship with Asia will be analysed; and third it will be seen how Peru relations with Asia will evolve and the meaning of this for Peru.

Current Situation of Peru's Relations with Asia

Asia is currently the most important destination of Peru's exports and the main supplier of its imports. In 2022 it accounted for 47% of Peru's total exports to the world (from 19% in 2002) and 38% of total imports from the world (from 20% in 2002) as can be seen in figures 1 and 5.

Figure 1

Peru: evolution of bilateral trade between main partners, 1971 – 2022, thousands of dollars



Authors elaboration with data from TRADEMAP and WITS

China, Japan, and South Korea are ranked among Peru's top six trade partners in 2022 and as the three main Asian trade partners as shown in Figure 1.

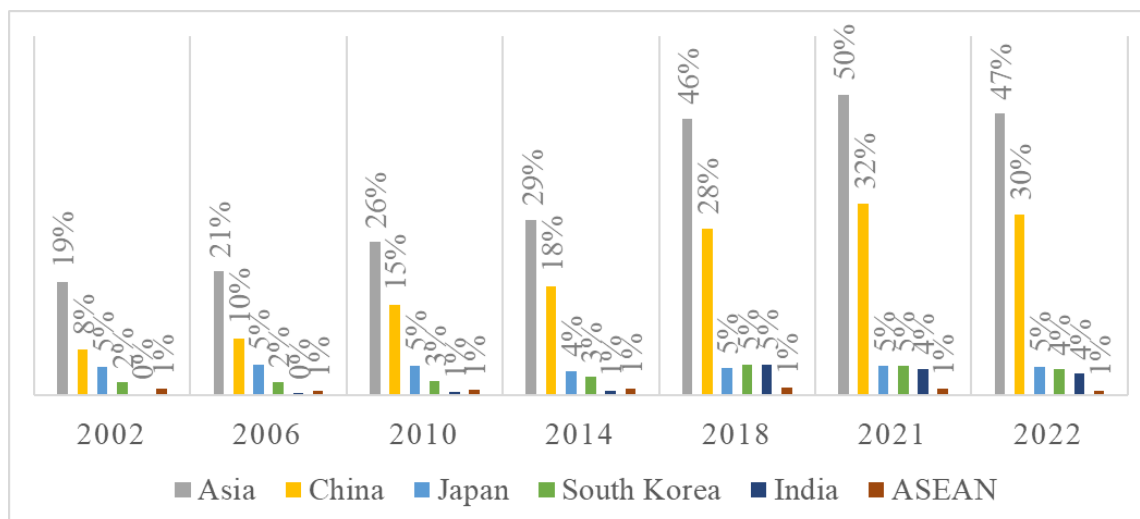
As these three countries are the most important in economic terms, this part of the article will mainly focus on them.

One of the main characteristics of Peru's trade with Asia is that its exports basket is mainly concentrated on a few products.

China in 2022 represented 30% of total exports of Peru to the world and 26% of total imports from the world. Peru's export basket to China is focused on copper with a share of 68% of the total exported to China, iron represented 8%, fishmeal 7%, lead 6% and liquefied natural gas (LNG) 1%. These first five products exported represented 90% of the total exported to this country.

Figure 2

Peru: Exports to Asia, 2002 – 2022, as % of total exports to the world



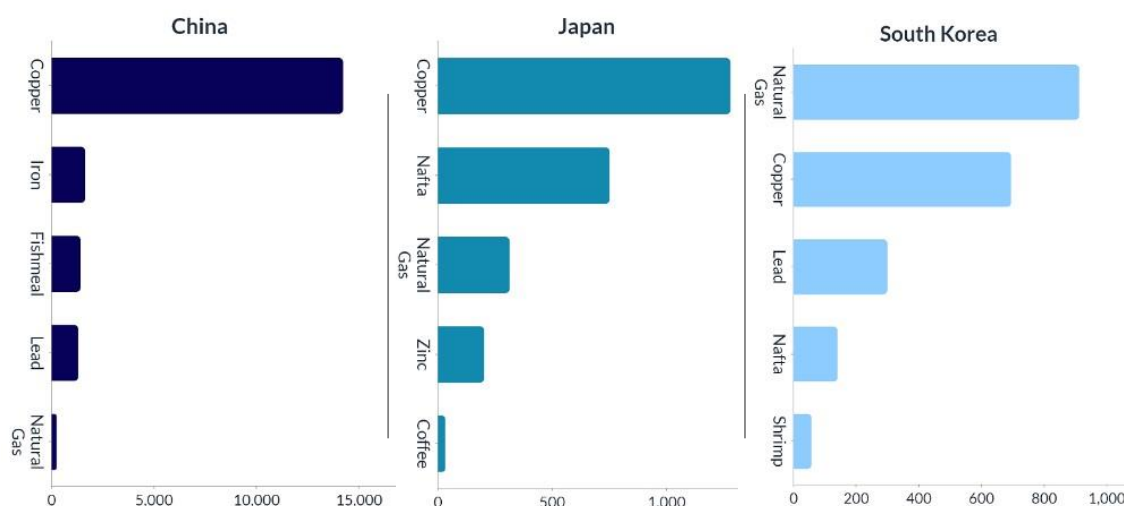
Authors elaboration with data from TRADEMAP and PROMPERUSTAT

In the case of Japan, also copper was the main product exported, with a share of 41% followed by naphtha with 24%, natural gas with 10%, zinc with 7% and coffee with 1%. These five products represented 83% of total exports of Peru to Japan in 2022.

Finally in the case of South Korea, natural gas represented a share of 33% of the total exported by Peru in 2022, followed by copper with 25%, lead with 11%, nafta with 5% and shrimps with 2%. These five products represented 76% of total exports to this country.

Figure 3

Peru: main exported products to China, Japan, and South Korea in 2022, in millions of dollars



Authors elaboration with data from MINCETUR

As seen before, China, Japan and South Korea are main buyers of Peru's natural resources, and they represent a large share in sectors in which Peru is a net exporter. For example, of the total mining products exported to the world, 51% went to China and 6% to India.

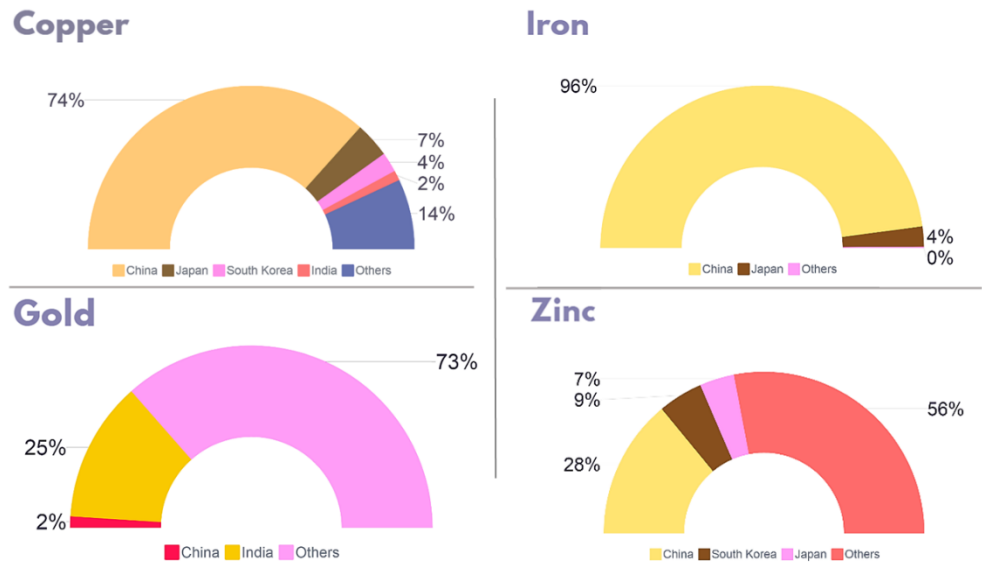
In the case of total exports of hydrocarbons to the world, 17% went to Japan and 17% to South Korea. And in the case of fishery products exports to the world, 46% went to China, 5% to Japan and 5% to South Korea.

In a more disaggregated way, figure 4 explain the importance of Asian countries as a great market for Peru’s main exported goods: minerals.

As can be seen in figure 4, China is the main buyer of Peru’s copper products in the world. In 2022, 74% of all exported copper went to China, 7% to Japan, 4% to South Korea and 2% to India. In the case of iron, 96% went to China and 4% to Japan. And in the same way, zinc products went mainly to China with a share of 28% followed by South Korea with 9% and Japan with 7%. India importance is highlighted by being the largest Asian market for Peru’s gold products with 25% of the total, followed by China with 2%.

Figure 4

Peru: main mining products exported to China, Japan, and South Korea and the rest of the world in 2022, in %

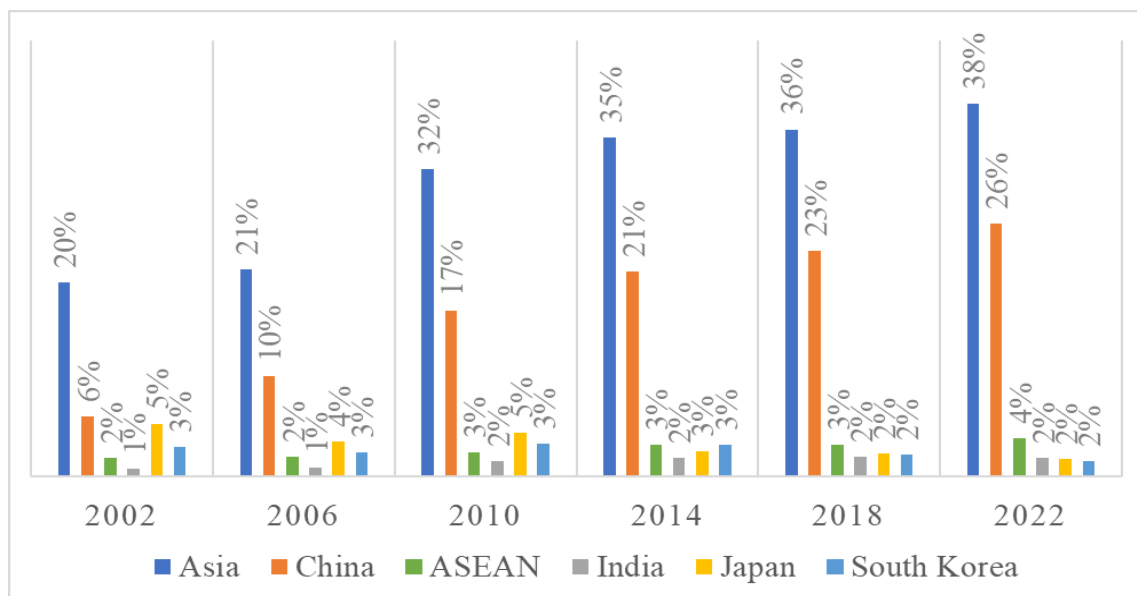


Authors elaboration with data from PROMPERUSTAT

As mentioned before Asia is the main source of import of Peru, where China was the main provider, with 26% of the total.

Figure 5

Peru: Imports from Asia, 2002 – 2022, in % as total imports from the world



Authors elaboration with data from TRADEMAP; PROMPERUSTAT and WITS

Reasons for the growing economic relationship of Peru with Asia

Traditionally, the strongest and oldest relations that Peru has had in Asia have been with China and Japan, especially due to the legacy of migrations. Peru was the first Latin American country to accept mass immigration from China since 1849. It has the largest Chinese community in Latin America. It also received Japanese immigration from 1899 until the second decade of the 20th century. Peru has the second largest Nikkei community in Latin America after Brazil.

From 1990 to 2000, ex-president Fujimori started a process of economic opening and also took measures to eliminate terrorism. Part of his economic reforms and foreign policy was the rapprochement and integration with the Asia Pacific countries, which intensified rapidly with the goal to enter the Asia Pacific Economic Cooperation Forum (APEC) since this gathers the most important economies and powers in the world.

Fujimori visited East Asia 20 times. He visited Japan every year, and concurrently visited China, Thailand, Malaysia, and South Korea. Peru established embassies in Indonesia, Thailand, and Singapore in 1992 and in Malaysia in 1995. Taiwan establishes its commercial office in Lima.

In 1997, during the APEC leaders' summit in Vancouver, then Prime Minister of Malaysia Mahatir bin Mohamad proposed Peru to be admitted as a member of APEC by the following year. Finally in 1998, Peru was admitted at the APEC ministerial meeting in Kuala Lumpur, Malaysia.

Also, in 1999 Peru was admitted as a member of the Latin America – East Asia Cooperation Forum (FEALAC). Likewise, Bilateral Investment Treaties are established with Thailand (1993); China and Malaysia (1995).

Being part of APEC have been beneficial for Peru's foreign trade and for attracting investment from that region. For example, Peru have been able to start talks for

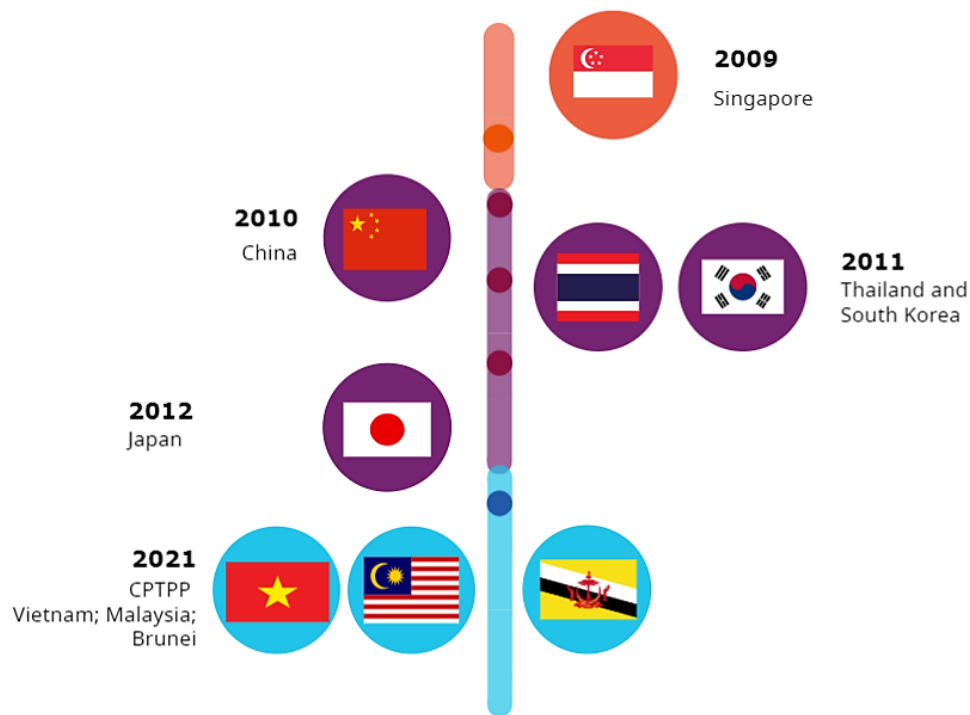
establishing Free Trade Agreements with several Asian countries during APEC meetings. Now Peru has FTAs with the main Asia Pacific countries like Singapore, from 2009, with China in 2010, with Thailand and South Korea in 2011 and Japan in 2012 (see Timeline 1).

Being part of APEC also have helped Peru to be part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP, which was ratified by its parliament in 2021 opening new Asian markets for Peruvian exports like Vietnam, Malaysia, and Brunei.

Peru is currently negotiating FTAs with Hong Kong and India. And is looking forward to restart conversations to negotiate an FTA with Indonesia.

Timeline 1

Peru's FTA agreements with Asian Countries in force



Authors elaboration with data from MINCETUR

Future Outlook of Peru's economic relation with Asia

As we have seen Peru economic relationship with Asia have been increasing with time. And in the first nine months of this year 2023 it has reached new highs. Trade of goods with Asia have reached a value of 45.6% of the total, and in particular exports have increased to 51.8% of the total. Exports to China were 36.8% of the total, a record, and this compares with the 13.6% share of United States, the second largest destination (MINCETUR).

Trade will increase as Asia demands goods that Peru can offer: Natural resources and food. Those goods in average are 95% of what Peru sell to them. The challenge for Peru is to produce goods with more value added.

Regarding investment, it is estimated that around 30% of all FDI coming to Peru are from Asia. Total China FDI alone, calculated in 31.1 billion dollars in the period 2005 to the first half of 2023 (AEI), is estimated to be 24% of all the stock of Peru FDI at the end of 2022, that was 129.541 billion dollars (UNCTAD). China is the largest foreign investor in Peru now. Besides this, Peru is a member of China's Belt and Road Initiative and have been receiving a lot of investment in the last years, mainly in the infrastructure sector, a sector in which Peru have a large deficit.

Peru relations with Asia in the economic and political areas are in good level, and with Peru hosting APEC 2024 meetings, for the third time, after 2008 and 2016, the interest in the region increase and chance of more business will follow. Peru, despite its recent unstable political situation, is one of the few Latin American countries with sound macroeconomic fundamentals (low inflation rate, low fiscal deficit, high foreign exchange reserves, low external debt, etc.) and together with Mexico and Chile has the highest score of the international rating agencies (countryeconomy.com).

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