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PERUVIAN ECONOMY & **TURKEY- PERU RELATIONS**

The official visit of President Recep Tayyip Erdoğan to Peru in February 2016 was the first visit of a Turkish leader to the country since 1952, the beginning of the diplomatic ties between both nations.

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With a strategic position on the Pacific Ocean coast, Peru is a very rich country in terms of agriculture, mining and energy resources. It is the third largest country in South America in terms of surface area. Supplying about 60% of its total exports from its mineral products, Peru has significant amounts of silver, copper, tin, mercury and gold resources. The agricultural sector, which provides employment for 7.6% of the workforce, also has an important share in the exports of the country. Seafood fish oil, cotton, sugar cane, coffee, and soybeans are main export products. Peru is the only country in Latin America with which Turkey has no foreign trade deficit. The official visit of President Recep Tayyip Erdoğan to Peru in February 2016 was the first visit of a Turkish leader to the country since 1952, the beginning of the diplomatic ties between both nations.

MACROECONOMIC OUTLOOK

Peru, one of the world's fastest growing economies, displayed an average growth rate of 6% between 2005 and 2014, with the inflation rate at 3%. The Peruvian economy grew by 3.9% in 2016. The manufacturing industry has made great progress in recent years. In

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2015, industrial growth was 3.8%. Rubber, food processing and chemistry are the most important industrial sectors. The construction sector is one of the most developing sectors, and hydroelectric power plant projects have become increasingly important in recent years. The mining sector provides about 60% of exports and 30% of tax revenues.

Tourism constitutes 6.8% of the total workforce in the country and 7.7% of the GDP. Peru is home to 12 cultural assets on the UNESCO World heritage list. The ancient city of Machu Pichu, which was admitted in 2007 as one of the Seven Wonders of the World, is located in this country.

Peru, which is a WTO member, has Free Trade Agreements with Chile, USA, Singapore, China, South Korea, Japan, Mexico, Panama, Costa Rica, Canada and the EU. Peru is a member of the Andean Customs Union. Colombia, Venezuela, Ecuador, Peru and Bolivia are the Andean Countries. In addition to these, partial preferential trade agreements exist with Cuba, Argentina and Brazil. Peru is a Pacific Alliance member along with Chile, Colombia and Mexico. As well, Peru is also an associate member of MERCOSUR together with Peru, Chile, Bolivia, Colombia and Ecuador. Peru aims to be an OECD member by 2021.



Over the last decade, inflation rates and debt in Peru have been low. Removal of subsidies and privatization of state-owned companies have reduced public spending. State incentives provided for exports and domestic production, and barriers to trade have been lifted. Measures regarding the equal treatment of domestic and foreign investors have been carried out.

Factors underpinning high growth and low inflation in the last decade are a favorable external environment, rational macroeconomic policies and structural reforms. Economic growth has also significantly reduced poverty. In the period of 2005-2014, poverty was reduced from 56% to 23%. In the same period, the amount of extreme poverty decreased from 15.8% to 4.3%.

TURKEY-PERU ECONOMIC RELATIONS

Peru is the only country in Latin America with which Turkey has no foreign trade deficit. However, Turkish commercial relations with Peru have not reached the desired level. Turkish bilateral trading volume with Peru has been generally on an upward trend, except during periods of crisis, and our trade volume, which was USD 16 million in 2000, was approximately USD 147 million in 2016. Turkish exports to Peru in 2016 reached approximately USD 87 million while imports from Peru amounted to approximately USD 59 million. Between 2000 and 2009, there was a trade deficit between Turkey and Peru against Turkey. Since 2010, bi-lateral trade has been in favor of Turkey. It is observed that the foreign trade surplus, which was approximately USD 81 million in 2010, rose to USD 213 million in 2014.

Iron, steel, motor vehicles, fish oil, fiberboard sheet, cotton yarn, parts and accessories of road vehicles, non-electric furnaces and ovens, mechanical devices, machines and tractors are the main Turkish exports to Peru. Zinc, seeds and fruits used for sowing, other oily seeds and fruit, unsorted tin, meat, offal, sea animals, fountain pens, animal and vegetable dyestuffs, buckwheat, millet and legumes are the main items Turkey imports from Peru.

Peru has bilateral or regional trade agreements with 17 countries, especially with the MERCOSUR bloc. Moreover, approximately 73% of exports are made to these countries,



while 76% of imports are from these countries. Since 2007, Peru has signed a free trade agreement with 14 countries. Canada, China, EFTA, EU, Japan, Korea, Mexico, Singapore, Thailand, and the USA, among the most important players in regard to world trade.

Peru seeks to attract more investment in the country, particularly in terms of upgrading its transport infrastructure, and it has significant opportunities for our country in the areas of construction materials, machinery and components and contracting.

The average customs tax in Peru is below 5%. It is a market that should be evaluated for our businessmen because of its strategic position.

In addition to all these, it is of utmost importance for Turkey to initiate the Free Trade Agreement signing process with Peru as soon as possible.

Food, building materials, the automotive supplier industry, pumps and compressors, chemicals, ventilation and cooling devices, yarn, plastic and cosmetics are potential export items to Peru for Turkish firms.

Turkish contractors in Peru have completed 2 construction projects which cost USD 12 million. Sila Integral Servicios SAC, a Peruvian firm with Turkish capital, signed MOU with the Peruvian government to build St. Moyobamba Airport at the entrance of the Amazon forests in the Martin region.

PRESIDENT ERDOĞAN'S RECENT VISIT TO PERU

President Recep Tayyip Erdoğan paid an official visit to Peru in February 2016. This was the first time a Turkish leader paid an official visit to Peru since both nations established diplomatic ties in 1952. State ministers, legislators and more than 100 businessmen accompanied President Erdoğan.

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USD 147
MILLION

Trade volume between Peru and Turkey in 2016.

60%

of exports are from minerals in Peru.

PERU-TURKEY SWOT ANALYSIS

Agriculture Country

Equal treatment of domestic and foreign investment

Textile is the most important industrial sector

Recognition as a tourism country (11 places on the UNESCO World Heritage List)



Pacific Alliance Member (Mexico, Chile, Colombia and Peru)

Free Trade Agreement with China and the USA

Member of the Andean Community of Nations (Bolivia, Colombia, Ecuador and Peru)

Low inflation rate (3%) and rapid economic growth (6%) (in the last 10 years)

Strong network of Turkey-Peru Business Council

Insufficient infrastructure

Suspended FTA Negotiations with Turkey

Inadequate tourism infrastructure

Security concerns

Insufficient financial resources

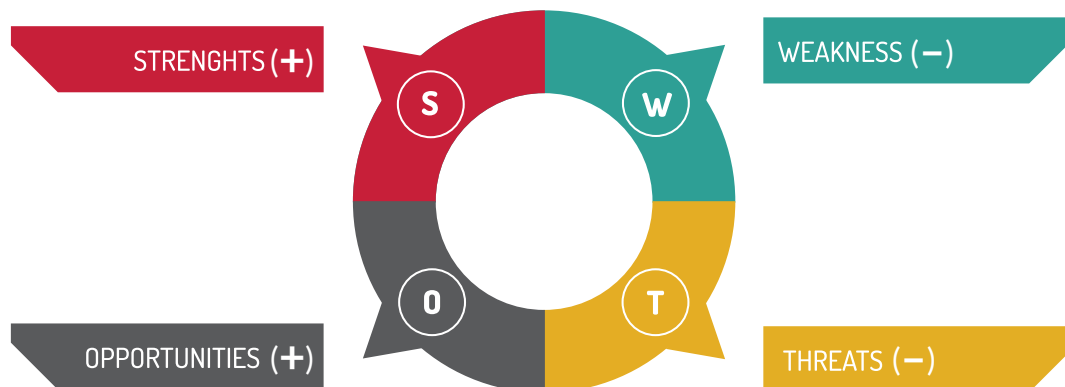
Adverse climate conditions

Inadequate education system

Investment deficit

Poor housing conditions

Very low salaries in agriculture and manufacturing industries



Turkey and Peru have opposite climate

Free Trade Agreement with the US and China

Regional and local construction projects; airport, road, housing

Access to various markets by means of FTAs

Cultural heritage diversity

Popularity of Turkish soap operas

Stable economic growth

Agricultural development

New government

Pan-American hosted in Lima (2019)

Increasing competition in tourism sector

Inadequate investment funds

Slow bureaucratic implications

Weak regimes to control the impact of mining activities on natural resources and community development

Limited access to financial services

Weak interest of Turkish companies to the opportunities in Peru.



President Erdoğan was the first Turkish leader visiting Peru since 1952.

During this visit, the two leaders discussed military, defense, trade, and infrastructure, in addition to political, cultural and educational cooperation. President Erdoğan stated that Peru has many opportunities in the mining and energy sectors and that the two leaders talked about how they will initiate collaborative work in these areas. Peru's then-President Ollanta Humala stressed that Erdoğan's visit to Peru was of great importance because he is the leader of a country that hosted the G20 Summit in 2015 and Turkey boasts one of the world's top 20 largest economies. He said that Erdoğan's visit will also support the finalization of a free trade agreement between the two countries. Humala said that Peru is scheduled to host the Pan-American Games in 2019, adding that they will construct the "Peruvian Olympic City" where more than 8,500 young athletes will participate in the games. He added that Peru is seeking funds for sports projects, into which it will invest nearly USD 20 billion, Humala invited Turkish companies to invest in the country as well.

The two leaders participated in the Peru-Turkey Business Forum, which is paving the way for mutually profitable investments to be made in both countries along with third-party ones. According to Erdoğan's statements, the leaders discussed military, defense, and trade, as well as infrastructure, political, cultural and educational cooperation. President Erdoğan said that Peru has many opportunities in the mining and energy sectors and that the two leaders talked about how they will initiate collaborative work in these areas.

TURKEY-PERU BUSINESS COUNCIL

The Turkey-Peru Business Council was established in 2012 under the umbrella of the Foreign Economic Relations Board of Turkey.

The Memorandum of Understanding for the Establishment of a Political Consultation Mechanism between Turkey and Peru (DEİK) was signed March 24-26, 1998, in Peru. The agreement on setting up the business council was signed on April 30, 2013, in Istanbul. The counterpart organization of the business council is the Lima Chamber of Commerce (CCL).

The Peru-Turkey Inter-Parliamentary Friendship Group, founded by the Peruvian Congress during the parliamentary meeting on November 6, 2017, was an important step toward improving the bilateral relations between the two countries. Likewise, the Grand National Assembly of Turkey (TBMM) established the Turkey-Peru Inter-Parliamentary Friendship Group on March 25, 2008.

During political consultations between the Ministries of Foreign Affairs that took place in Ankara on April 15, 2011, it was determined that political, economic and technical relations gained momentum since the appointment of the ambassadors by the two countries, and new partnership opportunities and projects to support this momentum were also discussed. As a result of the consultations, the Memorandum of Understanding for Cooperation between the Foreign Service Training Center of Turkey and the Diplomatic Academy of Peru and the Agreement on Trade and Economic Cooperation were signed. The Turkish Embassy in Lima became operational on March 1, 2011.

One of the main objectives of the Turkey Peru Business Council is to contribute to the Free Trade Agreement (FTA) yet to be signed between the two countries. The Council gives priority to infrastructure projects in Peru as well as academic relations, tourism and promotional activities that serve to deepen the cultural ties between the two countries.

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