



University of Azuay

**Faculty of Law
School of International Studies**

**Analysis of the Trade Balance between Ecuador and Peru 1993 –
2012.**

Thesis submitted in partial fulfillment of the requirements for the Degree of Bachelor
in International Studies Bilingual focus on Foreign Trade

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Cuenca, Ecuador
2015

DEDICATION

I would like to dedicate this graduating thesis to my parents, Antonio and Maria, whose effort, dedication and love have guided me and taught me the best of the life. To them for being my first teachers, my unconditional friends and my God's blessings.

To my sister and my brother, Thalía and Alan, with love.

ACKNOWLEDMENT

At the end of this university career, I would to thank my parents for the support through life to reach my goals, with their advice, their love and their help. I am grateful to my beloved girlfriend for her trust and love; to my friends who have given me their support and comprehension to finish this thesis.

I am going to thank the University of Azuay, especially my career "International Studies Bilingual focus on Foreign Trade", the teaching staff, the administrative staff and service personnel, for the knowledge and tools in my professional life.

Furthermore, I would like to thank my thesis director, Economist Luis Tonon, who have given me his knowledge, his expertise, his patience and his friendship to finish this thesis successfully and this university career.

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ABSTRACT

This graduating paper, “Analysis of the Trade Balance between Ecuador and Peru 1993-2012”, has analyzed the evolution of trade between these two countries for 20 years. It was taken into consideration the main merchandise products exported from Ecuador to Peru as well as its imports from Peru. Furthermore, the market and export opportunities from Ecuador into the Peruvian commerce were determined. Also, it is considered that Ecuador has strengthened the trade relationship with Peru, and that both are willing to increase their commercial ties.

RESUMEN

En este trabajo de graduación “Análisis de la Balanza Comercial entre Ecuador y Perú en el período 1993 – 2012”, se ha evidenciado la evolución del comercio entre estos dos países durante los 20 años que se analizaron. Se analizó los principales productos exportados hacia Perú y los productos más importantes que son importados desde Perú. Luego de analizar el intercambio comercial, se ha determinado las oportunidades de mercado para el Ecuador y sus exportadores en el mercado peruano. Asimismo, se pudo establecer que Ecuador ha fortalecido la relación de comercio con Perú, y existe el interés de ambos de incrementarlo.

INTRODUCTION

Nowadays, globalization that exists in the world is a multivariate process of interaction. It has led countries to take new responsibilities and develop strategies for growth in political, social, environmental and economic development. This integrationist system has created an interdependence among countries through bilateral and multilateral agreements in order to obtain optimal performance of their resources.

Economically, globalization has allowed better opportunities for countries. This opening up of opportunities is reflected in reduced production costs, a better quality of products and services, efficiency compared to the competitors, access to the technology and scientific advances, and development of economic planning in order to generate more income and sustained growth.

In the case of Ecuador, the relationship with its neighboring countries is a fundamental strategy for its economic growth and foreign trade. Colombia and Peru have become strategic partners to increase trade. Doing a specific study, we found that Peru is the best trading partner after the United States. Immediately after the signing of peace, and especially after the dollarization process in Ecuador, the commercial relationship between these two countries has increased to benefit all the sectors involved as well as the general population.

Government decisions should be directed to the strengthening of this relationship, and for this reason it is important to have data and information to make these decisions. This graduating paper focuses on analyzing the bilateral relationship between Ecuador and Peru from 1993 to 2000, in order to provide information for this decision-making. The period of study analyzed allows the observation of the changes during 20 years, taking as the turning point the dollarization in Ecuador.

In order to comply with the objectives of this graduating paper, it is divided into three chapters. In chapter 1, the social, political and administrative overview of Peru is given, and the economic profile as well as its foreign trade highlighting the influence in the global economy. In chapter 2, trade between Ecuador and Peru from

1993 to 2000 is presented. In this chapter, the evolution of the 15 major exported and imported products of Ecuador are analyzed taken into consideration Peru as a trading partner.

Finally, in chapter 3, an analysis of the evolution of trade in the 2001-2012, after dollarization process in Ecuador is presented providing the best market opportunities for Ecuador in the Peruvian market. In this way, it offers an analysis for a better understanding of trade between Ecuador and Peru, and the economic impact in each of these countries.

CHAPTER 1

Introduction.

Peru has become in a great market for trade and foreign investment. Considering globalization, Peru has been highlighted by maintaining an emerging economy with significant progress within the international market.

After times of crisis in the 1970's and 1980's, economic, fiscal and trade policies developed by the governments in the 1990's has allowed establishing an economy of relevance in Latin American and increasingly in the world. A scheme of trade opening is supported by trade agreements that nowadays are maintained with 52 countries. This pattern has generated production growth, creating both employment and a reduction in the rate of poverty.

In this way, Peru is visualized as a country that has great power in the region, and it is necessary that Ecuador exploits this situation in the best way in order to achieve economic development and welfare for our citizens.

With the goal of a better understanding of this work, this chapter describes an overview of Peru: location; geography; climate; political and administrative division; demography and society; poverty; employment; migration and international relations. After, it focuses on describing the Peruvian economy and its influence on the world; finally, it develops the Peruvian business profile including its trade agreements.

1.1. Overview of Peru.

1.1.1. Location.

Graphic No. 1 – Political-Administrative Map of Peru.



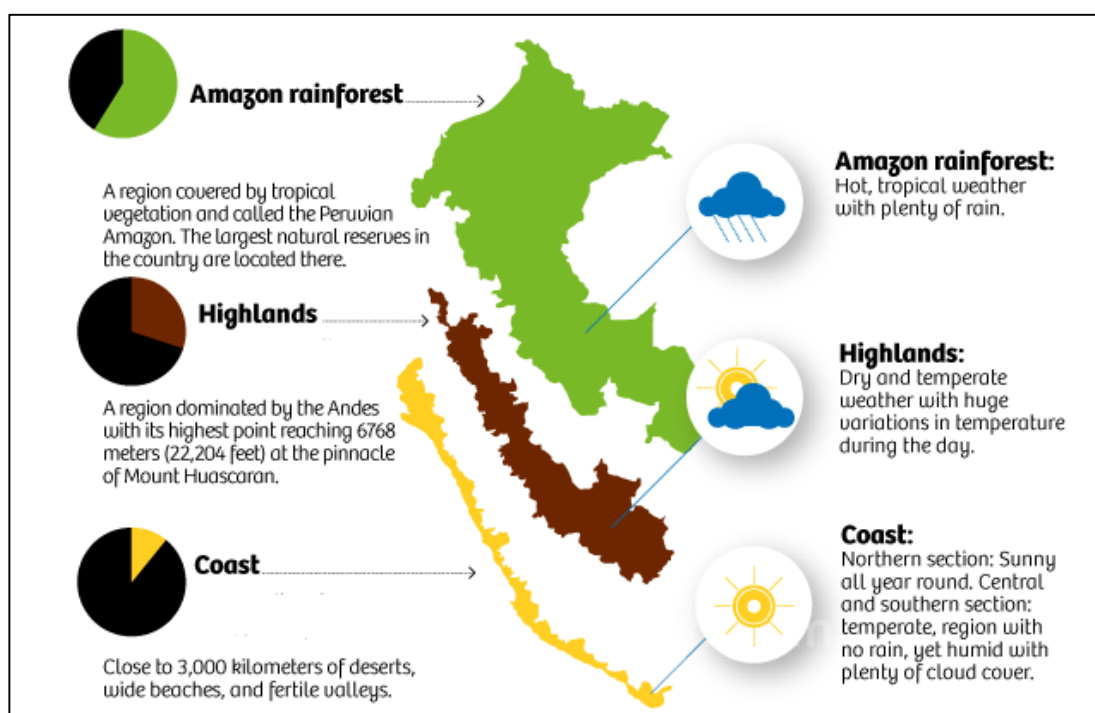
Source: National Institute of Statistics and Informatics (INEI) / Peru.

The Republic of Peru is located in the west of South America, and it has 1,285,215 Km² of area, being the third largest country in the region (after Brazil and Argentina) and one of the 20 largest countries in the world. In addition, it has 200 nautical miles on the Pacific Ocean as well as 60 million hectares of the Scientific Station “Machu Picchu”, located in the Antarctic. The country borders on Ecuador and Colombia to the North, Brazil and Bolivia to the East, Chile to the south and Pacific Ocean to the west.

1.1.2. Geography and Climate.

The mainland territory is characterized by the great biodiversity due to its location in the tropical zone, the presence of the Andes, the Humboldt Current and “El Niño”. These factors shape a heterogeneous relief with microclimates (almost 28 in all) including a variety of flora, fauna and mineral resources that allow natural advantages over other countries of the Andean region and the world. In addition to the territorial sea, the important natural regions are Coast, Highland and Amazon rainforest.

Graphic No. 2 – Regions of Peru.



Source: Peru Travel.

As is shown in Graphic No. 2, the Coast region has 2,600 km of length, approximately. Although this region has less area, it is the most inhabited. It is characterized by the presence of deserts, beaches and fertile valleys, which are derived from the Andes rivers.

The climate of this region, although mainly warm-temperate, is divided in two. The north zone is characterized by the presence of summer almost all of the year round, with annual temperatures of 24° C, December being the wettest month due to “El Niño”. In the center and south, due to the presence of the Humboldt Current, there

are two seasons: the winter from April to October, and the summer from November to March. The temperature average is 14° C in winter and 26° C in summer.

The Highland region, with the presence of the Andes, is the mountainous region of the country. The Andes is split into several mountain ranges the most important being “Blanca” (located in the north) because it is where the higher peaks of the country are found, so this region is a touristic one due to its beautiful landscapes. In the Andes, it is possible to distinguish at least 50 mountains whose peaks rise 5,000 meters above sea level. The highest peak is the Huascaran Mountain at 6,768 meters above sea level, being one of the 10 highest peaks in South America.

In the Highland region, there are two annual seasons: the first, between April and October, characterized by sunny days, cool nights (some with frosts at temperatures above zero) and light rains. The second one, between November and March, is characterized by abundant rains. In addition, this region has climatic zones with specific characteristics: valleys with a temperate climate, plateaus with cold climates and shaped by lagoons, and irregular rock formations dominated by the glaciers. Both in the valleys and in the plateaus the main economic activities are agriculture and livestock, while in the higher zones tourism is the most important activity, especially between June and August when the climate is temperate.

The Amazon rainforest is the largest region of Peru, and it contains the most important area of the country's natural resources. The territory is characterized by the abundant vegetation and its unique biodiversity. Now the State has 77 National Protected Areas and 15 Regional Protected Areas (in total it comprises 10% of the national territory), the majority of these protected areas are located in this region.

The Amazon rainforest has a tropical and humid climate; however, it has two sub regions with specific characteristics: the high jungle and the low jungle. The high jungle has abundant rains, especially between November and March, and the average annual temperature oscillates between 22° C and 26° C. The low jungle is the hottest zone of this region, with an average annual temperature of 31° C, especially between April and October. Between November and March, it rains frequently, causing continuous deterioration in the terrestrial network of this sub region.

1.1.3. Demography and Society.

1.1.3.1. Population.

According to the estimation of the National Institute of Statistics and Informatics (INEI), the population in 2014 is 30,814,175 inhabitants. According to the World Bank, Peru is the fourth most populated country in South America, the seventh in America, and one of 50 with the largest population in the world. The population growth rate is 1.11%; however, according to estimations of INEI, in 2050 this rate will not exceed 0.35%. In that year, the population will be 40 million inhabitants.

Table No. 1 – Population by Natural Region (Total and Percentage).

Region / Year	1981		1993		2014	
	<i>Total</i>	(%)	<i>Total</i>	(%)	<i>Total</i>	(%)
Coast	8,754,102	51.48	11,673,664	52.95	17,132,476	55.60
Highlands	6,997,753	41.15	8,416,540	38.17	10,778,320	34.98
Amazon Rainforest	1,253,355	7.37	1,958,152	8.88	2,903,379	9.42
TOTAL	17,005,210	100.00	22,048,356	100.00	30,814,175	100.00

1/ National Census 1981 – VIII of Population and III of Housing.

2/ National Census 1993 – IX of Population and IV of Housing.

3/ Estimation and Projection of Population 2014.

Source: National Institute of Statistics and Informatics (INEI) / National Census, and Estimations and Projections of Population.

Elaborated by: Patiño, Pablo.

The population density of the country is 23.7 inhab./km². At this point, it is necessary to develop an assessment by regions. The Coast region is the most populated and has the most population density. As is shown in Table No. 1, this region has 17,132,476 inhabitants (55.60% of the total population) in a territory not higher than the 12% of the total.

The Constitutional Province of Callao (6,779.5 inhab./km²), Lima (278.4 inhab./km²), Lambayeque (87.9 inhab./km²), La Libertad (72.1 inhab./km²) and Piura (50.9 inhab./km²) has the most population density in the coast region and in the country. In the Highland region, population is estimated at 10,778,320 inhabitants, the same that represents 34.98% of the total. In this region, the departments of Cajamarca (45.8 inhab./km²), Áncash (31.8 inhab./km²) and Junín (30.3 inhab./km²) has the population density higher than national one. On the other hand, the Amazon rainforest is the least populated having only 9.42% of total (distributed in five

departments) in 60% of the national territory. The departments with the lowest population density of the region and the country are Ucayali (4.78 inhab./km²), Loreto (2.79 inhab./km²) and Madre de Dios (1.57 inhab./km²).

The current medium age of the population is 25.5 years; in 2050, the medium age will exceed 35 years. “The proportion of children under 15 years will decrease from 28.7% in 2013 to 18.5% in 2050, and those 65 years and more will increase from 6.3% in 2013 to 16.1% in 2050”¹. This ageing process is a new challenge, since from the 1980’s to date, the young population had almost doubled.

1.1.3.1.1. Ethnic Composition.

Peru is multi-ethnic country, composed by mestizos, native indigenous, whites, Asians and Africans. The first settlers were the native indigenous, after the Spanish, and finally Africans, other Europeans and Asians. In this way, it has formed an ethnic multiplicity in which there is no majority ethnic group but it is composed of ethnic minorities. This ethnic composition is protected by the Constitution, which recognizes the right of “ethnic and cultural identity”² of national and foreign people.

The Peruvian State does not consider ethnic identity in the census, which is the reason there are no data on the ethnic composition. However, the government has focused on safeguarding the native ethnic groups that have historically been forgotten. For this reason, in 2007 the II Census of Indigenous Communities of the Peruvian Amazon has held with the objective of identifying indigenous communities that are mainly located in the Amazon rainforest. Among the main results, it is important to highlight the existence of an indigenous population of 332,975 inhabitants that belong to 51 ethnic communities 13 linguistic families. With the ethnic group identification, the Peruvian State has created Communal Reserves for preserving communities and the environment in which they live. At the moment, the National Service of Natural Protected Areas of the State (SINANPE) has registered 10 communal reserves whose total length is 2,166,588.44 has., as described in the following table.

¹ INEI, Condition of the Peruvian Population 2013, p. 5

² Political Constitution of Peru, article 2°, numeral 19.

Table No. 2 – Communal Reserves of Peru.

Communal Reserves		
Name	Departament	Area (ha)
El Sira	Pasco, Huánuco and Ucayali	616,413.41
Amarakaeri	Madre de Dios	402,335.62
Airo Pai	Loreto	247,887.59
Machiguenga	Cusco	218,905.63
Purús	Ucayali and Madre de Dios	202,033.21
Asháninka	Junín	184,468.38
Huimeki	Loreto	141,234.46
Tuntanain	Amazonas	94,967.68
Yanesha	Pasco	34,744.70
Chayu Nain	Amazonas	23,597.76

Source: National Service of Natural Protected Areas of the State (SINANPE) / Natural Protected Areas of Peru.

Elaborated by: Patiño, Pablo.

1.1.3.1.2. Language.

The Constitution provides that “the official languages are Spanish and, in the areas where they predominate, Quechua, Aymara and other indigenous languages specified by law”³. After the Spanish, spoken by approximately 80% of the population, the second language is Quechua with a percentage around 16%. The remaining percentage corresponds to languages of native ethnic groups, primarily those that are settled in the Amazon rainforest.

³ Political Constitution of Peru, article 48°.

1.1.3.1.3. Human Development Index.

Table No. 3 – Human Development Index in the World and South America.

Human Development Index in the World			
Rank	Country	HDI	Category
1	Norway	0.955	<i>Very High Human Development</i>
40	Chile	0.819	
45	Argentina	0.811	
51	Uruguay	0.792	<i>High Human Development</i>
71	Venezuela	0.748	
77	Peru	0.741	
85	Brazil	0.730	
89	Ecuador	0.724	
91	Colombia	0.719	
108	Bolivia	0.675	<i>Medium Human Development</i>
111	Paraguay	0.669	
186	Níger	0.304	<i>Low Human Development</i>

Source: United Nations Development Programme (UNDP) / Human Development Report 2013.

Elaborated by: Patiño, Pablo.

The Human Development Index (HDI) is an indicator developed by the United Nations Development Programme (UNDP) that focuses on identifying what has been achieved and what remains to be done to achieve a full human development of the people.

The index has national and sub national levels, according to the political-administrative division of each country. For this reason, an analysis is required, considering three fundamental aspects: life expectancy at birth, education and income. Each of these aspects is an index with standard variables, and the average of them is the final rate that is expressed in a value between zero (0) and one (1). While the value is close to 1, the indicator of the country or sub region shows a Very High Human Development. On the contrary, if the value is close to 0, the indicator shows a Low Human Development.

As is shown in Table No. 3, Norway is the highest HDI country of the world, on a base of 187 countries. Chile, ranked 44th, is the highest HDI country of South America and Latin America, and the third in America after the United States and Canada. Peru has an HDI of 0.741 that ranks it as 77th. It is a high Human

Development country, ranked fifth in South America after Chile, Argentina, Uruguay and Venezuela.

Table No. 4 – Comparison of disaggregated HDI of Norway, Chile and Peru.

	Norway	Chile	Peru
Rank 2012	1	44	77
HDI 2012	0.955	0.819	0.741
Life expectancy at birth (years)	81.3	79.3	74.2
HDI Health	0.966	0.935	0.855
Expected years of schooling	17.5	14.7	13.2
Mean years of schooling	12.6	9.7	8.7
HDI Education	0.990	0.798	0.713
GNI per capita in terms of PPA(\$)	48,688.00	14,987.00	9,306.00
HDI Incomes	0.913	0.740	0.669

Expected years of schooling: Number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life.

Mean years of schooling: Average number of years of education received by people ages 25 and older, converted from educational attainment levels using official durations of each level.

GNI per capita in terms of PPA Aggregate income of an economy generated by its production and its ownership of factors of production, less the incomes paid for the use of factors of production owned by the rest of the world, converted to international dollars using PPP rates, divided by midyear population.

Source: United Nations Development Programme (UNDP) / Human Development Report 2013.

Elaborated by: Patiño, Pablo.

Table No. 4 shows a comparison of disaggregated HDI of Peru, Norway and Chile. Norway is the best HDI country in the world while Chile is the best HDI country in South America. According to disaggregated index, the life expectancy at birth in Peru is 74.2 years, with an index of 0.855. In comparison with Norway and Chile, their life expectancy at birth is higher than Peruvian population with 7.1 years and 5.1 years, respectively.

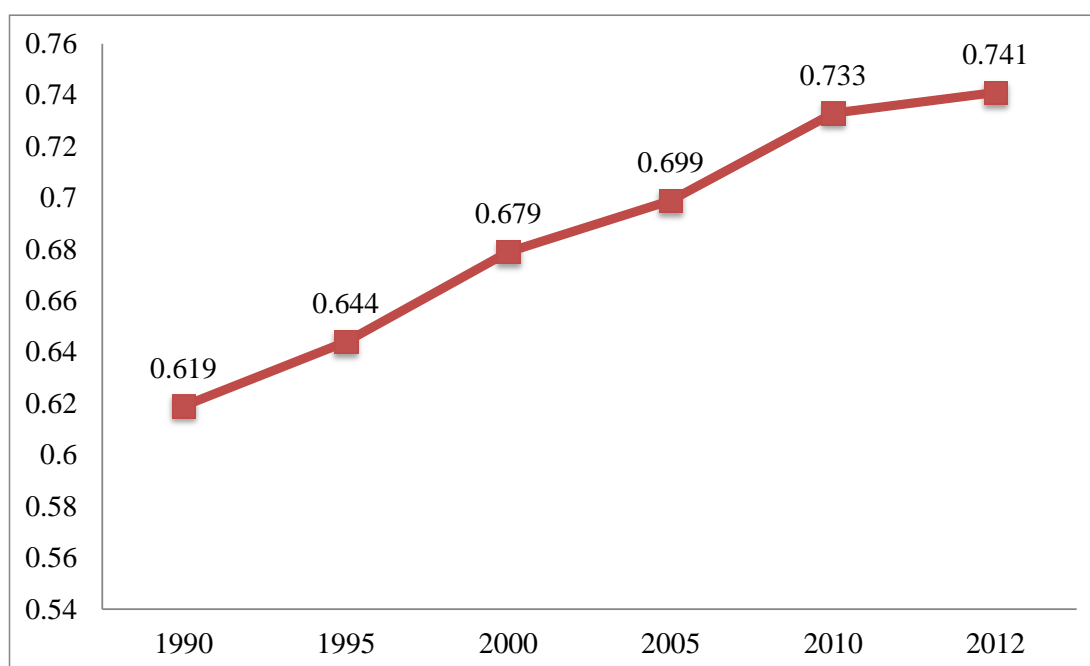
In Peru, education has an index of 0.713 that results from two primary elements: expected years of schooling that is 13.2 years, and mean years of schooling that is 8.7 years. In comparison with Chile, the difference is significant, because the expected years of schooling is 14.7 years while the mean years of schooling is 9.7 years, that is, one year more than Peru. In the case of Norway, the expected years of schooling is 17.5 years and the mean years of schooling is 12.6 years; this country, with 0.990, has the highest education index of the world.

The HDI income of Peru is 0.669, being still the lowest in the HDI components of the country. It is due to its GNI per capita in terms of PPA (\$) at 9.306. According to the data in the Human Development Report 2013, Peru's GNI is the sixth lowest in South America⁴. In comparison, it is observed that GNI per capita of Peru represents approximately 60% of Chile's GNI and it is five times smaller than Norway's GNI.

In Peru, the issue of poverty and unequal distribution of income persist, and in spite of the State effort, it is still a social phenomenon with multiple dimensions. The country has a significant economic growth, which is not reflected in all groups of the population. Poverty, although it has decreased, is present in all disadvantaged social groups, that still have not managed political and institutional representation to achieve a decent standard of living with access to health care and quality education.

⁴ According to data from Human Development Report 2013, the five countries of South America that exceed to Peru in the GNI per capita are Argentina (PPA in US\$ 15,347), Chile (PPA in US\$ 14,987), Uruguay (PPA in US\$ 13,333), Venezuela (PPA in US\$ 11,475) and Brazil (PPA in US\$ 10,152).

Graphic No. 3 – Peru: HDI Evolution.



Source: United Nations Development Programme (UNDP) / Human Development Indicators.

Elaborated by: Patiño, Pablo.

Despite these constraints, Peru's human development has had an historic progress since 1990. As is shown in Graphic No. 3, the evolution of its HDI indicates that in 1990 was 0.619 while in 2012 was 0.741, with a growth of approximately 16% during these 22 years. For comparison purposes, the average annual growth in Peru is 0.7% higher than the growth in Chile and Norway that correspond to 0.6% and 0.5%, respectively.

1.1.3.1.3.1. Poverty.

The complexity of poverty lies in multiple dimensions, and therefore, it is a sensitive issue for all States in the world. In this way, the eradication of poverty and hunger are two of the priorities in the world. For that reason, many plans, projects and policies in order to combat it have been developed. The Millennium Development Goals (MDG)⁵ is the largest agreement to achieve it. The first MDG is to "Eradicate extreme poverty and hunger" whose targets are the following:

⁵ The Millennium Development Goals (MDG) have been established by 189 United States member States to achieve a world more prosperous, safer and fairer than today. The Goals were developed at the Millennium Summit and the main outcome was the approval of the United Nation Millennium Declaration on September 8 of 2000. The 8 MDG's would be achieved by 2015: Eradicate extreme poverty and hunger; Achieve universal primary education; Promote gender equality and empower

1. A) Halve, between 1990 and 2015, the proportion of people whose income is less than \$1.25 a day⁶.

1. B) Achieve full and productive employment and decent work of all, including women and young people.⁷

1. C) Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Peru has had significant progress, worthy of note as a developing country. This country combats poverty not only focused on maximizing income but also to provide the best quality in the health care system, education, housing and family welfare. Peruvian social progress has been strengthened by economic growth, public policies and social inclusion programmes.

“The first report of MDG’s of Peru (2004) emphasized the historical persistence of inequality and marked exclusion... Since then, it has been significant improvements in the context for sustainable development, but also new challenges have emerged and have been visualized old gaps”⁸.

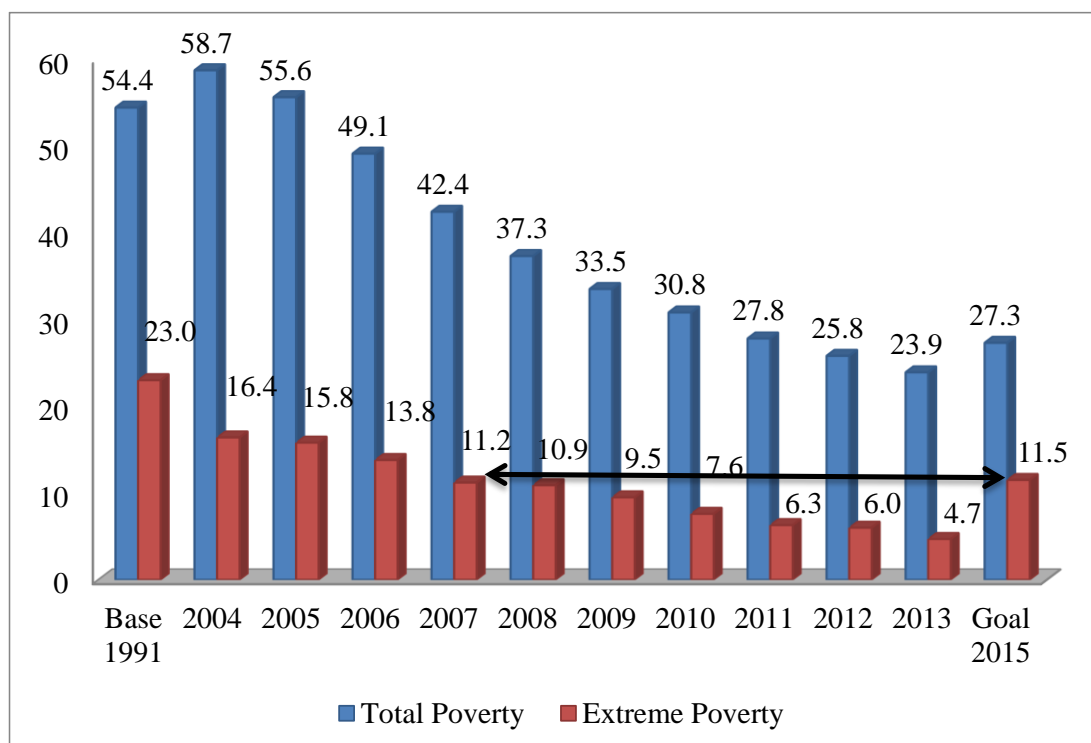
women; Reduce child mortality; Improve maternal health; Combat HIV/AIDS, malaria and other diseases; Ensure environmental sustainability; and, Develop a Global partnership for development. It is a specific and measurable agreement, and it considers 21 targets and 60 indicators within these 8 Goals, the same that have been evaluated by regions and countries.

⁶ At the time that MDG’s were established, they were fixed at \$1 a day the extreme poverty line, however, in 2008, the World Bank changed that value by \$1.25 a day.

⁷ This goal was not initially part of the goals and targets of the Millennium Declaration, but it was attached in 2008 as target 1.B in the First MDG.

⁸ Presidency of the Council of Ministers/ United Nations System in Peru, Third National Report on the implementation of the Millennium Development Goals, 2013, p. 10

Graphic No. 4 – Peru: Evolution of Total Poverty and Extreme Poverty (Percentage of the total population).



In this graphic, the data were obtained according to the methodology of poverty line, in which the INEI took as reference a consumption basket, generated for each region of the country. This methodology, used and corrected regularly since 1996, replaced the indicator 1.1 “proportion of the population with incomes below \$1 PPP (purchasing power parity) a day”, which is used by the World Bank. The change in methodology was developed to show more specific calculations, according to the reality of the country and its regions.

Source: National Institute of Statistics and Informatics (INEI) / National Series.
Elaborated by: Patiño, Pablo.

The total monetary poverty⁹ in Peru, in 1991, corresponded to 54.4% of the total population while extreme poverty¹⁰ corresponded to 23.0% of the total. One of the Millennium Goals indicated that by 2015 the reduction of extreme poverty in the country would be achieved considering the base year, that is to say, since 1991.

In the case of Peru, until 2007, extreme poverty has halved, as is shown in graphic when it decreased to 11.2% of extreme poor and total poverty was reduced to 25.8% in 2012, that is to say, only half, considering 1991 as base year. In 2013, these indexes have decreased significantly to 23.9% of total poverty and to 4.7% of

⁹ The total monetary poverty is the situation in which the per-capita expenditure of a person is not enough to purchase a basic food basket (composed of 110 of most consumed food items, according to the National Household Survey 2010) and non-food basket (health care, education, housing, etc.).

¹⁰ Extreme poverty or indigence is the situation in which the per-capita expenditure of a person is below the cost of the basic food basket.

extreme poverty. In absolute terms, 7 million 284 thousand people are living with an income that is not enough to purchase a basic food basket and non-food basket, and considering this group, there are 1 million 432 thousand people whose homes have expenditures lower than the basic food basket.

Table No. 5 – Evolution of Extreme Poverty, according the geographical scope, 2004-2013 (Percentage of the total population of each geographical area).

Geographical area	Years									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	16.4	15.8	13.8	11.2	10.8	9.5	7.6	6.3	6.0	4.7
Lima Metropolitan	2.4	3.5	1.2	0.8	0.9	0.7	0.8	0.5	0.7	0.2
Area of residence										
Urban	5.7	5.4	3.9	2.8	2.7	2.1	1.8	1.4	1.4	1.0
Rural	41.6	41.0	38.1	32.7	32.3	29.8	23.8	20.4	19.7	16.0
Natural Region										
Coast	4.6	4.1	2.5	1.9	1.9	1.5	1.5	1.2	1.1	0.8
Highland	32.1	30.8	28.1	24.8	23.4	20.1	15.8	13.8	13.3	10.5
Amazon Rainforest	23.6	24.8	22.4	14.6	15.5	15.8	12.5	9.0	8.2	6.9

1. Lima Metropolitan is an area formed by Lima Province and Constitutional Province of Callao.

Source: National institute of Statistics and Informatics (INEI) / National Series.

Elaborated by: Patiño, Pablo.

The reduction of extreme poverty by half was achieved in 2007; however, the situation remains critical for a significant proportion of the population, especially if a comparison is made between different geographical areas. Lima Metropolitan has only 0.2% of extreme poverty, but it constitutes a significant segment in absolute terms, by constituting approximately a third proportion of the total population.

Considering the area of residence, in 2013, the rural sector experienced a decrease of 3.7 percentages points compared to 2012, the decrease being more representative in the period 2004-2013. The urban sector, in the same period, had only a reduction of 0.4 percentages points, which has been below that of the national decrease, because it was 1.3 percentage points. In spite of this, there was still a gap between the rural sector, where the incidence of extreme poverty is 16% of its population, and the urban sector, which has only 1% of extreme poverty. As indicated in the report of the

World Bank, “An even more worrying aspect is that the rural areas are lagging compared to the urban areas... and the prospects for an improvement are reduced”¹¹.

In natural regions, furthermore, the differences have a similar pattern. Considering 2013, compared to 2012, the Highland region had a decrease of 2.8 percentage points, followed by the Amazon rainforest with 1.3, and finally the Coast with 0.3 percentage points. On the other hand, the Highland region and Amazon rainforest show high rates of extreme poverty, with 10.5% and 6.9% respectively, while the Coast region is the least affected, with 0.8% of extreme poverty.

The disparity in these geographical areas indicates that in Peru there are two aspects: “On the one hand there is an absolute exclusion determined by the incidence of poverty. On the other hand, there is a relative exclusion determined by inequality”¹². For this reason, the Peruvian State has encouraged social spending in plans and projects of employment, health care, education, child nutrition, social inclusion, among others. In addition, these social programs focused on the managing and budgeting for results, in order that the resources are used on priority areas where these programs show positive results.

1.1.3.1.4. Employment.

One of the cornerstones in the development of a society is employment because it is one of the major factors in the families’ incomes.

“Given its relevance for sustainable poverty alleviation and for providing the population access to production networks and social security, decent and productive employment is central to the promotion of an agenda for development with equality”¹³.

In Peru, the generation of employment has had significant progress although it has not been enough to create decent jobs in all sectors. Therefore, it should be

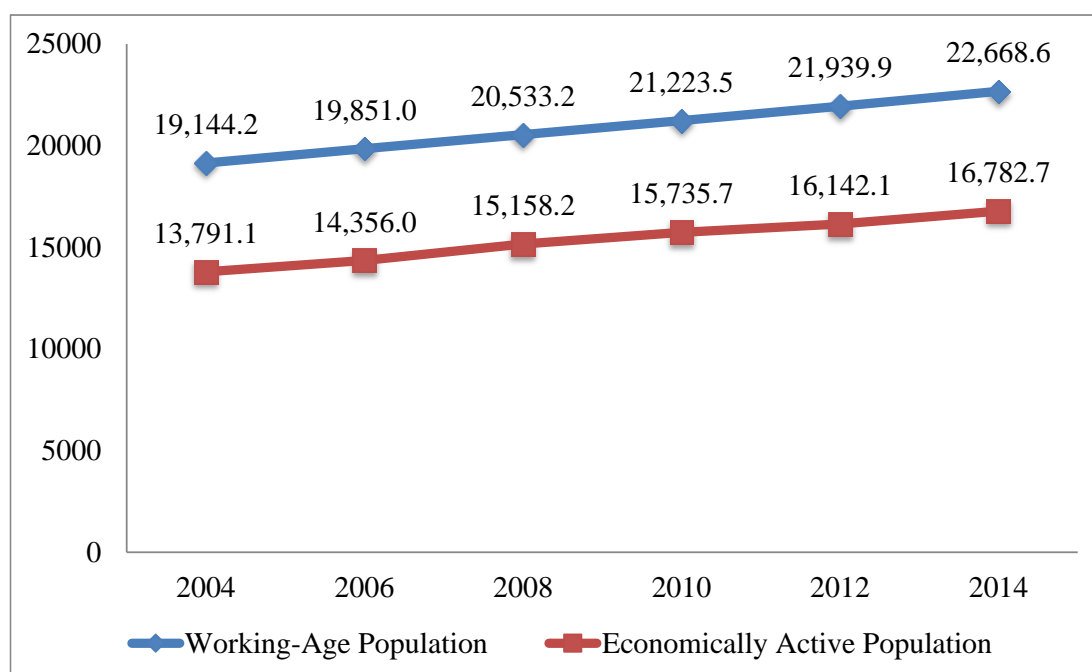
¹¹ World Bank, Strategic Alliance with the country for the Republic of Peru. 2012 - 2016, p. 6

¹² Sablich, Charles., Financial Law. A current vision in Peru, Ica: 2012, p. 134

¹³ ONU, The progress in Latin America and the Caribbean toward the Millenium Development Goals. Challenges to achieve them with equality, Santiago de Chile: 2010, p. 2

emphasized “the low unemployment rate, around 4 percent, and the high informality rate, around 69 percent”¹⁴.

Graphic No. 5 – Peru: Working-Age Population and Economically Active Population (Thousands of people).



Source: National Institute of Statistics and Informatics (INEI) / National Series.

Elaborated by: Patiño, Pablo.

According INEI, Peru in 2014 has a working-age population of 22 million, approximately 74% of the total population. The working-age population, between 2004 and 2014, has increased, on average, 1.6 percentage points, around 334 thousand people a year. Of the total working-age people, as is shown in Graphic No. 5, the Economically Active Population rose in 2014 to 16 million people. This population increased by 1.8 percentage points between 2004 and 2014, that is to say, in absolute terms was 275 thousand people a year.

The Economically Active Population increased 0.2 percentage points more than the working-age population. Of the total of the Economically Active Population, 96% belongs to the working population while the remaining percentage to the unemployed population. The high rate of the working population contrasts with the high percentage of informality. In 2014, 65% belongs to the informal sector of the total of

¹⁴ International Labour Organization Subregional Office for the Andean Countries, Projection Model of Peru's Employment, Lima: 2013, p. 10

the working population. For this reason, the challenge for Peru requires targeted improvements in public utilities as a more flexible regulatory framework for the constitution of formal companies.

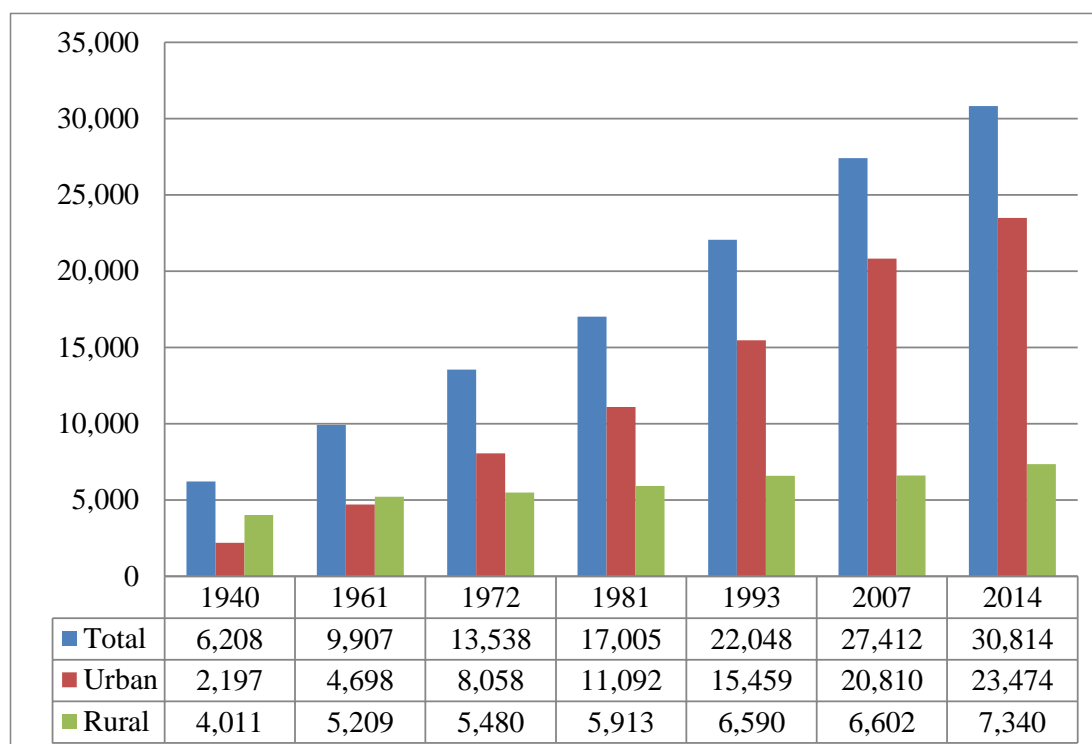
1.1.3.1.5. Migration.

Migration is a historical phenomenon that has developed in the Peruvian population since its establishment as Republic¹⁵ (even before, first in the Incan Empire and then under the Spanish rule); however, this has had greater relevance since the middle of the last century. There are multiple factors for this situation, highlighting the following: the economic growth does not cover all the needs generated by the population growth, limited employment prospects, better standards of living, crisis of historical productive sectors such as agriculture and livestock, industrial development, and an increase in commercial flow in the cities.

¹⁵ The Peru's Declaration of Independence was on July 28 of 1821 by José de San Martín; however, the independence process was under Simón Bolívar, and it finished on April 9 of 1824 with the capitulation of the Spain forces. The final capitulation was after the victory of Simón Bolívar in the Battle of Ayacucho.

1.1.3.1.5.1. Internal Migration.

Graphic No. 6 – Urban and Rural Population: Historical Evolution (Thousands of people).



The figures' calculation for 2014 are estimates made by INEI.

Source: National Institute of Statistics and Informatics (INEI) / National Population and Housing Censuses.

Elaborated by: Patiño, Pablo.

Internal migration rose since 1950, mainly due to the failure of land reform, which led to a crisis in the agricultural and livestock sectors. This aggravated social tensions in rural areas, especially in the Highland region. The first displacements were to the main cities of the country. As is shown in Graphic No. 6, in 1940 only 35% of population was living in urban areas, while 65% were living in rural areas. In 1961, the difference of the population between urban and rural was minimal, with the last one dominating. Since the 70s, the urban area became the most populated. In 2014, the estimated urban population is 76% of the total, and only 24% belongs to the rural area.

Urbanization had a higher incidence in the Coast region that hosted the majority of the migrant population. Lima, Peru's capital, is the most inhabited department and

has the second rate of population density in the country¹⁶. Similarly, the Amazon rainforest, in recent years, has become a place of migrant population; the search for better opportunities and government support in strategic sectors (mining, tourism and forest activity) are the major factors. On the other hand, the Highland region is becoming depopulated. As is shown in Table No 1, in 1981, the Highland population was 41.15%, but according to the estimates in 2014, the percentage has decreased to 34.98%. During the same time, the Coast region and Amazon rainforest has gone through a population growth phase of 4% and 2%, respectively.

This exodus generated functional changes in the host cities. In these cities, there were urbanization processes, so projects were developed to expand utility services, education, health care, security and housing plans. In addition, the internal migration had benefits to develop non-traditional sectors such as services, construction and commerce ties.

1.1.3.1.5.2. International migration.

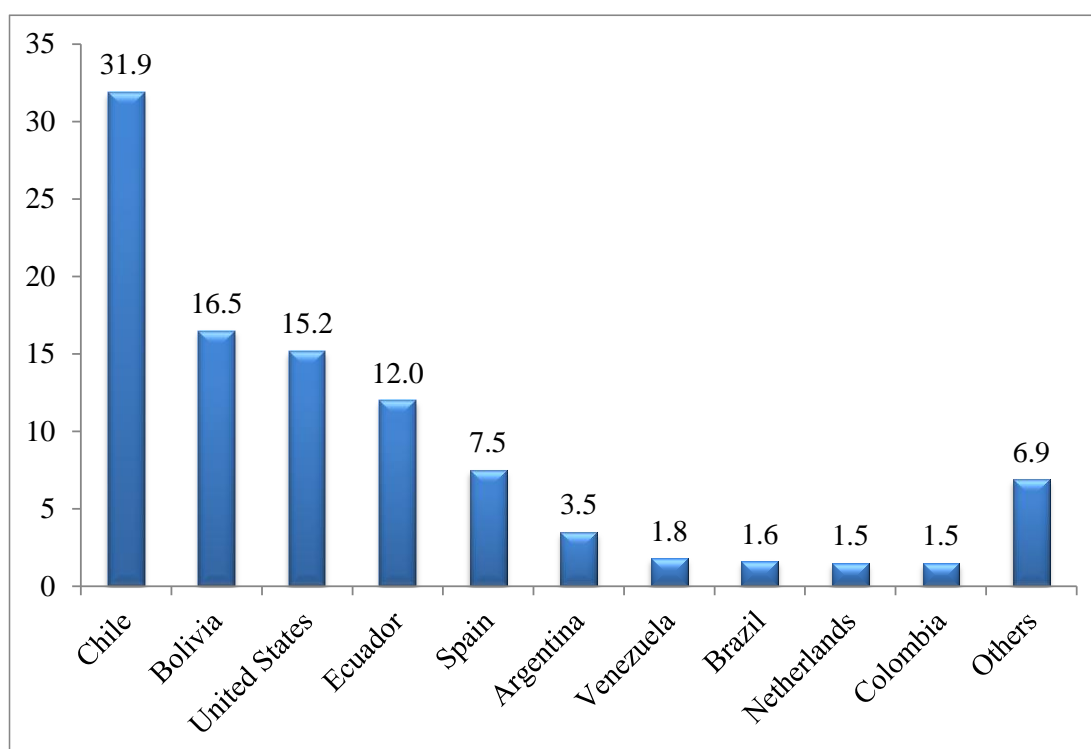
Migration has a global reach¹⁷, Peru being a part of it. Peruvian migration was focused on a search for better wages and working conditions, generating a decent standard of living for families. The economic crises of the country have been decisive in the causes of migration. In this way, since the 90s, there has been an increasing migration. According the report elaborated by the National Institute of Statistics and Informatics (INEI)¹⁸, from 1990 until 2012, Peruvian migrants were 2,572,352 people.

¹⁶ Lima has a population density of 278.4 inhab./km². It is ranked second after the Constitutional Province of Callao, which has a population density of 6,779.5 inhab./km².

¹⁷ According United Nations press release of 11 September 2013, international migrants who are living outside their countries of origin are 232 million people, that is to say, 3.2% of the world population.

¹⁸ IOM, INEI, MIGRATIONS. Peru: Statistics of the Peruvian international migration and foreign immigration, 1990-2012. Lima: 2013, p. 15

Graphic No. 7 – First country destination of the Peruvian emigrants, 1990 – 2012.



Source: National Superintendence of Migration (MIGRACIONES).

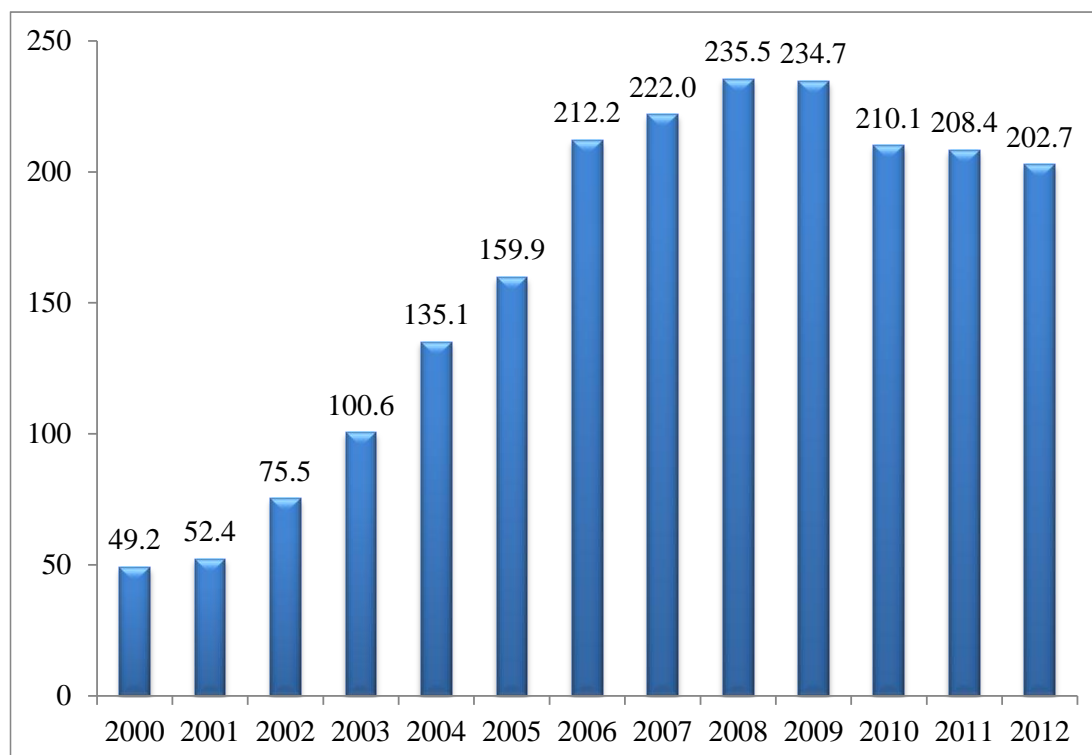
Elaborated by: National Institute of Statistics and Informatics (INEI).

According to the data provided in the Andean Migration Card (TAM), Peruvians living outside the country have Chile as the first country destination with 31.9%, followed by Bolivia (16.5%), the United States (15.2%), Ecuador (12.0%) and Spain (7.5%). These countries have 83.1% of the preference as first destination of the international migrants of Peru. However, the data obtained come from the statements of the migrants in the cards, the first country destination is not necessarily the country of residence. Therefore, countries such as Chile, Bolivia and Ecuador are mainly the transit countries to the United States, Spain and Italy. This is the reason to understand the percentage of concentration of migrants is not the same but different from the percentage of the first country destination.

“The Peruvian migrants are concentrated mainly in 7 countries, the United States (32.6%), Spain (16.6%), Argentina (13.5%), Italy (10.0%), Chile (7.8%), Japan (4.2%) and Venezuela (3.9%) representing 88.7% of the Peruvian population living abroad. However, new destinations are emerging that begin to unfold as:

Canada, Brazil, France, Germany, etc., in part by the integration policies and free trade that have been implemented in Peru”¹⁹.

Graphic No. 8 – International Emigration of Peruvians, 2000 – 2012 (Thousands of emigrants).



The data of 2012 are estimations considering the return rate of Peruvians who were living more than a year abroad.

Source: National Superintendence of Migrations (MIGRACIONES).

Elaborated by: National Institute of Statistics and Informatics (INEI).

During the 80s and 90s, in Peru and other Latin American countries, there was a time marked by political, economic and social instability. The increasing growth of belligerent communist groups and the army’s repression resulted in deaths and forced displacements to other cities of the country and even to other bordering countries. Furthermore, the lack of control in the fiscal expenditure and the high inflation rates resulted in an economic recession, whose consequences were the rise in unemployment and socio-economic crisis in the middle and lower classes of the country. Migration toward more stable economies took place in the hope of many families. As noted above, the main receiving countries were the United States and Spain.

¹⁹ IOM, INEI. Peru: Remittances and Development. Lima: 2010, p. 47

Since the beginning of the new millennium, the Peruvian economy managed to overcome the economic recession generating a cycle of economic growth. The new period of economic development in Peru has brought about a better environment for the population. Therefore, the international migration rates have decreased. As is shown in Graphic No. 8, until 2008 there was a significant growth of migrants. Between 2000 and 2001, the growth was only 6% approximately, but in 2001-2006 was the biggest increase because migrants abroad increased by four times. Since 2009, the international migration rate of Peruvians shows a declining trend, with 234.7 thousand people in 2009 and 202.0 thousand people in 2012.

As can be seen, international migration is an extremely important phenomenon for the majority of Peruvian families. Socially, the consequences have been the separation of families, because for the most part the head of household is the person who travels abroad or, failing that, the son or the daughter is who travels abroad. On the contrary, the economic benefits have been positive. Despite the fact that remittances are aimed, in greater proportion, to the private expenditure, migrant families have improved their living conditions (health care and education), and they have had the opportunity to enter the labor market through entrepreneurship projects. The economic effect on Peruvian families has supported the increase of the Peruvian economy in general. With the increase of migrants, it has also increased the income of remittances, which represents almost 2% of the in the GDP.

1.1.4. Political and Administrative Structure.

1.1.4.1. Government.

The current Constitution²⁰, in article 43 establishes that “Peru is a democratic, social, independent and sovereign Republic”. In the same way, it indicates that Peru is a unitary Republic, and is based on the principle of separation of powers.

Lima is the capital of the Republic of Peru, while the city of Cusco is considered as the historic capital.

²⁰ The Political Constitution of the Republic of Peru is the Magna Carta in force from 1993 to the present.

Under the presidential system, the government has three branches: Executive, Legislative and Judicial.

President of Republic (who is the Head of State) and the Council of Ministers comprises the Executive Branch. The popularly elected President and two vice-presidents have a five-year term, without the possibility of indefinite reelection. The President's main duties are the direction of the general and foreign policies of the government, as well as the main representation inside and outside the country. The current President is Ollanta Humala Tasso, since he took office on 28 July 2011. Ana Jara Velásquez chairs the Council of Ministers.

The Legislative Branch comprises a National Congress of 130 unicameral parliament members elected for a five-year term. The national Congress is divided into 24 Ordinary Committees, whose main functions are formulation, enactment, interpretation, modification and repeal of laws and legislative resolutions, as well as the direct control of the government and State authorities. Ana María Solórzano is the current president of the National Congress.

In accordance with the Constitution and the laws, the main function of the Judiciary Branch is the administration of justice. The judiciary system has four levels of jurisdiction. The Supreme Court is the highest judicial body in Peru. Subsequently, in this hierarchy, the Superior Court of Justice composes the next level, which has jurisdiction over 29 Judicial Districts. The Courts of First Instance composes the third level. Finally, there are the Justices of the Peace with jurisdiction in each district. In addition, there are specialized courts as Arbitral Tribunals Military Courts.

In addition to the functions describe above, there are other national autonomous bodies. The National Electoral Panel (JNE), the National Office of Electoral Processes (ONPE) and the National Register of Identity and Civil Status (RENIEC) compose the electoral system. In the economic and financial system, the institutions are the Central Reserve Bank of Peru (BCRP) and the Superintendence of Banks, Insurance Companies and Pension Fund Management Firms of Peru (SBS). The Constitutional Court protects constitutionality and legality. Finally, the control

institutions of the State are the Office of the People's Advocate (DP), the National Council of the Judiciary (CNM), the National Public Prosecutor's Office (MPFN), and the Office of Comptroller General of the Republic (CGR).

1.1.4.2. Administrative and Territorial Division.

According to the Constitution, the country is decentralized and consists of two levels: regional and local. Regions and departments compose the regional level, while provinces and districts compose the local level.

Table No. 6 – Territorial Division: Departments by Natural Regions.

Natural Region	Departament	Area	Population	Population Density
Coast	Callao	146.98	996,455	6,779.5
	Ica	21,327.83	779,372	36.54
	Piura	35,892.49	1,829,496	50.90
	La Libertad	25,499.90	1,836,960	72.04
	Lambayeque	14,231.30	1,250,349	87.86
	Lima	34,801.59	9,689,011	278.41
	Moquegua	15,733.97	178,612	11.35
	Tacna	16,075.89	337,583	21.00
	Tumbes	4,669.20	234,638	50.25
Highland	Áncash	35,914.81	1,142,409	31.81
	Apurímac	20,895.79	456,652	21.85
	Arequipa	63,345.39	1,273,180	20.10
	Ayacucho	43,814.80	681,149	15.55
	Cajamarca	33,317.54	1,525,064	45.77
	Cusco	71,986.50	1,308,806	18.18
	Huancavelica	22,131.47	491,278	22.20
	Huánuco	37,021.47	854,234	23.07
	Junín	44,326.55	1,341,064	30.25
	Pasco	25,028.26	301,988	12.07
	Puno	71,999.00	1,402,496	19.48
	Amazonas	39,249.13	421,122	10.73
Amazon Rainforest	Loreto	368,851.95	1,028,968	2.79
	Madre de Dios	85,300.54	134,105	1.57
	San Martín	51,253.31	829,520	16.18
	Ucayali	102,399.94	489,664	4.78

Source: National Institute of Statistics and Informatics.

Elaborated by: Patiño, Pablo.

The 24 departments and the constitutional Province of Callao²¹, that has a special status, are now the 25 regions of the country. Considering the departments and the constitutional province, nine belong to the Coast region, eleven to the Highland region and five to the Amazon rainforest. Lima, as the capital of the Republic, is not part of any region, and is headquarter of the Lima Metropolitan Municipality, the same that has exclusive jurisdiction over the province of Lima.

At the local level, 195 provinces and 1844 districts compose the national territory. The provinces and districts have political, economic and administrative autonomy, in accordance with the Constitution.

1.1.4.3. International Relations.

In the international arena, Peru is member of the major multilateral organizations, at the global and regional levels.

Table No. 7 – Peru as a member of International Organizations.

International Organization	Member since
United Nations	October 31, 1945
International Monetary Fund	December 31, 1945
Organization of American States	May 8, 1948
Inter- American Development Bank	April 8, 1959
The Group of 77	June 15, 1964
Development Bank of Latin America	February 7, 1968
Andean Community of Nations	May 26, 1969
Latin American Integration Association	August 12, 1980
World Trade Organization	January 1, 1995
Asia-Pacific Economic Cooperation	November 15, 1998
Union of South American Nations	May 23, 2008
The Pacific Alliance	June 6, 2012

Source: Web sites of the International Organizations.

Elaborated by: Patiño, Pablo.

²¹ The Constitutional Province of Callao is a Department by constitutional mandate since 22 April of 1857, during the government of Marshal Ramón Castilla. On this date, the National Convention gave this title due to the relevance as international seaport.

1.2. Economic Overview.

1.2.1. The Structure of the Economy.

The Peruvian economy shows a strong growth, standing out as an important developing economy, at the regional and global levels. The Peruvian State success in the economy is due to factors such as the increase of the public and private investment; growth in domestic demand; the support for the construction and service sectors; and, the increase in exports.

1.2.1.1. Gross Domestic Product.

Table No. 8 – Evolution of GDP in the 2008-2013.

	2008	2009	2010	2011	2012	2013
Nominal GDP (millions of dollars)	129,342	130,094	157,324	180,742	203,977	215,720
GDP per cápita (US\$)	4,515	4,493	5,375	6,105	6,811	7,122
Real GDP (Annual percent rate)¹	9.8	0.9	8.8	6.9	6.3	5.0

1. The GDP figures are a result of the Annual Percentage Increase.

Source: International Monetary Fund / Central Reserve Bank of Peru / National Institute of Statistics and Informatics.

Elaborated by: Patiño, Pablo.

The nominal GDP of Peru has had an increase from 129,342 million of dollars to 206,542 million of dollars, between 2008 and 2013. Therefore, in these six years, the nominal GDP has increased 66.7%, despite the growth of the economy was less vigorous in 2009.

Considering the real GDP (%), in 2009, the growth rate was the lowest in the last 6 years, as an effect of the financial crisis at the international level that began in 2008. According to the data of Central Reserve Bank of Peru (BCRP), the growth of GDP, which was above the population growth²², in 2013 was lower than in 2008 (-4.8) and in 2012 (-1.3). Despite this decrease, the BCRP estimates the growth will have reached 5.5% in 2014, that is to say, 0.5% more than in 2013. Therefore, the Peruvian economy in 2014, although it faces a slowdown, continues to perform a sustained economic growth.

Similarly, The GDP per capita has maintained an increasing trend. During these six years, the increase was higher than 57.7%, from 4,515 dollars in 2008 to 7,122

²² According to the data of the INEI, the Peru's population growth in 2013 is 1.3%.

dollars in 2013. This economic growth of GDP and GDP per capita does not show the performance of Peruvian society, the same that still maintains high levels of economic and social inequality.

Table No. 9 – Evolution of GDP by expenditure type, in the 2008-2013 (Millions of dollars).

	2008	2009	2010	2011	2012	2013 ²
A. Domestic demand	129,083.3	125,410.6	153,076.3	173,693.0	201,937.0	217,661.0
* Private Consumption	82,778.9	85,081.5	97,383.6	109,891.0	125,854.0	132,452.0
* Public Consumption	11,640.8	13,399.7	15,889.7	17,712.7	21,213.6	24,160.6
* Gross fixed capital formation	33,499.6	29,791.5	39,488.3	43,558.8	54,461.9	57,381.5
** Private	27,808.5	23,026.6	30,206.2	35,425.4	43,855.1	44,869.8
** Public	5,561.7	6,764.9	9,282.1	8,133.4	10,606.8	12,511.8
B. Exports¹	35,310.4	31,222.6	40,117.6	51,873.0	52,830.0	51,125.6
Menos:						
C. Imports¹	35,051.7	26,539.2	35,869.9	44,824.0	49,974.4	53,067.1
GDP (Percent Variation)	9.8	0.9	8.8	6.9	6.3	5.0

1. It includes non-financial goods and services.

2. The data are updated to 15 February of 2014.

Source: Central Reserve Bank of Peru / National Institute of Statistics and Informatics.

Elaborated by: Patiño, Pablo.

Considering the expenditure type, the evolution of GDP shows a growth in its components since 2008 until 2013. Domestic demand grew in 2013, reaching 7.8%, but it was below the 16.3% of growth recorded in 2012, and it was also below the 22.1% of growth recorded in 2010, the highest during this period. The main reason was the decrease in the growth rate of consumption and investment in 2013 in comparison with the previous years.

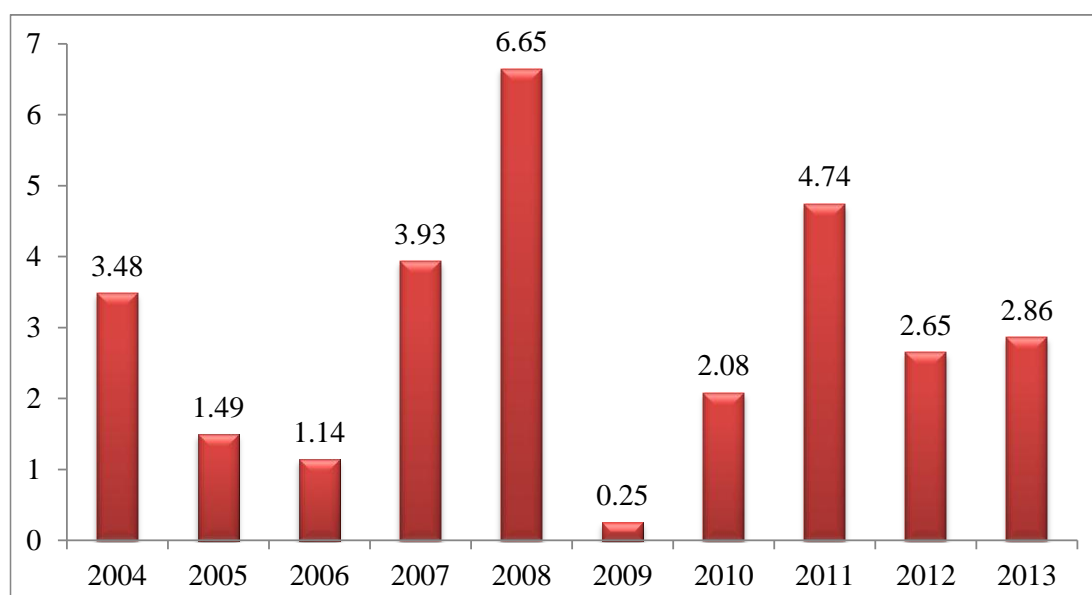
Private consumption was from 14.5% in 2012 to 5.2% in 2013, while in the public consumption the difference was smaller, from 19.8% in 2012 to 13.9% in 2013. Private consumption decreased due to low growth in National Disposable Income despite the growth in the employment rate. Public consumption and public investment remained higher than the rates of GDP in 2013; however, they did not have the growth of the previous years. The main reason was the decrease in the economic incentives provided by the state to overcome the international financial crisis of 2008.

Considering private investment, it was also a significant decline. In 2012, the investment grew 23.8%, while in 2013 the growth was only 2.3%. The main reason was the decrease in the amounts of financing in private investment projects.

Exports decreased from 1.8% in 2012 to -3.2% in 2013. On the contrary, imports increased 6.2% in 2013, although it was a lower rate in comparison with the previous year, and even in the last 6 years only were higher than 2009, a year after the international financial crisis.

1.2.1.2. Inflation.

Graphic No. 9 – Evolution of inflation in Peru, 2004-2013.

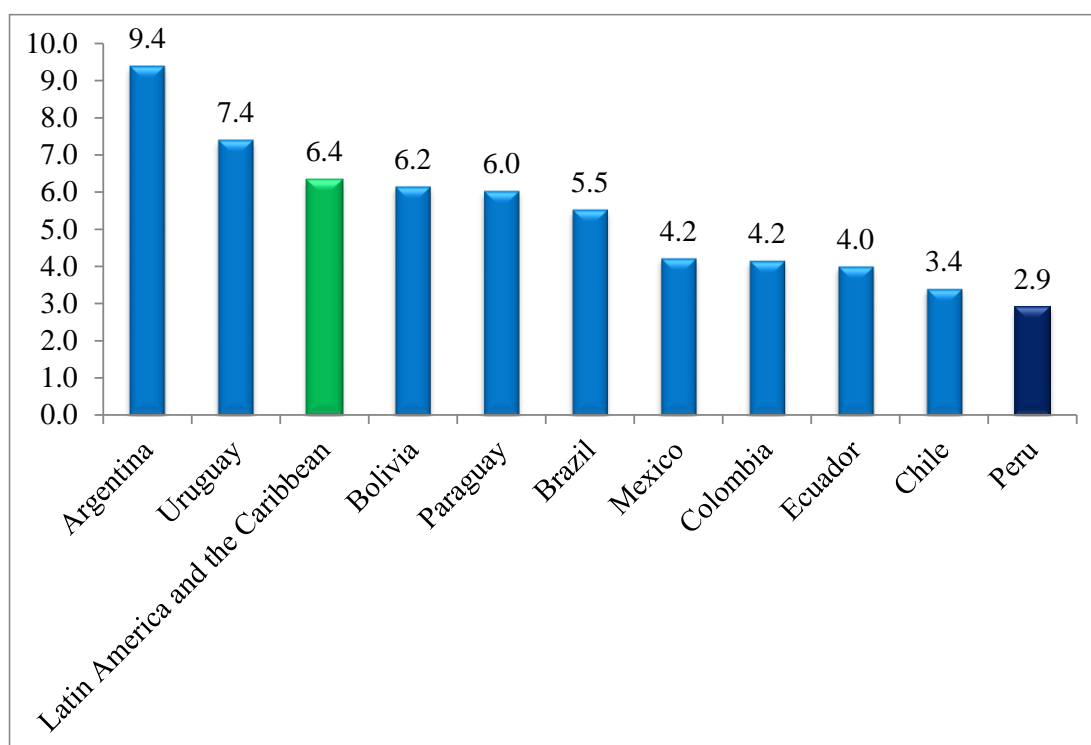


Source: Central Reserve Bank of Peru (BCRP) / Inflation Report.

Elaborated by: Patiño, Pablo.

In 2013, the inflation rate was 2.86. This rate was lower than 2011 (4.74) but higher than 2012 (2.65). During these ten years, 2009 had the lowest inflation (0.25) and 2008 the highest inflation. In the 2004-2013, on average, Peru had an inflation of 2.93. The average inflation in Peru is the lowest in Latin America and the Caribbean. Latin America and the Caribbean, in the same period, had a rate of 6.4. In comparison with other countries, Peru has an inflation rate less than Chile (3.4), Ecuador (4.0), Mexico (4.2), Colombia (4.2) and Brazil (5.5).

Graphic No. 10 – Annual average inflation of Latin America and the Caribbean, 2004-2013.



Source: International Monetary Fund (IMF) / Databases of World Economic Perspectives updated to April of 2014.

Elaborated by: Patiño, Pablo.

1.2.2. The main sectors of the Peruvian economy.

1.2.2.1. Productive Sectors.

Table No. 10 – Evolution of GDP by economic sectors, in the 2008-2013 (Millions of dollars).

	2008	2009	2010	2011	2012	2013 ¹
Agriculture	7,631.2	7,675.5	8,967.5	10,121.6	11,422.7	11,433.2
Fishing	905.4	910.7	786.6	1,265.2	1,019.9	1,078.6
Mining and Hydrocarbons	18,366.6	18,473.3	20,924.1	22,592.8	24,885.2	26,102.1
Manufacture	21,212.1	19,774.3	24,385.2	28,557.2	30,800.5	32,573.7
Electricity and water	2,198.8	2,211.6	2,674.5	3,072.6	3,467.6	3,667.2
Construction	7,113.8	7,545.5	9,911.4	11,025.3	13,666.5	14,884.7
Commerce	13,322.2	13,269.6	16,676.3	19,520.1	22,233.5	23,729.2
Services	58,462.6	60,363.6	73,155.7	84,406.5	96,481.1	102,467.0
GDP (%)	9.8	0.9	8.8	6.9	6.3	5.0

1. The data are updated to 15 February of 2014.

Source: Central Reserve Bank of Peru – National Institute of Statistics and Informatics.

Elaborated by: Patiño, Pablo.

In 2013, the GDP by economic sectors did not have the same dynamism that growth achieved in 2012. The main reason was the limited growth in major sectors such as agriculture, manufacturing and services. One of the most affected sectors was agriculture, which faced a decrease in the production and prices of products, both for domestic consumption and export.

The manufacturing sector has been facing a slowdown since 2008. It is mainly affected by the vulnerability that still continues in comparison with the external sector because there is a lack of adequate technical development of this sector. On the contrary, the fishing and mining sectors were the most dynamic. This was due to the increase in prices and investment projects both domestic and foreign. The sector with the most investment amount was mining and more specifically metal mining.

1.2.2.1.1. Agricultural Sector.

Table No. 11 – Agricultural Production (Thousands of tons).

Products	2012	2013 ¹	Products	2012	2013 ¹
Agriculture			Fruit		
Cotton	111.4	81.5	Cocoa	57.9	69.7
Rice	3,019.3	3,073.9	Lemon	223.0	223.6
Coffee	303.3	253.5	Mango	184.5	453.1
Sugar cane	10,368.9	10,929.9	Apple	147.1	142.2
Barley	213.9	224.6	Orange	425.0	437.6
Onion	775.5	739.4	Banano	2,004.2	2,103.4
Yellow corn	1,399.9	1,378.3	Livestock		
Starchy maize	279.4	308.0	Bird	1,428.6	1,466.6
Corn cob	361.6	395.3	Eggs	314.0	353.3
African oil palm	515.5	541.0	Milk	1,798.9	1,810.3
Potato	4,473.5	4,592.3	Porcine	161.6	176.8
Yucca	1,119.6	1,202.3	Bovine	360.4	373.6

1. The data are updated to 15 April of 2014.

Source: Central Reserve Bank of Peru – National Institute of Statistics and Informatics – Ministry of Agriculture.

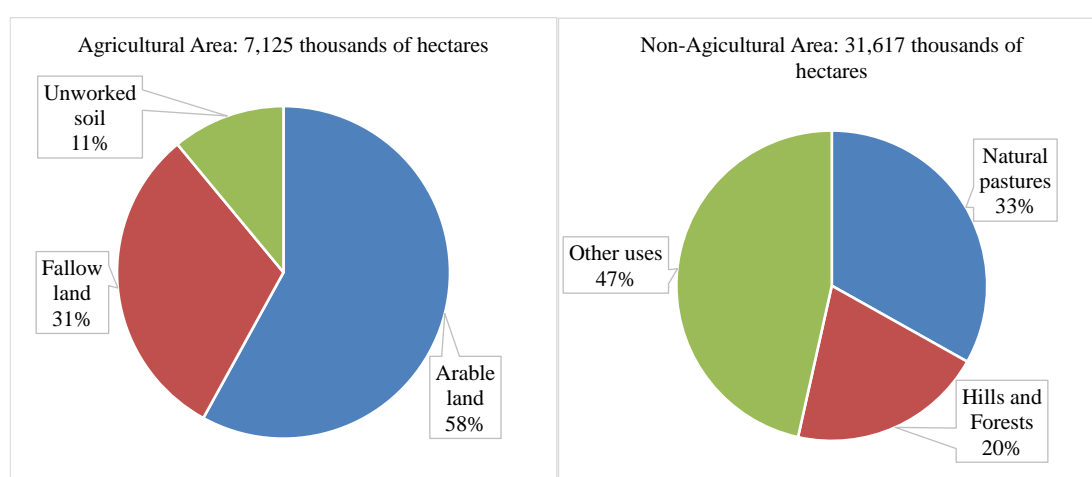
Elaborated by: Patiño, Pablo.

According the Agricultural Census 2012, in Peru, “30.1% is dedicated to the development of the agricultural activity, which in comparison with the 1994 census, has increased by 3,360.7 thousands of hectares, that is to say, the farming area was

expanded by 9.5% in the past 18 years”.²³ In absolute values, the farming area is 38,742.4 thousands of hectares, or 387,424 km². This area is distributed: 57.5% in the Highland region, 31.0% in the Amazon rainforest and 11.5% in the Coast region. Similarly, this surface is divided into agricultural and non-agricultural areas. The agricultural area is 7,125.0 thousands of hectares, where only 58% has crops while the remaining percentage does not; in a general way, the lack of crops is due to limited access to irrigation systems and the lack of credits for this sector.

The ten major crops includes coffee, potato, yellow corn, starchy maize, rice, bananas, cocoa, sugar cane, yucca and corncob, the same that occupy 49% of the land under agricultural production. Natural pastures, hills and forests that occupy 31,617.4 thousands of hectares cover the non-agricultural area.

Graphic No. 11 – Agricultural and non-agricultural areas, 2012.



Unworked soil. - Lands that have had agricultural use but will not be sowed another time.

Fallow land. - Agricultural land that it is left to recover fertility, normally for the whole of a crop year.

Other uses. - Unused lands for agricultural production: roads and rocky areas (places of abundant rocks).

Source: National Institute of Statistics and Informatics.

Elaborated by: Patiño, Pablo.

Concerning production, the agricultural sector in 2013 was characterized by a lower growth in relation to 2012. During the last six years, 2013 has the lowest growth, even less than in 2009. The low development of the subsectors agriculture and livestock in the last few years has influenced the sectorial decline.

²³ INEI. Resultados Definitivos. IV Censo Nacional Agropecuario 2012. Lima: 2013, p. 3

In 2013, this sector represented 5.4% of Peruvian GDP, highlighting the production of sugar cane, potato, rice, yellow corn, yucca, bananas, onions and oil palm as agricultural products, and birds and milk as livestock products. In the same way, the agricultural production occupied 64.6% of the total produced in the agricultural sector, while the remaining corresponded to livestock production. Agricultural production, essentially, was oriented (with the double) toward the domestic market in relation to the foreign market and the agro-industry.

In 2013, agricultural exports were 4,181 million of dollars FOB, being an increase of only 0.14% compared to 2012. Of the total exported products, around 1500 were traditional ones, highlighted by coffee, sugar and cotton. The remaining products were non-traditional such as asparagus, grapes, artichokes, cocoa, and onions, etc.

Table No. 12 – Exports of agricultural and non-agricultural products, 2012-2013.

Product	2012		2013	
	Net Weight (Tn.)	FOB Value (US\$ Thousand)	Net Weight (Tn.)	FOB Value (US\$ Thousand)
Traditional				
Pima cotton	1,561	3,889.5	452	1,220.6
Tanguis cotton	305	510.7	343	485.3
Sugar	8,434	5,827.6	26,547	13,934.7
Coffee	266,393	1,023,627.8	238,112	697,429.9
Non Traditional				
Artichokes	65,608	177,287.9	59,004	152,273.5
Cocoa	32,461	95,479.0	43,203	122,622.6
Onion	27,154	12,715.3	197,285	66,879.0
Asparagus	185,444	538,549.0	183,517	612,511.0
Grape	160,734	472,808.7	186,778	548,952.2

Source: Foreign Trade Information System (SIICEX) / PromperuStat Statistics.

Elaborated by: Patiño, Pablo.

The low development in 2013 was due to the decrease in exports of traditional products, mainly coffee and cotton. Coffee, the main agricultural exported product, was affected by two events. The plague yellow rust affected a vast part of coffee crops, and a substantial reduction in international prices from January 2012 until December 2013, the FOB price decreased from US\$4.74 to US\$2.57. Even with

these reductions, the agricultural sector has benefited from the increase in exports of non-traditional products such as asparagus, grapes, cocoa and onion. The increase in production volumes and the increase of the international prices were the reasons to increase exports of these products.

Considering the main exports destinations, the United States is the major destination country, with 30% of total exports. After, there are three European Union countries: Netherlands with 13%, Spain with 7% and the United Kingdom with 5%. Ecuador is the fifth main destination country with also 5%. Regarding trading blocs, the European Union covers 34% of the total exported, followed by the North American Free Trade Agreement (NAFTA) with 33%, and the Andean Community of Nations (CAN) with 11%. The remaining percentage of exports are demanded by markets such as the Southern Common Market (MERCOSUR), Association of Southeast Asian Nations (ASEAN), and the European Free Trade Agreement (EFTA).

1.2.2.1.2. Fishing Sector.

The Peruvian sea is characterized by the diversity of fishery resources. In this way, the fishing sector is one of the most important at the international level, highlighting as the main global producer of fishmeal. The sea has a length of 2,600 km., the area of which is 1 million km² including the 200 miles. This area contains a wide range of marine species, which allow Peru to be considered as a fishing power in the world.

The activities of the fishing sectors are traditionally classified as production for direct human consumption (DHC, which includes fresh fish and seafood, canned, frozen and cured, for human consumption), and production for indirect human consumption (IHC, which includes fish meal and fish oil, obtained from the processing of the anchovy, and used for animal feed). According to these criteria, it is distinguished exports called “traditionals” (DHC products) from exports “non-traditionals” (IHC products)²⁴.

Fishing is a sensitive sector to external shocks. For this reason, it has faced multiples fluctuations in the growth within the sectorial GDP. But in 2013, it had a significant

²⁴ ICEX. Country Guide: Peru 2012. Lima: 2012, p. 13

growth from -13.2% in 2012 to 12.6% in 2013, the second highest in the last 6 years, although the first one was 31.8% in 2011.

Table No. 13 – Fishery Production, 2012-2013 (Thousands of tons).

Products	2012	2013 ¹
<u>Sea Fishing</u>		
Indirect Human Consumption		
Anchoveta	3,615.5	4,698.1
Other species ²	0.9	1.0
Direct Human Consumption		
Chilled	641.5	630.3
Tinned	119.8	133.5
Fresh	348.4	363.7
Stockfish	15.3	33.7
<u>Pesca Continental</u>		
Fresh	36.3	37.9
Stockfish	15.2	16.7

1. The data are updated to 15 April of 2014.

2. Includes sardine, horse mackerel, mackerel, hake, etc.

Source: Central Reserve Bank of Peru – National Institute of Statistics and Informatics – Ministry of Production.

Elaborated by: Patiño, Pablo.

Considering the Peruvian GDP, in 2013, the fishing sector represented only 0.5%; however, the sector represented close to 7% of the total exports. The production of anchovy, that is part of the industrial consumption, is the most important item by volume and growth. Between 2012 and 2013, the production of anchovy increased more than 1 million tons. Therefore, the main anchovy derivative, fishmeal, is the most important item in fishing exports, with a FOB value of 1,367 million of dollars.

Regarding fishmeal, the main export destination is China with more than 60%, followed by Germany, Chile, Japan and Vietnam. These four countries together cover 25%, while countries of CAN, NAFTA, and other countries of EU and Asia form the remaining percentage.

1.2.2.1.3. Mining and Hydrocarbon Sectors.

The diverse set of mineral resources has led Peruvian mining being the most productive sector of the country. Of the total national territory, half is allowable for exploration, without considering the Amazon rainforest. In this region, the State has made concessions recently. Historically, the Andes and the coast have been mining areas of exploration and exploitation. Until 2013, the area of exploration and mining was about 2.5% of the territory that is allowable for exploration. These data correspond to the formal mining sector that is formed by large, medium and small-scale mining.

In contrast, mining has a high level of informality that extends throughout the country. According to the government, it is due to the lack of control and lack of technical development, and it is causing serious environmental damage. Therefore, the government has started a campaign of formalization in order to reduce these environmental damages. The objective is to extend the economic benefits to all productive sectors.

Table No. 14 – Peru in the world ranking of mining production 2013.

Metal		World Ranking	Global Reserves
Cu	Copper	2	13%
Au	Gold	8	4%
Ag	Silver	1	22%
Zn	Zinc	3	7,6%
Pb	Lead	4	9%
Sn	Tin	6	6%

Source: Ministry of Energy and Mining / Mining in Peru.

Elaborated by: Ministry of Energy and Mining.

The importance of mining production is due to the productive potential of metals at the global level. Peru is ranked as one of the major metallic mineral producers, especially of silver, copper, gold, zinc, lead and tin. In addition, the mining sector has a percentage of great global reserves of these metals. Similarly, there is an increase in manufacturing of non-metallic products such as diatomite, travertine marble, natural calcium phosphates, safety glass and cement.

Considering the sectorial GDP, metallic mining kept the percentage growth in 2013 in comparison to 2012; however, it was lower than 2008 (7.3%). In the hydrocarbons sector in 2013, there was an increase of 3.9 percentage points compared to 2012, but it continued lower than the average growth (13.7%) of the last six years.

Table No. 15 – Metal Mining and Hydrocarbons Production, 2012-2013.

Productos	2012	2013 ¹
<u>Minería Metálica</u>		
Cobre (miles de TM.)	1.120,7	1.203,5
Estaño (miles de TM.)	22,7	20,6
Hierro (miles de TM.)	6.791,4	6.787,5
Oro (miles de Kg.)	156,6	147,2
Plata (miles de Kg.)	3.273,6	3.457,3
Plomo (miles de TM.)	228,9	247,7
Zinc (miles de TM.)	1096,3	1.152,7
<u>Hidrocarburos</u>		
Hidrocarburos líquidos (miles de barriles)	55.991,0	61.143,0
Gas natural (millones de pies cúbicos)	418.795,0	430.559,0

1. The data are updated to 15 March of 2014.

Source: Central Reserve Bank of Peru – National Institute of Statistics and Informatics – Ministry of Production.

Elaborated by: Patiño, Pablo.

In the sectorial structure of GDP in 2013, mining and hydrocarbons represented 12.1% of the total. Considering this percentage, metallic mining contributed three quarters of the total. The volume of mining production has increased considerably, with the exception of small decreases in production of gold, iron and tin. The hydrocarbons contributed the remaining percentage, highlighting the production of liquid hydrocarbons.

Table No. 16 – Exports of the main mining and hydrocarbons products, traditional and non-traditional, 2012-2013 (FOB value in million of US\$).

Product	2012	2013 ¹
Traditional		
Metal mining	26,308	23,029
Copper	10,728	9,809
Tin	541	496
Iron	856	857
Gold	9,594	7,846
Silver	210	479
Lead	2,575	1,749
Zinc	1,351	1,412
Other metals	453	381
Hydrocarbons	4,996	5,148
Crude oil and its derivatives	3,665	3,776
Natural gas	1,331	1,372
Non traditional	722	720

1. The data are updated to 21 February of 2014.

Source: Central Reserve Bank of Peru (BCRP) – National Superintendence of Customs and Tax Administration (SUNAT).

Elaborated by: Patiño, Pablo.

Exports of mining and hydrocarbons sectors in 2013 were 28,897 million of dollars FOB with a decrease of 9.77% compared to 2012. The sectorial contribution represented 69% of the total exports and 91% of the traditional exports. In this way, as can be seen, there was an important contribution as a sector in the economy, especially of the metallic mining subsector. The main destination markets are China, Japan, the United States, Switzerland, Germany, Netherlands, Spain, Chile, Canada and Brazil.

1.2.2.1.4. Manufacturing Sector.

Nowadays, the manufacturing sector of Peru still faces several challenges in order to strengthen as a sector, because it is still vulnerable to the external sector. Trade openness together with the signing of Free Trade Agreements (FTA) made by Peru has led two main effects. The first effect is the fragile technical development and fragile efficiency. It has not allowed the country to be highly competitive with foreign markets. In contrast, this trade openness has led to a higher foreign

investment in industrial projects, both for the manufacturing of primary resources and non-primary industries.

Table No. 17 – Manufacturing production, 2012-2013 (Millions of dollars).

Sector	2012	2013 ¹
Primary Manufacturing	5,156.0	5,656.1
Non Primary Manufacturing	25,314.9	26,159.3
Food and Drink	5,775.1	5,873.3
Textile, leather and footwear	3,061.6	2,972.8
Paper and printing industry	2,805.9	3,033.2
Chemicals, rubber and plastic	4,102.6	4,398.0
Nonmetallics minerals	3,745.3	3,857.7
Iron and steel industry	748.5	806.9
Metal products, machinery and equipment	3,298.7	3,483.5
Other Industries	1,715.6	2,038.1

1. The data are updated to 15 April of 2014.

Source: Central Reserve Bank of Peru (BCRP) – Ministry of Production.

Elaborated by: Patiño, Pablo.

In the sectorial GDP of 2013, there was a manufacturing growth in both primary and non-primary subsectors in comparison with 2012. The primary subsector increased 9.7% in 2013 from 5.1 billion dollars in 2012 to 5.6 billion dollars in 2013. It was due mainly to the increase in the production of fishmeal and fish oil and the increase of productive potential in oil refining and non-ferrous metals.

In the non-primary subsector, the growth was only 3.3%. This was due to the increase in production of the paper and printing industry and chemicals products. As a result, the growth of the manufacturing sector was not significant because the non-primary subsector had greater importance in the percentage structure and it showed a lower growth. The primary subsector is mainly focused on the domestic demand while the non-primary subsector is directed toward abroad to a greater extent.

In the GDP of 2013, the manufacturing sector contributed 15.1% to the total structure. Considering the total exports of 2013, the non-primary manufacturing sector contributed 6,349 million of dollars FOB, that is to say, 15% of the total exported. The main destination markets are the United States, China, Chile, Brazil, Venezuela, and the three countries of the CAN: Ecuador, Colombia and Bolivia.

1.2.2.1.5. International Tourism.

Table No. 18 – Arrival of international tourists and income of the inbound tourism, 2004-2013.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
International inbound tourists (Thousands)	1,349.9	1,570.5	1,720.7	1,916.4	2,057.6	2,139.9	2,299.1	2,597.8	2,845.6	3,163.6
Income generated by tourism (millions of dollars)	1,232	1,438	1,775	2,007	2,396	2,440	2,475	2,912	3,288	3,925

Source: Ministry of Foreign Trade and Tourism (MINCETUR) / Statistics.

Elaborated by: Patiño, Pablo.

International tourism has achieved a significant growth, due to the large economic and commercial dynamism and from the diverse tourist and cultural potential. Peru has 11 World Heritage Sites: City of Cusco, Historical Sanctuary of Macchu Picchu, Chavin Archaeological Complex, Huascarán National Park, Chan Chan Archaeological Area, Manu National Park, Historic Centre of Lima, Rio Abiseo National Park, Nazca Lines located in the “Pampas de Jumana”, Historic Centre of Arequipa, and the Sacred City of Caral-Supe.

Between 2004 and 2013, the arrivals of tourists has almost doubled and the income generated by inbound tourism has almost tripled. The main countries of origin of tourists are Chile, the United States, Ecuador, Venezuela, Argentina, Brazil, Colombia, Spain, Bolivia and France, which together cover almost 80% of international tourists. In order to continue the growth of the tourism industry, investments in hotels, both for new construction as well as expansions and remodeling have been made.

1.3. Foreign Trade.

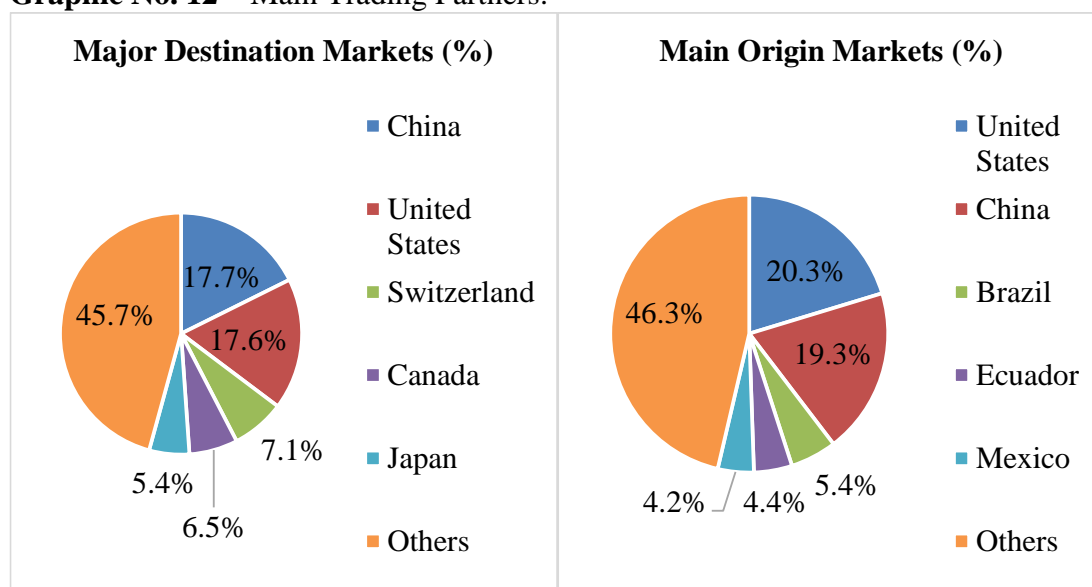
Trade liberalization and tariff liberalization have been some of the main features in the Peru trade policy. According to the Report of the Secretariat of the World Trade Organization (WTO) on the Trade Policy Review:

Peru attaches particular importance to the participation in the multilateral trading system, which is consider essential to achieve its primary objective of trade policy: achieve a sustained increase in trade, with emphasis on exports

of non-traditional sectors; strengthen the image of Peru as a competitive exporter of goods and services; and strengthen trade and investment flow between Peru and the rest of the world. ²⁵

Considering the trade balance in 2013, Peru exported 41,504 million of dollars, and imports were 43,430 million of dollars, leaving a deficit of 1,926 million of dollars.

Graphic No. 12 – Main Trading Partners.



Source: Lima Chamber of Commerce / Centre of Foreign Trade.

Elaborated by: Patiño, Pablo.

As can be seen in Graphic No. 12, China and the United States were the main trading partners. The major destination of Peruvian exports was China with 17.7% (7,329 million of dollars), followed by the United States with 17.6% (7,305 million of dollars), and completing the list of major export destination were Switzerland with 7.1%, Canada with 6.5% and Japan with 5.4%. The main origin countries, besides the United States with 20.3% (8,818 million of dollars) and China with 19.3% (8,390 million of dollars), were Brazil (5.4%), Ecuador (4.4%) and Mexico (4.2%).

The current Peru trading off is due, in large part, to the government support in the early 90s. At that time, it promoted trade and economic policies in order to support the productive and commercial sector to face the consequences of the crisis since 1970. The government of Alberto Fujimori, within the commercial sector, was focused on reducing the tariff rates and customs formalities.

²⁵ WTO. Trade Policy Review on Peru. Report of the Secretariat. 2013, p. 7

The counterpart of this reform package caused many effects on domestic production because there was not State protection. Although it was critical times to face global production, Peru has achieved a recovery in the competitiveness tie. It still depends on the traditional primary sector (mainly, mining and fishing); however, the industry has had a significant rebound. Trade openness allowed the purchase of machinery and technology, the same that strengthened the Peruvian industry and employment. These measures have allowed the country to become productive and competitive that gradually overcomes social issues.

Another fundamental key in Peruvian foreign trade is the negotiation of trade agreements. According to the Report of the WTO, Peru has 17 trade agreements covering 52 countries:

Since 2007, Peru has actively negotiated regional trade agreements, 14 of them have entered into force with: the European Free Trade Association (EFTA), Canada, Chile, China, Republic of Korea, Costa Rica, the United States, Japan, Mexico, Panama, Singapore, Thailand, the European Union and the Bolivarian Republic of Venezuela. In addition, it concluded a trade agreement (it is still not in force) with Guatemala, and it is currently negotiating with El Salvador and Honduras, as well as with the Pacific Alliance and the Trans Pacific Partnership Agreement (TPP). Similarly, Peru is a founding member of the Andean Community and has a free trade agreement with the MERCOSUR and other agreements within the Latin American Integration Association (ALADI) framework... In 2012, nearly three quarters of total exports of Peru were destined to the trading partners with which Peru has regional trade agreements.²⁶

With the negotiation of these trade agreements, Peru seeks security for its production of goods and services in the world. In this way, Peruvian exporters have guaranteed trade and tariff benefits permanently and with no limitations (unless they are part of the agreement) in order to develop medium and long-term projects. The three major trading partners, China the United States and European Union, maintain existing

²⁶ Idem

trade agreements. At the regional level, Peru is part of the CAN and has an agreement with MERCOSUR, which allows export and import more quickly and at low cost.

1.3.1. Trade Agreement Peru – APEC.

The Asia-Pacific Economic Cooperation (APEC) is composed of 21 Pacific economies with the objective of promoting economic integration, providing technical cooperation and facilitate a sustainable business environment in the Asia-Pacific region. Having no binding the formal treaty, the decisions taken at the annual meeting are consensual.

The 21 countries that comprise it, all together account almost 60% of world GDP and cover 50% of world trade. Peru, being part of this forum, has achieved an increase in exports five times of these countries, since joining in 1998. Similarly, of the total exports to the world, more than half are exports to APEC countries. Among the major achievements, it should be noted that it has signed trade agreements with Canada, Chile, China, the United States, Mexico, Republic of Korea, Singapore and Thailand.

Conclusion.

The economic development of Peru has shown a worthy progress, both regionally and globally. One of the fundamental pillars has been the commercial development at the international level. Its foreign trade is based on trade liberalization with developed countries and with other major emerging countries. At this time, trade agreements are in force with 52 countries.

Trade openness has been positive, in general, for productive and economic development. However, the primary sectors, responsible for the extraction of raw materials, have been more favored. On the contrary, the manufacturing sector has faced intense crisis by lack of modernization that persist in their industries. At this point, it is necessary to mention that the variety of mineral products and fishing products are very important in the production scheme, but with no transformation into manufactured products. On the contrary, the manufacturing industry does not

have a level of quality in production and still depends on the external sector. The objective is to generate a successful economic model that attracts foreign investment for technological and economic support to domestic manufacturing industry. As a result, economic growth would be more sustainable and less severely affected against external crisis.

In this chapter, social development was also investigated, demonstrating that the great economic growth is uneven with most of the Peruvian society. At present, although the development of the economy has contributed there is still a significant level of poverty and extreme poverty persists. The unequal socio-economic distribution is an unfinished task for the government. It has not achieved a balance that allows historically marginalized social groups' access to a quality standard of living, as do other social groups with better income.

Considering these aspects, Peru is a country of contrasts, not only culturally but also in the social and economic issues. However, the outstanding economic growth in recent years allows visualizing a prosperous future in which the social problems of inequality are reduced drastically by economic development. Finally, it is imperative to mention that Peru is a country with great potential for growth in all productive sectors enabling it to maintain its prominent role in the global economy.

CHAPTER 2

Introduction

The bilateral relationship between Ecuador and Peru was visualized through time by border conflicts that confronted them multiple times. From the moment that they were established as free and independent States until the signing of peace agreement in 1998, their relationship became a tense situation. The military confrontation marked the life of the border populations and became “political spoil” for the governments of both countries. National security was the main factor considered in State policies. It was not only for claiming territory but to claim the origins of each people. In spite of the differences, the social and commercial ties were not broken although it remained at minimum proportion.

The similarities between these two societies showed a contradiction for the situation, and a definitive solution to this international conflict was needed. The dismantling of the Soviet system in the early 90's favored the system of trade openness promoted by the United States and accepted by the countries of the Americas. However, the war meant a serious limitation for commercial policies of trade openness that were initiated by Peru, and it became a restriction for the Ecuadorian economy. In this way, in addition to the pressures of trade and productive sectors of both countries, Peru joined the international influence. The change in the world order meant the interest of bigger powers in the Americas such as the United States, because the conflict was an impediment to develop free trade in the south region of the continent.

The benefits of peace were border integration and development, mutual economic cooperation, and increase of bilateral trade, both formal and informal. The border issue was focused on the formulation and implementation of projects through the Binational Plan, in order to improve the living standard of the border population. Similarly, it improved the “transit and movement of people, goods, and means of

transport between the two countries, the tourist flows... on the common border, among others”²⁷.

This chapter presents an analysis of the commercial relationship between Ecuador and Peru in the 1993-2000. The trade and balance of trade, with an emphasis on exports by each country is highlighted. In the business analysis, a distinction is made between exports and imports by Ecuador with regard to Peru. The 15 major traded goods, both exports and imports, and their evolution are highlighted in the analyzed period.

The 15 major products that are exported constitute more than 80% of total exports. Regarding the 15 major products represent 42.9%. In this way, it is necessary to mention that the items exported by Ecuador do not have the same diversification in comparison with the items imported. In addition, crude oil, which is the most exported product, comprises a great part of exports. Furthermore, it is possible to understand the percentage variance between exports in comparison with imports. Therefore, only the 15 major products are considered in order to better understand about the evolution of this commercial relationship.

2.1. Commercial Relationship Ecuador – Peru.

As mentioned above, the trade between Ecuador and Peru was restricted due to the border dispute. It was unlikely to develop sustainable projects because the instability generated insecurity for investments, both public and private sectors. Therefore, the Treaty of Peace generated expectations for producers, exporters and entrepreneurs that began to promote bilateral negotiations in the following trade agreements:

- 1) Bilateral Trade Agreement signed on 14 November 1992; which contains 478 products for which applies a tariff liberalization of 100%.*
- 2) Enlargement of the Bilateral Agreement of 1992, signed on 13 December 1995; which includes 96 new subheadings.*
- 3) Decision 414 of the Andean Community of Nations, in July 1997, concerning the improvement of the economic and commercial integration between the*

²⁷ Chiriboga, Manuel., “El Acuerdo de Paz Ecuador-Perú: ¿hubo un rédito económico?”, Ecuador - Perú Evaluación de una década de paz, Quito: 2009, p. 85

*member countries. 4) Decision 356 of the Commission of the Cartagena Agreement. 5) Agreement of acceleration and deepening of Free Trade between Ecuador and Peru, signed under the framework of the Comprehensive Peace Agreement of October 1998.*²⁸

In spite of the existing estrangement preceding the achievement of peace, in the 70's a rapprochement between governments was achieved; it resulted in the signing of an agreement to establish the Permanent Economic Commission. The results were not very satisfactory and its work was forgotten.

2.1.1. Andean Community of Nations.

On 26 May 1969, Bolivia, Chile, Colombia, Ecuador and Peru signed the Cartagena Agreement that gave origin to the Andean Group or Andean Pact, which currently is called Andean Community of Nations (CAN). Venezuela joined this process in 1973, but withdrew in 2006, while Chile withdrew in 1976. The main objective is the integration and the economic and social cooperation for integral development of the member countries. Their fundamental areas of action are the reduction of unemployment to improve the standard of living as well as reduce existing social differences in their populations, and the objective of achieving an economic and commercial development of all member countries.

Considering trade, one of the main goals was the intraregional tariff reduction in order to establish a free trade area. Until 1993, the member countries, except Peru, had achieved that liberalization. Therefore, on 30 July 1997 was signed the Decision 414, whose objective was the tariff liberalization of Peru's products compared to the other countries of the Andean Community. That decision established a Liberalization Program that contained relief modalities whose deadline was December of 2005. Integral parts of this relief were eight annexes that specified products, deadlines and forms of relief.

The period after this decision, and with the purpose of obtaining results in less time, the Agreement of acceleration was signed and deepening of free trade between

²⁸ López, Jimmy, Ecuador-Perú: Antagonismo, negociación e intereses nacionales, Quito: 2004, p. 177

Ecuador and Peru in 1998. The objective was a relief of the products contained in Decision 414 until 2001. In addition, there was a greater emphasis on the relief of products with slower tariff liberalization, as is the case of agricultural products. However, the process did not conclude in the established time, and the agricultural products were those that did not achieve relief. Until 2005, Peru achieved the stipulated relief in Decision 414; in this way, the member countries established a free trade area.

Under the action of this sub regional organization, the Ecuador-Peru trade benefited although it faced crisis in South America and the conflict mentioned above. The work of the Andean Community was a cornerstone for maintaining the commercial relationship between Ecuador and Peru, with a gradual increase from the 90's.

2.2. Commercial Exchange Ecuador – Peru between 1993 and 2000.

The trade between Ecuador and Peru has had a gradual increase since 1993, although in some years this trade had a significant decrease. As part of the integration process of CAN, the member countries in that year, with the exception of Peru, have liberated tariffs in their universe of products, including those considered sensitive. Therefore, from 1993 to 1997,

“trade between Ecuador and Peru was governed by an agreement that involved an exchanges of lists, which included mainly non-sensitive products such as live animals, seeds, evaporated milk, grapes, apples, buttermilk, wines, juices, cocoa, fats and oils, bamboo, flour, fresh cheese, skins, inputs, capital goods, etc.”²⁹

From 1997, with the integration of Peru in the process of sub regional tariff liberalization the commercial options between Ecuador and Peru were deepened.

²⁹ Chiriboga, Manuel., “El Acuerdo de Paz Ecuador-Perú: ¿hubo un rédito económico?”, Ecuador - Perú Evaluación de una década de paz, Quito: 2009, p. 72

Table No. 19 – Commercial exchange between Ecuador and Peru.

	1993	1994	1995	1996	1997	1998	1999	2000
Exports (Millions of dollars FOB)	130.9	156.8	69.4	49.3	223.6	199.1	180.1	293.8
Imports (Millions of dollars FOB)	33.8	48.0	36.2	39.0	61.3	92.7	44.9	70.0
Balance of Trade (Millions of dollars)	97.0	108.7	33.2	10.2	162.2	106.3	135.1	223.8
Trade (Millions of dollars)	164.7	204.8	105.6	88.3	285.0	291.8	225.1	363.8
Tons exported (Thousands)	943	1,161	208	47	1,576	2,185	1,131	1,396
Tons imported (Thousands)	41	66	47	62	93	130	90	123
Balance (Thousands of tons)	902	1,094	160	-14	1,483	2,055	1,041	1,273

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Bilateral trade increased since 1993. In that year, trade covered 164.7 million dollars while in 2000 it was 363.8 million dollars, that is to say, the total value of trade doubled during those eight years. Despite this important increase, during 1995 and 1996 trade decreased dramatically to 105.6 and 88.3 million dollars, respectively. The conflict was the main cause, generating a precipitous decline in Ecuador's exports.

Considering the analyzed period, trade balance was positive for Ecuador. 2000 was the year with the most important difference, with 223.8 million dollars. It was due to the 293 million dollars exported to Peru in comparison to the 70 million dollars of Ecuadorian imports from Peru. On the contrary, in 1996 trade balance was only 10.2 million dollars because the low level of Ecuadorian exports to Peru that covered only 49.3 million dollars, the lowest exported level from Ecuador to Peru.

In volume, Ecuadorian exports were larger and had significant increases. In 1993, 943 thousand tons were exported and in 2000 more than 1 million tons. In the case of Ecuadorian imports, although almost tripled from 1993 to 2000, the same did not exceed 130 thousand tons. Considering total volume, between 1993 and 2000,

Ecuador exported to Peru 8.6 million tons and imported 652 thousand tons, which means the import volume from Peru was 7.5% of exports to Peru.

Table No. 20 – Exports data of Ecuador and Peru.

Year	Exports Ecuador (millions of dollars FOB)			Exports Peru (millions of dollars FOB)		
	To Peru	The World	%	To Ecuador	The World	%
1993	130	3,065	4.24	33	3,385	0.97
1994	156	3,842	4.06	48	4,424	1.08
1995	69	4,380	1.58	36	5,491	0.66
1996	49	4,872	1.01	39	5,878	0.66
1997	223	5,264	4.24	61	6,825	0.89
1998	199	4,203	4.73	92	5,757	1.60
1999	180	4,451	4.04	44	6,088	0.72
2000	293	4,907	5.97	70	6,955	1.01

Source: Central Bank of Ecuador (BCE) – National Institute of Statistics and Informatics (INEI).

Elaborated by: Patiño, Pablo.

Considering the evolution of exports done by each country, the Ecuadorian exports to Peru, between 1993 and 2000, represented approximately on average 4% of the total exports. 1996 was the year with less contribution in sales, since it was not more than 1.01% of the total exported, while in 2000, exports to Peru was 5.97% of the total exports.

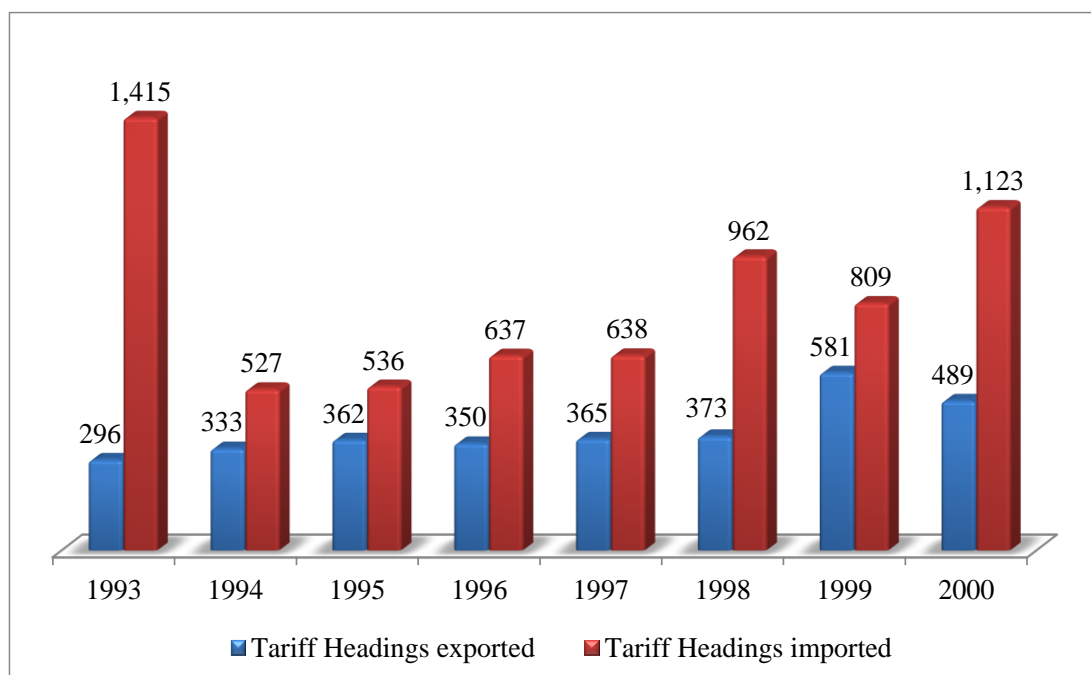
In 1993-2000, the annual growth rate of Ecuadorian exports to Peru was 12.3%, the same that is higher compared to the annual growth rate of Ecuadorian exports to the rest of the world (6.9%) during the same period.

In the case of Peruvian exports to Ecuador, the contribution has been lower in values as well as percentages in comparison with the total exports of Peru. On average, exports from Peru to Ecuador, between 1993 and 2000, did not represent more than 0.95% of the total. Considering the annual growth rate of Peruvian exports to Ecuador, the value was higher (10.9%) with a minimal difference compared to the Peruvian exports to the world (10.8%).

The prevalence of Ecuadorian exports to Peru was due to the high volumes of crude petroleum oil exported. Therefore, if we do not consider crude petroleum oil, exports

to Peru in 1993-2000 that represented less than 1.3% of the total. Peru, as the destination of Ecuadorian exports, was ranked in seventh place after the United States, the European Union, Colombia, South Korea, Chile and Panama. In crude oil exports, Peru was the fourth destination, only exceeded by the United States, South Korea and Panama; however, in non-crude oil exports it was ranked as the eighth destination.

Graphic No. 13 – Trade of tariff headings of Ecuador with regard to Peru.

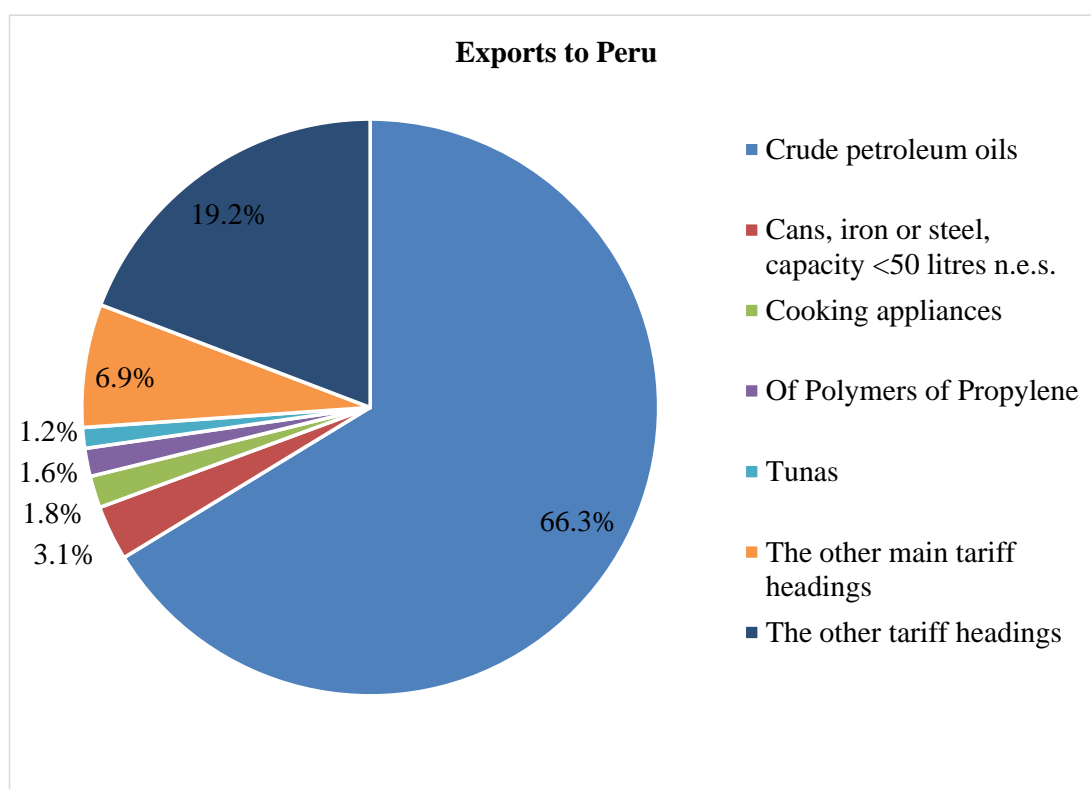


Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Considering the products, the tariff headings exported from Ecuador to Peru, in 1993, were 296 and in 2000 they were 489, 1999 being the year with the highest quantity of headings, with 581. The heading imported from Peru had more diversification, because in 1993 the products imported were 1,415 and in 2000 were 1,123, with an average in those eight years of 830 products. Despite of the fact that the universe of products imported from Ecuador was greater than the exported ones, the volumes and the values were characterized by being positive for exports compared to imports.

Graphic No. 14 – Export to Peru between 1993 and 2000 (Percentage of the total).



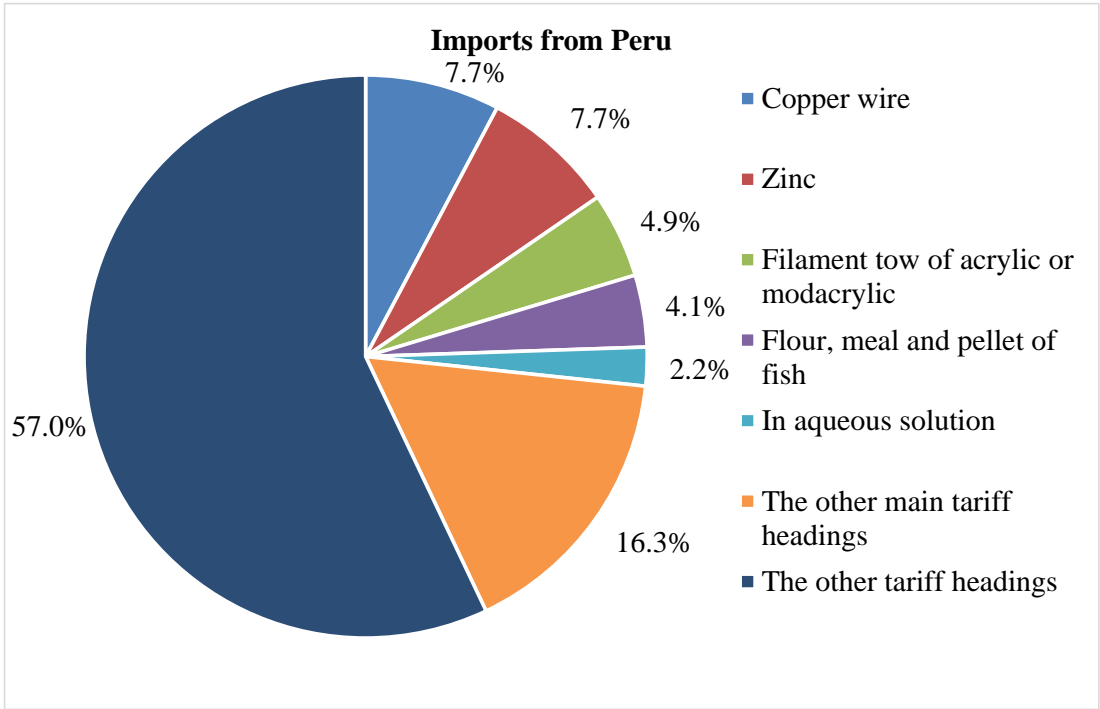
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

As was mentioned above, Ecuadorian exports were characterized by dependence on a product, crude petroleum oil, which can be seen in Graphic No. 14, represented 66.3% of the total exported. The other 14 major tariff headings exported were 14.6% of the total and 19.2% corresponded to the 1,316 remaining headings.

Considering the remaining headings, it was noted exports of products derived from base metals, mainly from iron or steel, aluminum and copper, these being highly required by the Peruvian market due to the good quality as well as the low costs of transportation. Textiles had an important contribution to total exports, mainly with regard to clothing and footwear. The main supply centers were located in the in the Ecuadorian highland region. In the same way, wood based products as well as paper and cardboard were also important in exports of these additional headings. Finally, sugar based products and cocoa based products were required by Peru.

Graphic No. 15 – Imports from Peru between 1993 and 2000 (Percentage of the total).



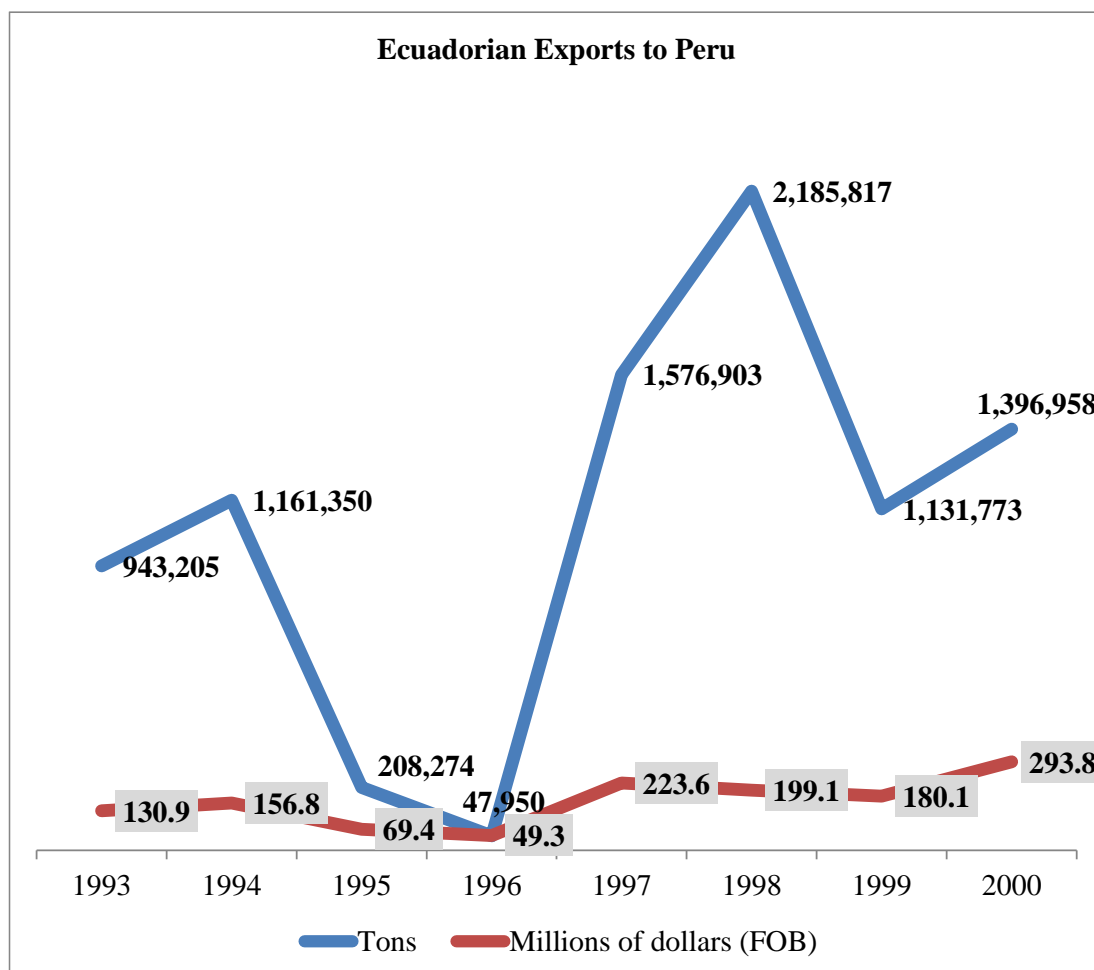
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Ecuadorian imports from Peru did not have a prevailing product, as in the case of exports. However, the 15 major tariff headings meant the 42.9% of the total imported, while the remaining 57.0% corresponded to the other 2,914 tariff headings. These headings were characterized by a wide variety of products derived from the minerals, including fuels and oils. Also, chemicals such as chlorine were important. Another fundamental point was the imports of motor vehicles, including parts and accessories as well as appliances and electrical equipment. In the same way, it was significant imports of food commodity, especially those commercialized in the border areas.

2.3. Ecuadorian Exports to Peru.

Graphic No. 16 – Ecuadorian Exports to Peru, 1993-2000.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The exports level to Peru, as it can be seen in Graphic No. 16, shows an increase that doubled the exports value between 1993 and 2000. However, it is necessary to mention that the contribution to total exports was not more than 4% on average, and only in 2000 was about 6%. During these years, Peru was not the most important market for the Ecuadorians exporters, although close in geographical proximity. The war did not promote greatly improved systems of communication as well as the conflict did not generate security for the investment and the commerce. Therefore, exports were focused on crude petroleum oil. This product was the most exported, covering more than 66% of the total sales to Peru between 1993 and 2000.

In 2000, when the dollarization process started in Ecuador, the highest export value in all analyzed period is shown. In addition, the growth of exports between 1993 and 2000 was 38%, that is to say, it increased by more than 113 million dollars in those two years. This increase was only overtaken by the 1996-1997, which increase was 174 million dollars (77%). On the contrary, between 1995 and 1996 was the lowest exports value, because it covered 118.7 million dollars, the same that represented only 9.1% of the total exports to Peru in the analyzed period.

In the same way, it can be seen that there is a big difference between the volume exported and the income received from it. The main reason is that Ecuador is a greater exporter of raw materials and, in smaller quantities, there are exports of manufactured products.

Table No. 21 – 15 major tariff headings exported to Peru between 1993 and 2000.

#	Tariff Heading	Description	Tons	Thousands of dollars (FOB)	%/Total FOB-Dollar
1	2709000000	Crude petroleum oils	8,114,272.48	863,484.79	66.26
2	7310290000	Cans, iron or steel, capacity <50 litres n.e.s.	18,569.35	40,153.74	3.08
3	7321111000	Cooking appliances	7,824.37	23,285.67	1.79
4	3920200000	Of Polymers of Propylene	10,202.39	20,517.34	1.57
5	1604140000	Tunas	5,616.35	15,137.75	1.16
6	1701990000	Refined sugar, in solid form, n.e.s.	45,494.25	13,509.20	1.04
7	3004902900	Medications n.e.s., in dosage	439.83	10,300.35	0.79
8	2106902000	Compound alcoholic preparations	191.57	10,292.42	0.79
9	1704100000	Chewing gum containing sugar	5,880.81	10,130.56	0.78
10	3004391000	Hormones n.e.s., not containing antibiotics	197.26	8,118.52	0.62
11	2710006000	Fueloils (FUEL)	114,319.27	8,033.26	0.62
12	3402200000	Washing and cleaning preparations	9,429.75	7,659.34	0.59
13	1801001000	Cocoa beans	6,796.51	7,636.53	0.59
14	4411190000	Fibreboard n.e.s.	19,905.97	7,411.67	0.57
15	3904220000	Polyvinyl chloride n.e.s., plasticised	5,889.07	7,268.54	0.56
		The other tariff headings	287,204.12	250,309.81	19.21
		TOTAL	8,652,233.35	1,303,249.49	100.00

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

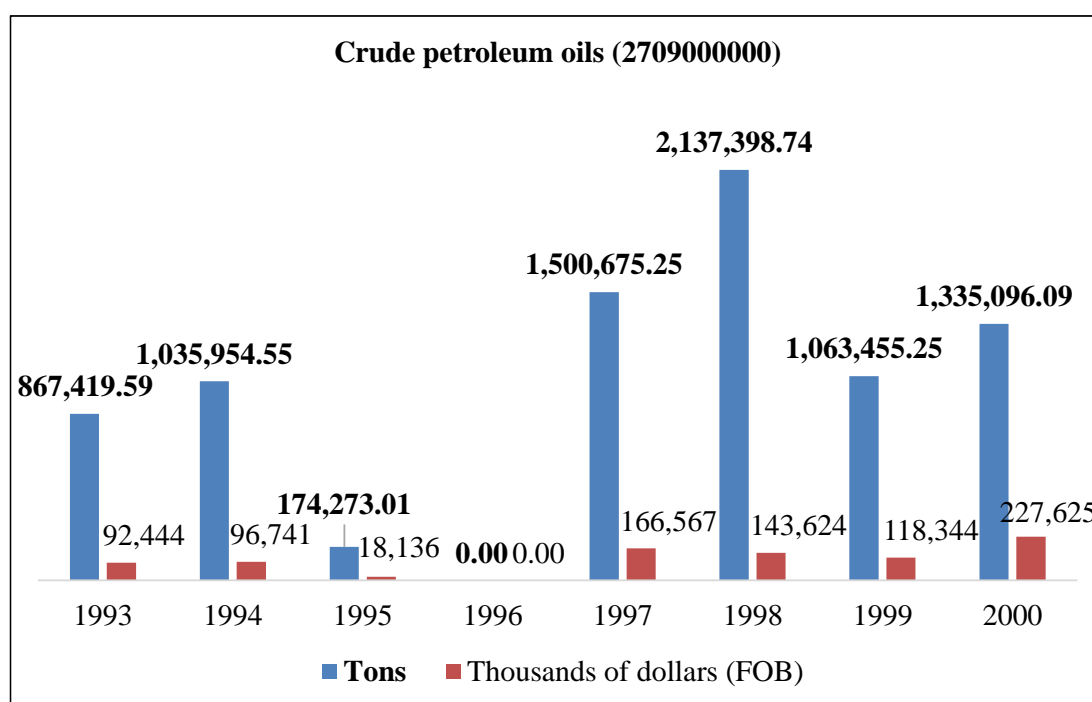
Elaborated by: Patiño, Pablo.

Exports in 1993-2000 covered 1,303 million dollars (FOB), where the 15 major products were 80.7% of the total, that is to say, it was 1,052 million dollars. The main exported product to Peru was crude petroleum oil, the same that represented more than 66% of total exports. If we do not consider the contribution of this product, exports would not be greater than 450 million dollars. Considering the non-oil products, the most important ones were the cans of iron or steel, kitchen appliances, polymers of propylene, tunas, and refined sugar. The contribution of

every product exceeded 1% in the total. The remaining products corresponded to consumption goods and inputs.

2.3.1. Export of Crude oil.

Graphic No. 17 – Exports of crude petroleum oils and oils obtained from bituminous minerals.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Oil has great importance in the trade between Ecuador and Peru. For Ecuador, it means higher incomes at low cost of transportation while Peru benefits by the proximity. Crude oil covered more than 863 million dollars of exports between 1993 and 2000. However, conflicts have affected exports of this product. Therefore, as can be seen in graphic, in 1995 exports were lower than 19 million dollars while in 1996 there were no exports to this country. Without considering these years, exports were really significant as an income for Ecuador. As is shown in graphic, exports have doubled since 1993 (US\$ 92.4 million) until 2000 (US\$ 227.6 million)

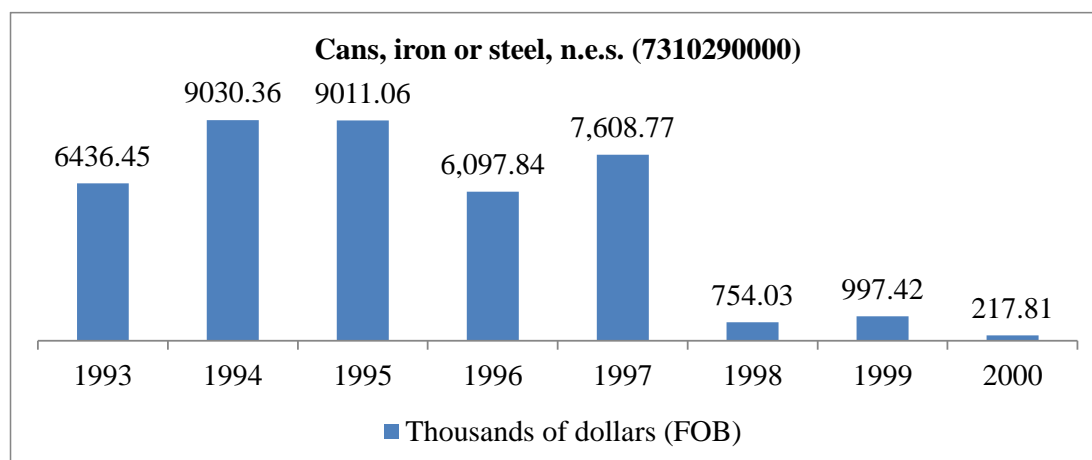
Exports of crude oil were clearly influenced by the fluctuations of its international price. As shown in graphic, the sale of 867 thousand tons resulted in exports of 92.4 million dollars, considering an average price of 16 dollars a barrel of oil. Despite the decrease in exports to Peru in 1995, since 1997 the exported level recovered reaching

166.5 million dollars in sales due to the sale of more than 1,500 thousand tons considering an average price of 18 dollars a barrel. However, the economic crisis in Asia and the global oversupply caused an oil price lower than 9 dollars a barrel at the beginning of 1998 while this price was lower than 6.5 dollars in December of that year. Therefore, even though a great volume was exported, it did not mean the same in monetary terms. Later, in 1999 the price has recovered while in 2000 the price reached 25 dollars a barrel, the same that led to an increase in the incomes of the exported value, even though it was not sold the same volume as in other years.

Peru, between 1993 and 2000, was the market that contributed with approximately 8% of the total crude oil exports, only surpassed by the United States with 45%, South Korea with 17% and Panama with 9%.

2.3.2. Export of cans, irons or steel.

Graphic No. 18 – Exports of cans, iron or steel, capacity 50 litres n.e.s.



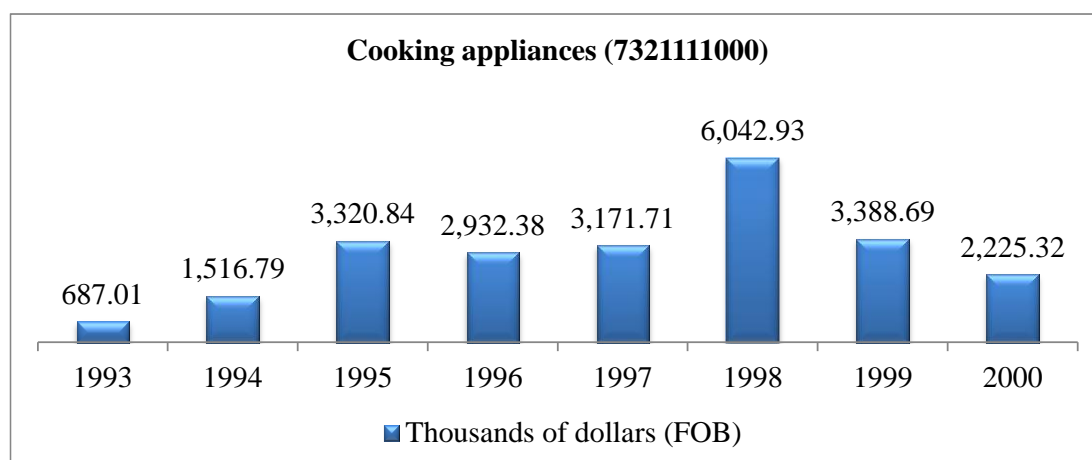
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

This tariff heading represented 3.08 % of the total exports to Peru. Considering the total amount, more than 40 million dollars were exported; however, the higher contribution of exports between 1993 and 1997 needed to be addressed. In that period, was exported 95% of the total, which means 38 million dollars. On the contrary, since 1998, exports have experienced a dramatic decrease. The main reason was due to the expansion of the supplier countries of this product, mainly from European and Asian countries.

2.3.3. Export of Cooking appliances.

Graphic No. 19 – Exports of cooking appliances.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

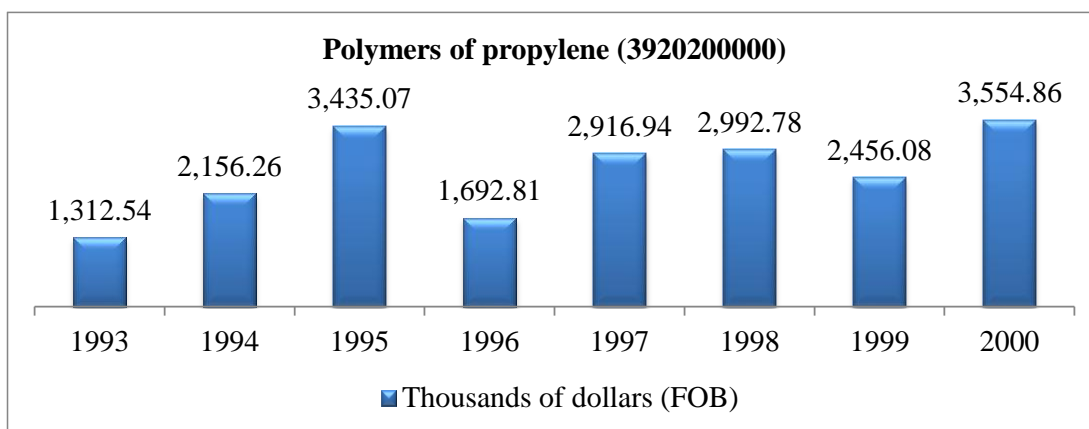
Elaborated by: Patiño, Pablo.

Cooking appliances became the product of white goods with the higher consumption in the Peruvian market. The reduction of tariff rates by the Peruvian government and the productive increase of Ecuadorian companies led to a significant increase in the exports levels of this tariff heading. As shown in graphic, the exported value to Peru in 1993 was 687 thousand dollars while in 1994 doubled. In the 1995-2000, the exports average was 3.5 million dollars. After reaching the peak in 1998, with more than 6 million dollars, the values were reduced significantly until the 2.2 million dollars in 2000. In spite of this, the economic contribution of this consumer good became essential for production companies as well as for exporting firms.

Peru, with 36 %, was the main destination of the Ecuadorian cooking appliances in the 1993-2000. The other important destinations were Colombia (25%), Guatemala (9%), Dominican Republic (6%) and Mexico (5%).

2.3.4. Export of Polymers of propylene.

Graphic No. 20 – Exports of Polymers of propylene.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

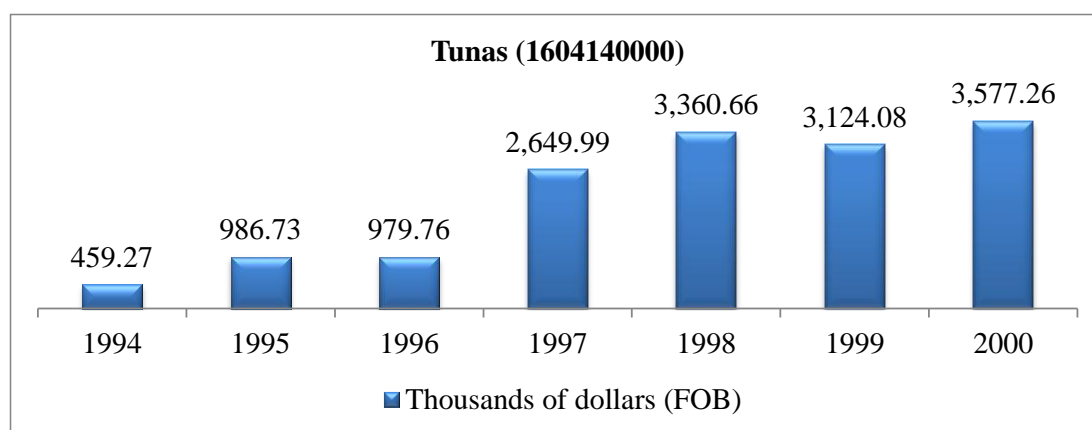
Elaborated by: Patiño, Pablo.

Exports of this type of plastic had a very significant growth during the period of analysis. On average, the exported value was higher than the \$2.5 million per year. Between 1993 and 1995, exports almost tripled, although in 1996, the values were reduced more than 50 %, as a result of the conflict between these two countries. For the following years, exports recovered again its level, with the exception of 1999 (coinciding with the banking crisis in Ecuador); the highest amount was reached in 2000, with 3.5 million dollars.

This tariff heading had Peru as its first destination, because between 1993 and 2000 covered 42% of Ecuadorian exports. Despite the fact that Peru had suppliers from nearby countries such as Chile and Colombia, Ecuadorian companies were characterized by the quality and price. In addition, there was great diversification of the exporting firms with high volumes of production and exports.

2.3.5. Export of Tunas.

Graphic No. 21 – Exports of tunas, prepared and preserved (whole or in pieces).



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

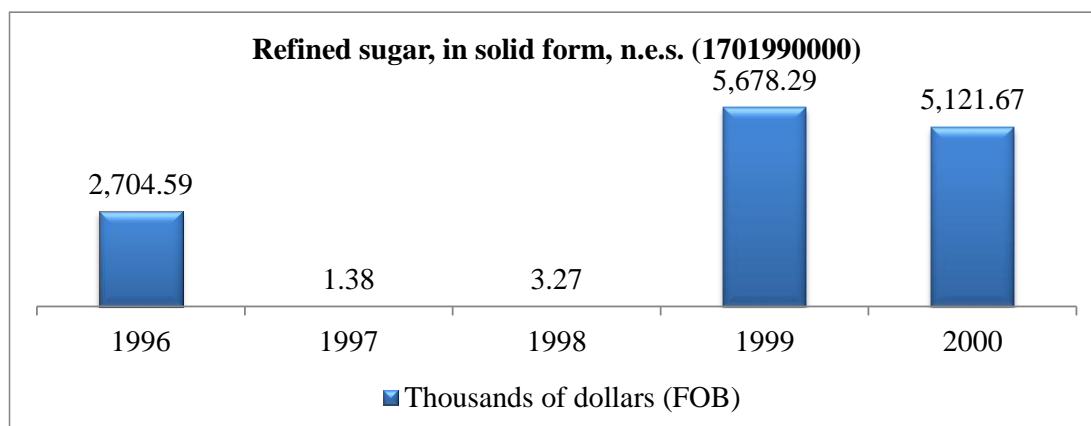
Elaborated by: Patiño, Pablo.

Tuna included in this tariff heading was one of the products of greatest consumption by the Peruvian market since 1994, when Ecuadorian companies began exporting a greater volume. In 1993 there were no exports to this market while in previous years exports were sporadic, and these exports did not exceed 70 thousand dollars. In 1994, the value was 459 thousand dollars, while in 2000 covered 3.5 million dollars, that is to say, exports increased nearly eight times during the analyzed period.

In addition, this product had a greater growth, considering that in 1994 tuna was not in the 25 largest exported products while in 2000 tuna was the fourth largest product after crude oil, refined sugar and the toothpaste. The opening of a new production plants in Ecuador in 1995 and the increase of the international prices were the main causes for this significant increase.

2.3.6. Export of Refined sugar.

Graphic No. 22 – Exports of refined sugar, in solid forms, n.e.s.



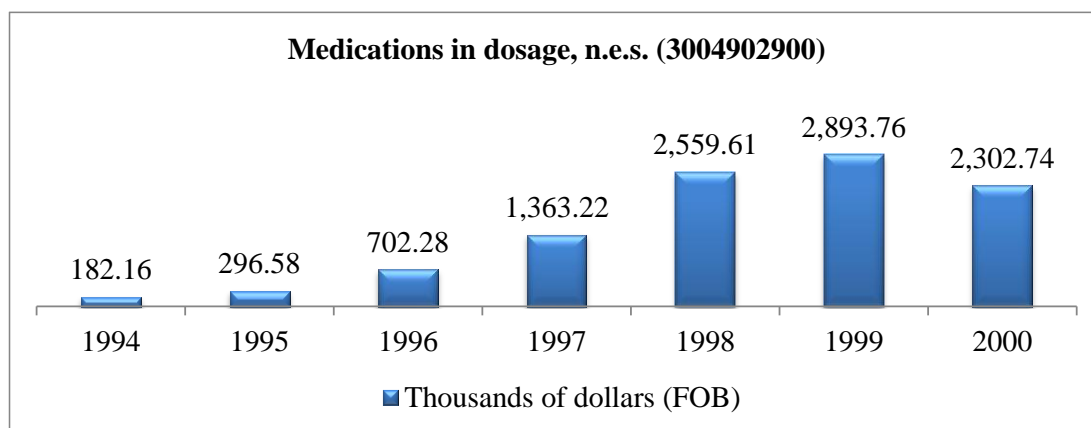
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Refined sugar is not a traditional product for exporting to Peru. However, the exported value in 2 years contributed to be considered among the major exported products. Between 1999 and 2000, exports covered 10.7 million dollars, which means approximately 80% of the total. Considering exports, Peru was the first destination of this product, covering 56%; this country was followed by Venezuela (29%), the United States (13%), Colombia (0.4%) and Italy (0.1%). As can be seen, this product had a high income although it was not one of the main products in the Peru's market. One of the major causes was the competitiveness from countries with rising productivity growth of sugar, such as Colombia, Guatemala and Brazil.

2.3.7. Export of Medications in dosage.

Graphic No. 23 – Exports of medications in dosage, n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

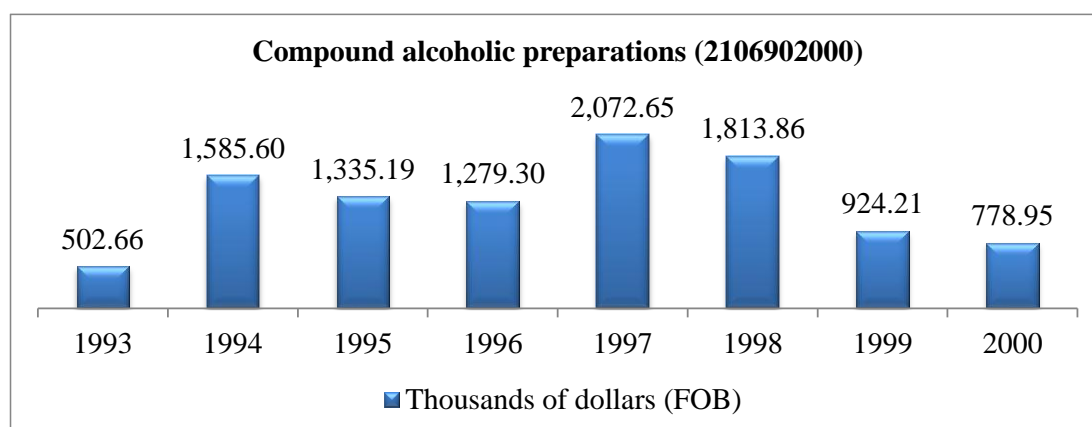
Elaborated by: Patiño, Pablo.

The Peruvian market demand for medications including in this tariff heading was characterized as dynamic and growing, as can be seen in graphic. Exports of this tariff heading had a continued rapid growth. In 1994, it was exported 182 thousand dollars while in 1999 exports rising to 2.8 million dollars, which means an increasing more than 15 times. Only in 2000, there was a decline process of exports due to the decrease of 20.4% in comparison with 1999.

In the same way, Peru was the second destination of exports with 19% of the total; it was exceeded only by Colombia that concentrated 57% of the total.

2.3.8. Export of compound alcoholic preparations.

Graphic No. 24 – Exports of compound alcoholic preparations.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

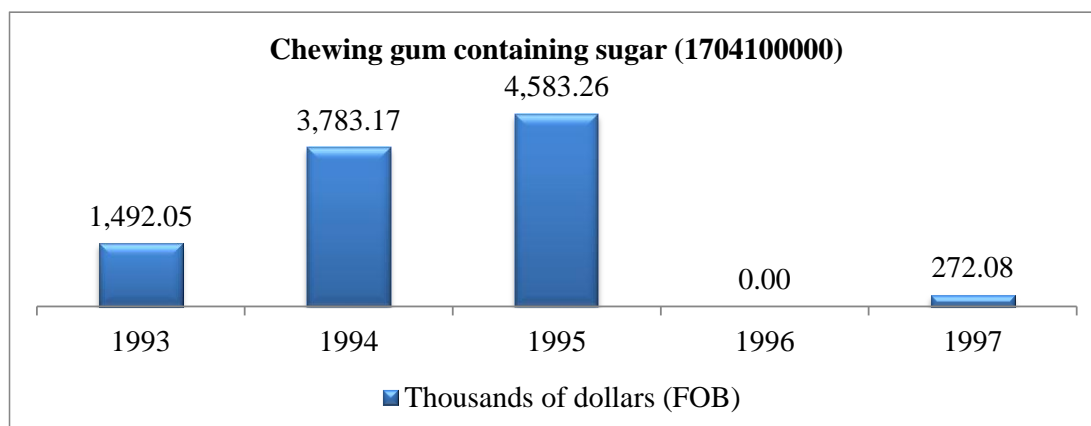
Elaborated by: Patiño, Pablo.

This tariff heading was important for Ecuadorian exports to Peru. Since 1993, at 500 thousand dollars, exports were rising to their highest point in 1997, with two million dollars, which represented a growth of more than four times. After that, exports had a decline. For the year 2000, exports decreased more than 200% compared to 1997, standing at 700 thousand dollars in exports.

Nonetheless, the annual average of Ecuadorian exports, between 1993 and 2000, was more than 1.2 million dollars. That is why Peru was the first destination of this product with 73% of the total exported.

2.3.9. Export of Chewing gum.

Graphic No. 25 – Exports of chewing gum containing sugar, except medicinal.



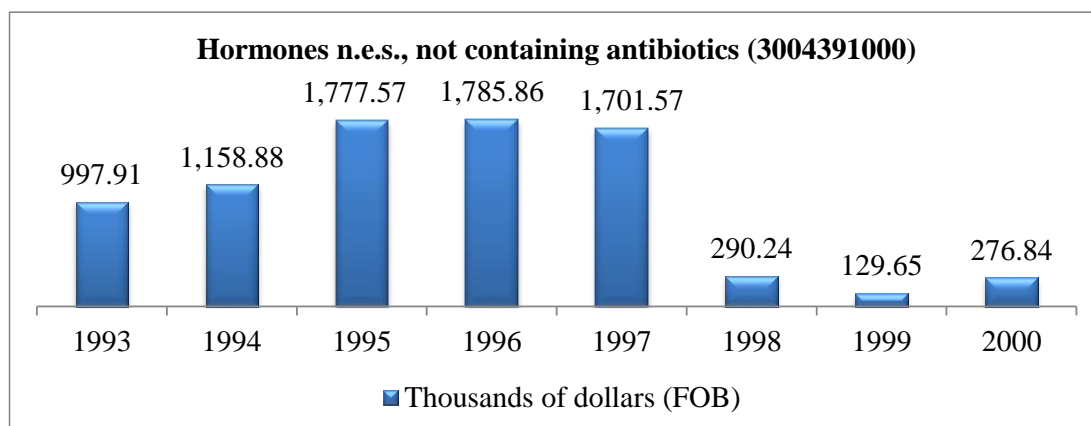
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

As graphic shows, this product was important for a three years period. Between 1993 and 1995, it was exported 9.8 million dollars, which means 97% of the total. It was noted a great potential of growing between 1993 and 1994, because the valued doubled, further to the percentage increase in 1995, approximately 17%. However, for the subsequent years, Ecuadorian companies were unable to compete with the exportable supply of Colombia, Chile and China, countries that became in the main suppliers for the Peruvian importers of this tariff heading.

2.3.10. Export of Hormones.

Graphic No. 26 – Exports of hormones n.e.s., not containing antibiotics



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

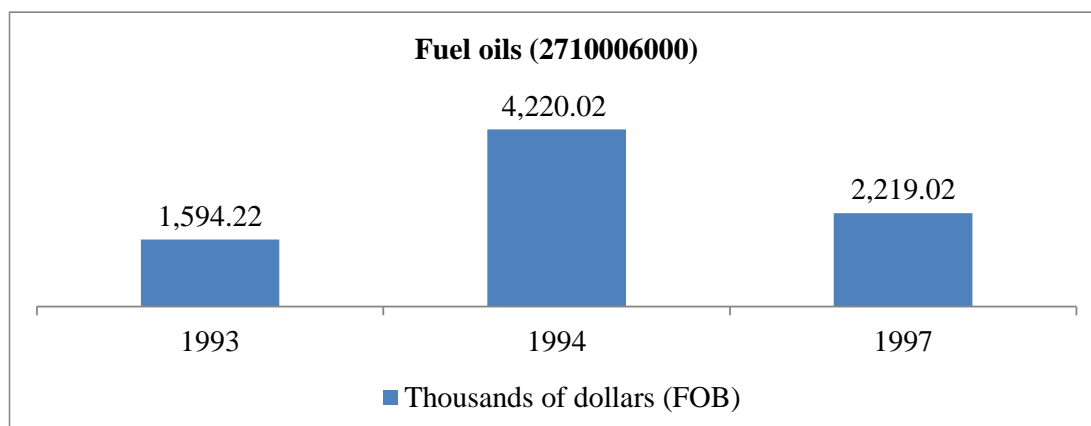
Elaborated by: Patiño, Pablo.

The medicines for human use had great importance in exports to Peru, mainly during the first five years of our analysis. Considering these years, the exported value was 91% of the total. In addition, from 1995 to 1997, exports exceeded 1.7 million dollars each year. However, in the subsequent years, the Ecuadorian products demand from the Peruvian market decreased dramatically; it was due to the high competitiveness of European countries such as Germany, Italy, Austria and Switzerland, joined to China; these countries covered the Peruvian market demand. In that way, Ecuadorian companies were focused on looking for new markets for their products.

Despite this, with 21.0% of the total, Peru was the third largest export destination of this tariff heading, only exceeded by Venezuela with 23.5% and Colombia with 21.2%.

2.3.11. Export of Fueloils.

Graphic No. 27 – Exports de Fueloils (Fuel).



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

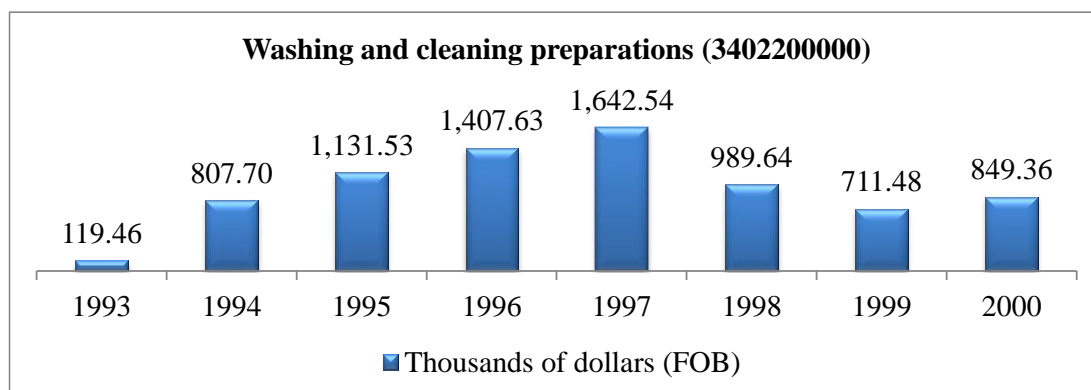
Elaborated by: Patiño, Pablo.

This tariff heading, included in fuel oils, has not had a steady growth because exports have been sporadic. It is necessary to note that the years of exports were due to specific orders for supplying times of shortages. Between 1993 and 1994, exports were 5.8 million dollars, which meant 72% of the total.

Despite the high exported value, Peru was the eleventh destination of the fueloils, with 0.7% of total exports. The major destinations of Ecuadorian exports were Panama (29%), Mexico (20%), the United States (10%), Chile and Guatemala (both with 8%). It should be noted that the sole supplier company of this product was the State-owned Petróleos del Ecuador "Petroecuador".

2.3.12. Export of Washing and cleaning preparations.

Graphic No. 28 – Exports of washing and cleaning preparations.



Source: Central bank of Ecuador (BCE) / Foreign Trade Statistics.

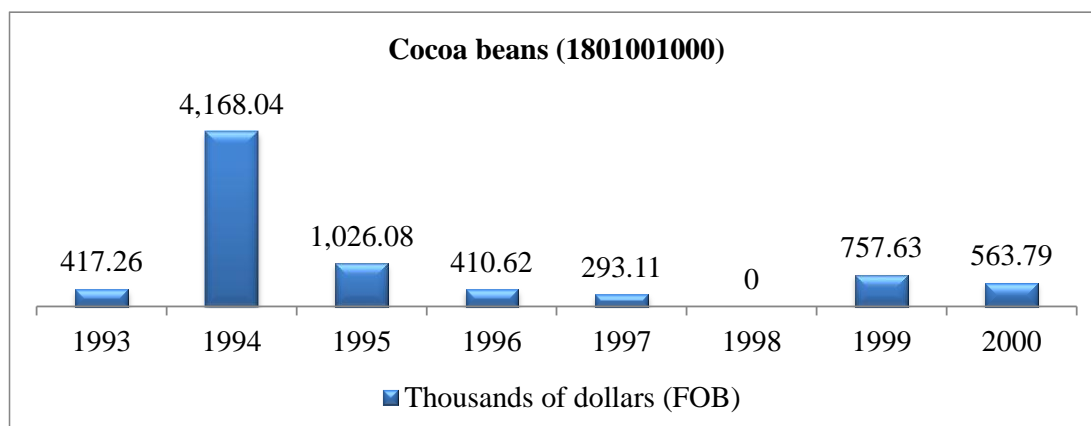
Elaborated by: Patiño, Pablo.

Ecuadorian export of this product was important in the global contribution of exports. In 1993, the contribution was only 119 thousand dollars. Afterwards, in 1994, exports rose more than six times. Thereafter, exports on average were more than 1 million dollars each year. In 1997, exports covered 1.6 million dollars, in 1996 were 1.4 million dollars and in 1995 were 1.1 million dollars. These three were the highest values in the analyzed period, covering 54.4% of the total exported in this product.

Peru was the second destination of the Ecuadorian exports with 40% of the total, only exceeded by Colombia (46%).

2.3.13. Export of Cocoa beans.

Graphic No. 29 – Exports of cocoa beans, whole or broken, raw or roasted.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

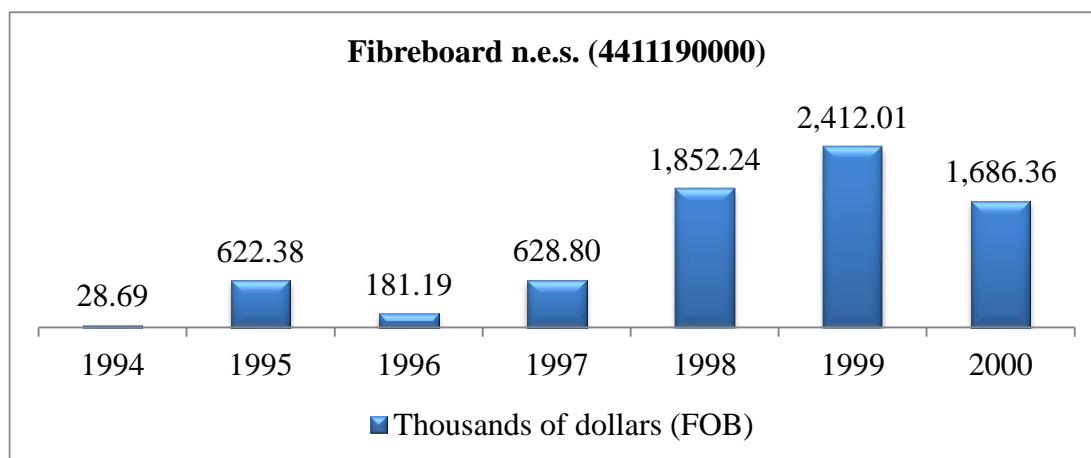
Elaborated by: Patiño, Pablo.

Cocoa exports to Peru were characterized to be sporadic. As can be seen in graphic, the values were higher in 1994 with 4.1 million dollars, in 1995 with 1 million dollars, and in 1999 with 757 thousand dollars, the same that represented as a whole 77% of the total exported in this product. Considering the other years, the values did not exceed 500 thousand dollars, except in 2000 when they reached 563 thousand dollars.

The little participation of the Ecuadorian cocoa exports in the Peruvian market was mainly due to the high productive development of the Peruvian companies. Imports from Peru were made in times of shortage, and by the geographical proximity. For this reason, Peru was the eighth major destination of our exports, with only 1.6%; the largest buyer was the United States with 50% of the total exported of this tariff heading.

2.3.14. Export of Fibreboard.

Graphic No. 30 – Exports of fibreboard n.e.s.



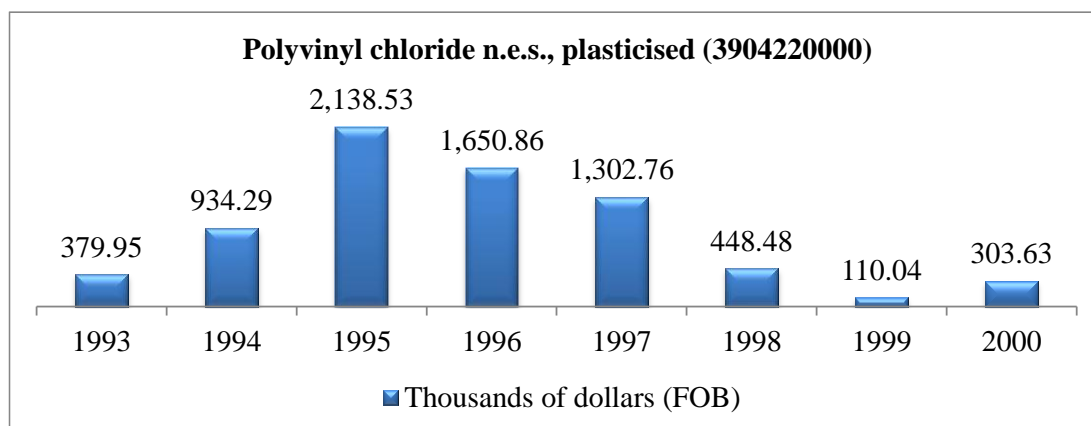
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Export of fibreboard, included in this tariff heading, had great importance, especially in the last years of this analysis. As can be seen in graphic, only in 1995 and in 1997 the values were higher than 600 thousand dollars. Since 1998, it had an increase in exports. Between 1997 (US\$ 628 thousand) and 1998 (US\$ 1.8 million) the exported value tripled; and in 1999 the value increased a 23.2% to reach 2.4 million dollars, the highest exported amount in the analyzed period. Although in 2000 exports decreased, the sales were higher than 1.6 million dollars. Therefore, Peru was the first destination of the Ecuadorian exports with the 40% of the total of this product.

2.3.15. Export of Polyvinyl chloride.

Graphic No. 31 – Exports of polyvinyl chloride n.e.s., plasticised.



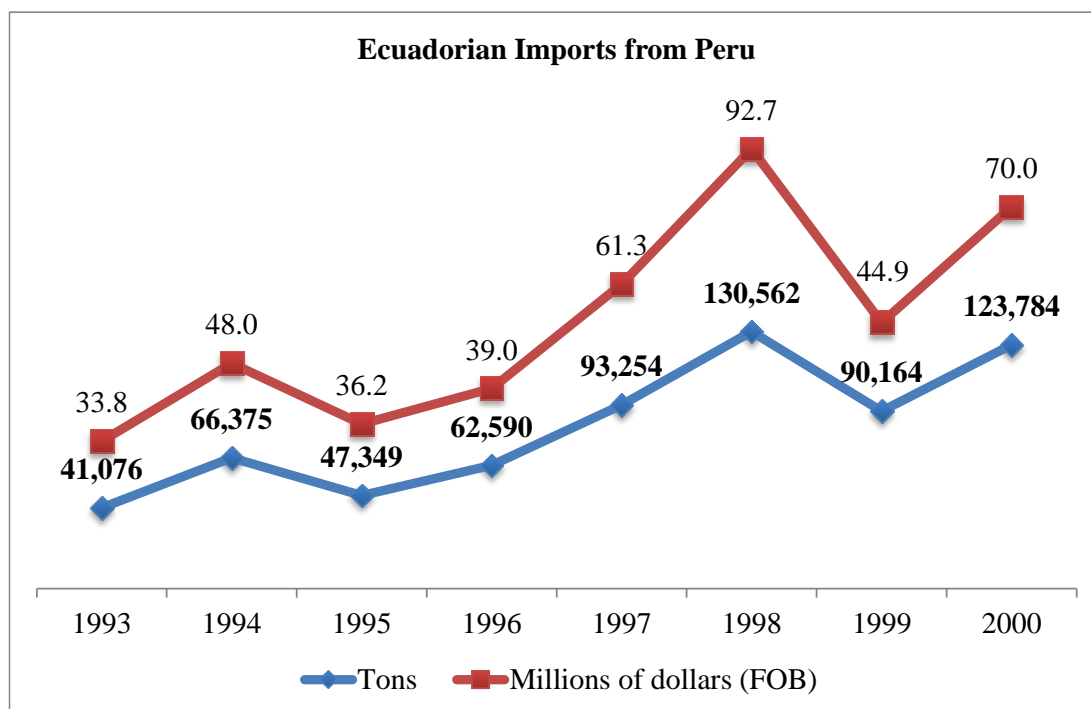
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Export of polyvinyl chloride had two stages. The first, between 1993 and 1995, showed growth. In that period, the sales increased more than five times to reach 2.1 million dollars. However, in the subsequent years, there was a process of slowdown in the exported amounts as 1999, year with only 110 thousand dollars being the lowest exported value. The great exportable supply and competitive prices of many countries (such as Germany, the United States, Italy, Brazil and even Colombia) had a negative impact in exports to Peru. Despite this, Peru was the best destination for the Ecuadorian companies of the products under this tariff heading, with 68% of the total exported.

2.4. Ecuadorian imports from Peru.

Graphic No. 32 – Ecuadorian imports from Peru, 1993-2000.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

As can be seen in Graphic No. 32, Imports had significant increases during the analyzed period. In 1993, the value was 33.8 million dollars, and in 2000 this value was 70 million dollars, increasing more than twice. Imports had its highest value in 1998 (92.7 million dollars), with a reduction in 1999 because the value only covered 44.9 million dollars.

Peruvian exports to Ecuador represented, on average, only 0.94% of the total Peruvian exports to the world. As shown, Ecuador was not the major destination for the products of the Peruvian exporters. Considering only three years, the values were more than 1 percent: 1998 (1.60%), 1994 (1.08%) and 2000 (1.01%). The proximity did not have positive effects in the trade analyzed because it prevailed the limitations derivated from the conflict.

Table No. 22 – 15 major tariff headings exported to Peru between 1993 and 2000.

#	Tariff Heading	Description	Tons	Thousands of dollars (FOB)	%/Total FOB-Dollar
1	7408110000	Refined copper wire	14,678.15	33,003.67	7.74
2	7901110000	Zinc not alloyed unwrought	28,264.73	32,724.12	7.68
3	5501300000	Filament of acrylic or modacrylic	14,049.02	20,955.00	4.91
4	2301201000	Flour, meal and pellet of fish	38,856.05	17,627.74	4.13
5	2815120000	Sodium hydroxide	45,745.68	9,456.06	2.22
6	3004902900	Medications n.e.s., in dosage	230.73	9,126.17	2.14
7	2922421000	Monosodium glutamate	5,683.23	8,427.72	1.98
8	5506300000	Staple fibres of acrylic or modacrylic, carded or combed	4,266.00	8,003.38	1.88
9	3402200000	Washing and cleaning preparations	5,201.13	7,553.34	1.77
10	5503300000	Staple fibres of acrylic or modacrylic, not carded or combed	4,510.47	7,030.14	1.65
11	3923309000	Carboys, bottles, flasks and similar articles of plastics n.e.s.	3,545.87	6,802.41	1.60
12	7117190000	Imitation jewellery n.e.s. of base metal	60.36	6,551.52	1.54
13	2707501000	Solvent Naphtha	22,725.76	5,522.72	1.30
14	3802909000	Activated natural mineral products, including animal black	16,680.52	5,339.45	1.25
15	1504201000	Fish fats and oils, and their fractions	11,865.03	5,063.47	1.19
		The other tariff headings	438,795.30	243,161.30	57.03
		TOTAL	655,158.03	426,348.21	100.00

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

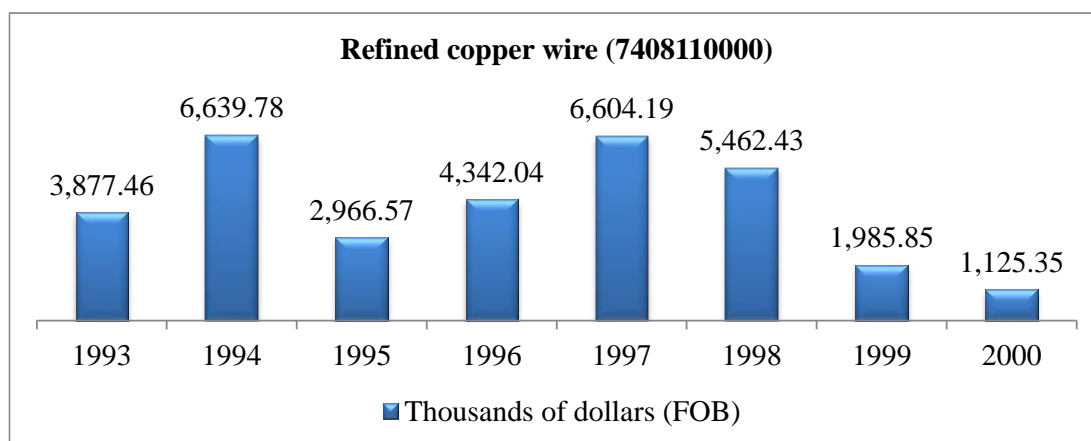
During the analyzed period, imports represented 426 million dollars (FOB). Considering the total, the 15 major products covered 183 million dollars, which represented 42.9%. Compared to the exports level, the imported values were significantly lower than exports; in addition, there was not a leading product (as was crude oil in the Ecuadorian exports to Peru). For that reason, the two major imported products were wire of refined copper (7.74%) and zinc-based metals (7.68%), which as a whole represented more than 15% of the total imports.

As shown, the diversification of the imported products was not similar to the amounts. For this reason, in addition to those already mentioned above, it can be seen that only four products contributed with more than 2% in the total imports: filament of acrylic or modacrylic (4.91%), flour, meal and pellet of fish (4.13%), sodium

hydroxide (2.22%), and medicaments in dosage (2.14%). Although the remaining products were very varied, they not contributed with important amounts in the total, but rather with values that were not significant.

2.4.1. Import of Refined copper wire.

Graphic No. 33 – Imports of refined copper wire of which the maximum cross sectional dimension is 6 mm.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

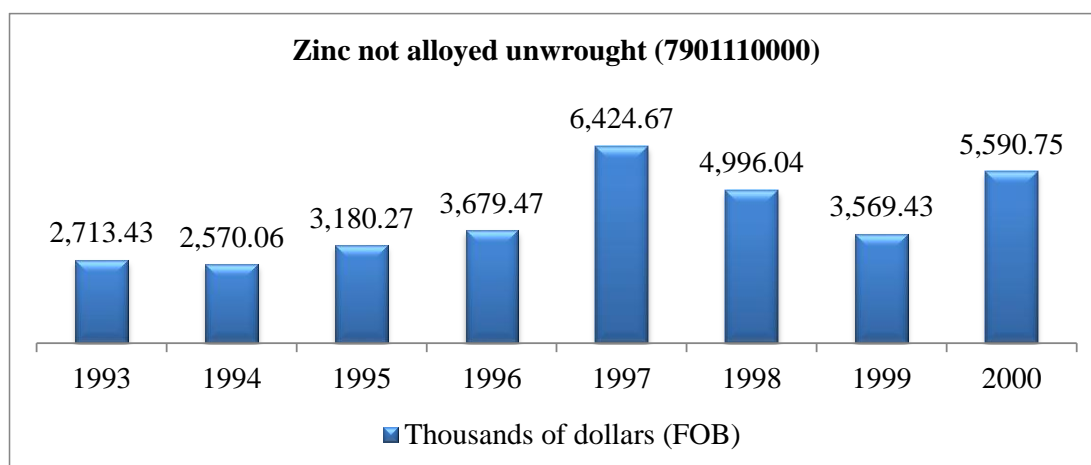
Elaborated by: Patiño, Pablo.

Refined copper wire was the most Peruvian product required by Ecuador. In addition, this tariff heading was characterized by maintaining significant amounts during the analyzed period, especially in the first six years. On average, annual imports exceeded 4 million dollars, being 1994 and 1997 the years with the higher values than 6 million dollars. Between 1993 and 1994, there was an increase above 70%; however, in 1995, the values were reduced to less than half. Afterward, the value increased to reach 6.6 million dollars in 1997, that is to say, the amounts were similar as in 1995 were. On the contrary, from 1998 to 2000, there was a marked decrease, even in 2000 declined more than five times compared to the imported amounts three years before.

Peru was the major supplier of copper wire for our companies with 49% of the total Ecuadorian imports. Peru and Chile (47%) were the countries that covered the total supply of this tariff heading.

2.4.2. Import of Zinc.

Graphic No. 34 – Imports of zinc not alloyed unwrought containing by weight 99.99 or more of zinc.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

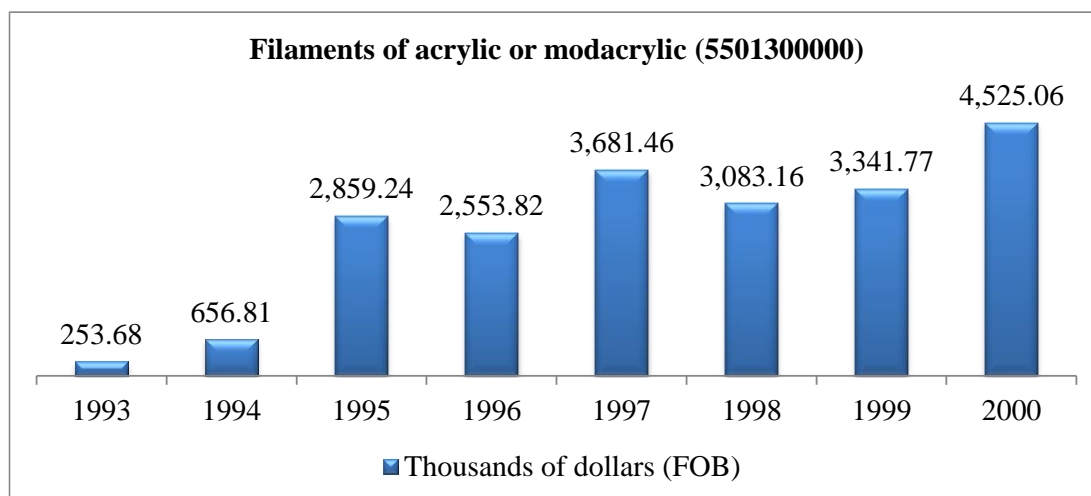
Elaborated by: Patiño, Pablo.

The import of metals, which are part of this tariff heading, was important because the values contributed significantly to the total imports from Peru that was due to the stability maintained for many years. As can be seen in graphic, only in three years there was a decline. On average, the imported values exceeded 4 million dollars annually. In addition, during the analyzed period, the values doubled from 2.7 million dollars in 1993 to 5.5 million dollars in 2000. Between 1993 and 1997, the growth was of 136.7% having a decline of -5.2% in 1994 compared to 1993. In 1998 and 1999, there was declining process in imports, with -22.2% and -28.5% respectively, in comparison with the immediate previous years; these values increased in 2000 with a growth of 56.6% compared to 1999.

The most important supplier of this tariff heading was Peru with 92% of the total, surpassing Netherlands and Mexico, both with 2% each one.

2.4.3. Import of Filament of acrylic or modacrylic.

Graphic No. 35 – Imports of filament of acrylic or modacrylic.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

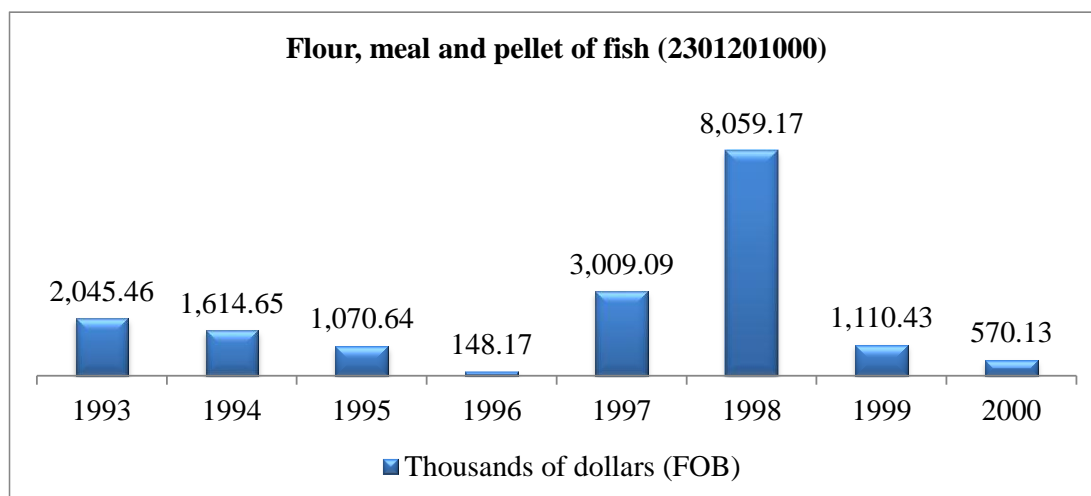
Elaborated by: Patiño, Pablo.

This type of synthetic cable became a very required product by Ecuador, especially in the last six years of our analysis. As can be seen in graphic, in 1993 and 1994, the imported values did not exceed 700 thousand dollars. However, since 1995 (2.8 million dollars) until 2000 (4.5 million dollars) imports showed a highly growth. Although some of these six years had a decline in the import level, it was imported, on average, 3.3 million dollars during those years.

Considering this tariff heading, Peru was the third largest supplier with 22%, only exceeded by Mexico (31%) and the United States (29%).

2.4.4. Import of Flour, meal and pellet of fish.

Graphic No. 36 – Imports of flours, meals and pellet of fish.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

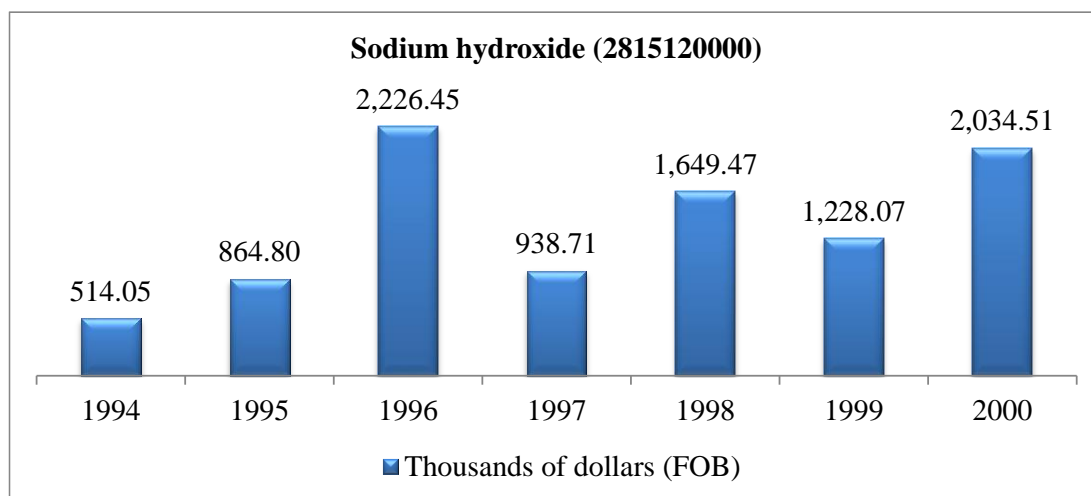
Elaborated by: Patiño, Pablo.

In the case of this product, as can be seen in graphic, imports were quite irregular, and only in 1998 was imported 8 million dollars, which means 45.7% of the total contributing with the highest amount. In 1997 (\$3 million) and in 1993 (\$2 million) were the other years with a higher contribution in imports. On average, imports were 1.3 million dollars, without considering 1998. However, in 1996 and in 2000, the values were lower, with 148 thousand dollars and 570 thousand dollars, respectively. In addition, in 2000, the imported values declined 48.6% compared to 1999, showing an unfavorable trend for this product.

Despite this, Peru was the largest supplier in the Ecuadorian market with 74% of the total imports. Peru and Chile (23%) covered the vast majority of the Ecuadorian demand.

2.4.5. Import of Sodium hydroxide.

Graphic No. 37 – Imports of sodium hydroxide (caustic soda) in aqueous solution.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

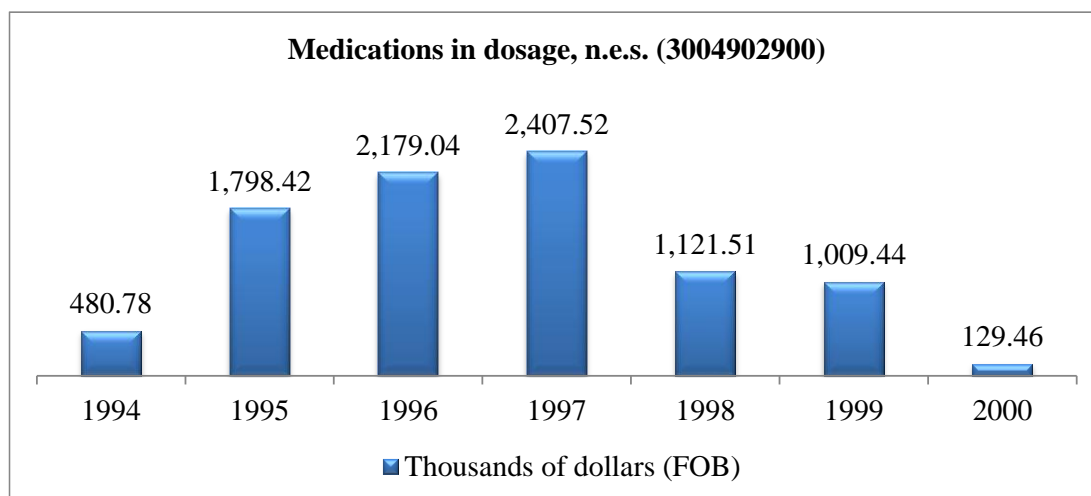
Sodium hydroxide, used in the chemical industry, was a product with a high Peruvian demand during the period of analysis, with the exception of 1993 because Ecuador had suppliers of other countries. Since 1994 (514 thousand dollars) until the 2000 (2 million dollars), the imported value quadrupled. In that period, imports were 1.3 million dollars on average.

Despite a declining process, imports of sodium hydroxide showed immediate recovery trends. In 1997, it decreased -57.8% compared to 1996, while in 1999 the decline was -25.5% compared to 1998. However, in 1998 and 2000, there was a growth of 75.7% and 65.6%, respectively, compared to its immediate previous years.

Peru (46%) and the United States (45%) were the major suppliers of sodium hydroxide during the analyzed period.

2.4.6. Import of Medications in dosage.

Graphic No. 38 – Imports of medications in dosage, n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

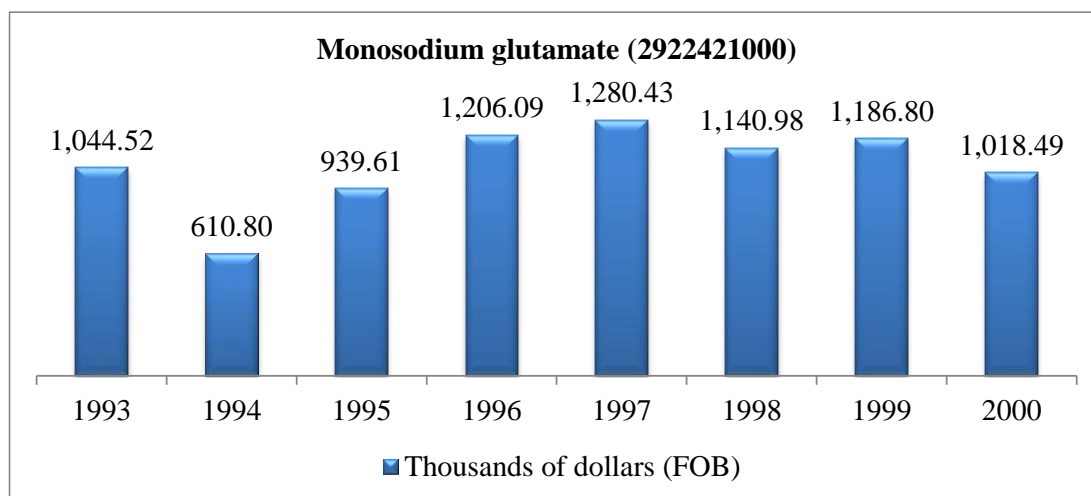
Elaborated by: Patiño, Pablo.

Imports of medications, included in this tariff heading, had two well-defined stages. Since 1994, which was the starting point of imports from Peru, the values increased fivefold until 1997. However, between 1998 and 2000, the imported values decreased almost completely. On average, annual imports were 1.3 million dollars. As mentioned above, imports in 1994 were 480 thousand dollars, the same that increased to 2.4 million dollars. After that, the imported values had a decline; imports were only 129 thousand dollars in 2000.

Peru was the fourteenth country supplier contributing only 1.6% to the total, while the five major suppliers were Colombia (24%), Switzerland (12%), Mexico (10%), Panama (9%) and Chile (5%).

2.4.7. Import of Monosodium glutamate.

Graphic No. 39 – Imports of monosodium glutamate.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

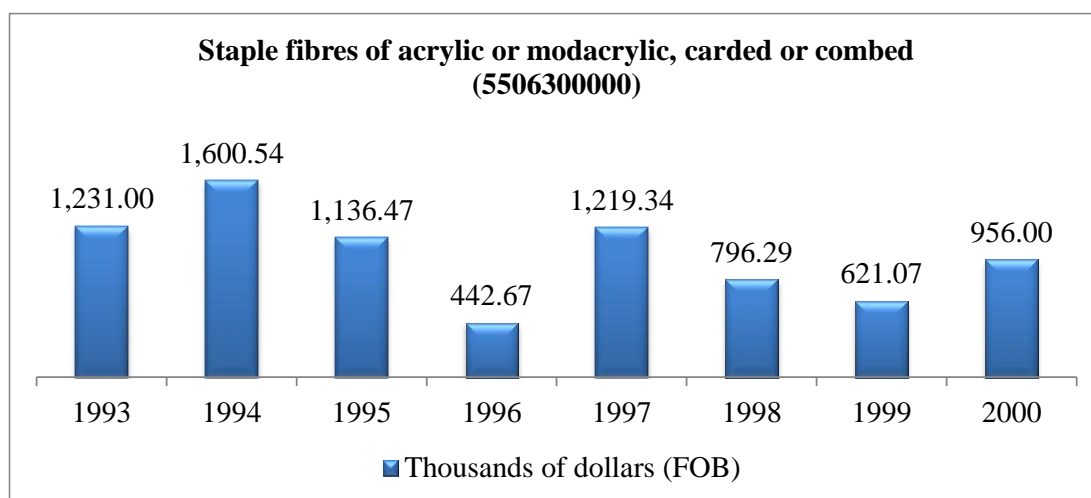
Elaborated by: Patiño, Pablo.

The monosodium glutamate, used in the food industry, is an Ecuadorian product required in the Peruvian market. On average, imports covered one million dollars annually. Since 1993, the values have not experienced high fluctuations. In 1994 (610 thousand dollars) and in 1995 (939 thousand dollars) the values did not exceed one million dollars. In 1997, with 1.2 million dollars represented the highest imported amount, although in 2000 these values were reduced in 20.4%, which represented only 1,018 thousand dollars imported.

Peru was the major supplier of this raw material; therefore, imports from Peru covered 90% of the total Ecuadorian demand.

2.4.8. Import of Staple fibres of acrylic or modacrylic.

Graphic No. 40 – Imports of staple fibres of acrylic or modacrylic, carded or combed.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

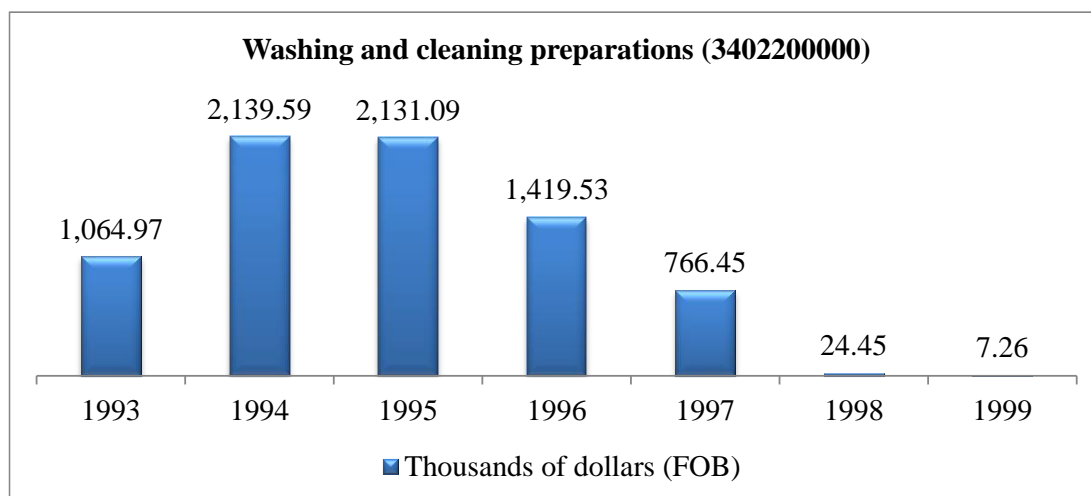
Elaborated by: Patiño, Pablo.

Fibres, which are included in this tariff heading, contributed with one million dollars annually to imports from Peru, between 1993 and 2000. In 1993, imports covered 1.2 million dollars, while in 1994 it represented 30% to raise 1.6 million dollars. Subsequently, between 1994 and 1996 there was a decrease of 72.3%, while between 1997 and 1999 declined 49%. On the contrary, immediately, it showed significant increases in 2000, which increased 53.9% compared to 1999.

Peru covered 44% of the total imported, while Mexico covered 41%, being the two main suppliers of fibre acrylic or modacrylic of Ecuador.

2.4.9. Import of washing and cleaning preparations.

Graphic No. 41 – Imports of washing and cleaning preparations.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

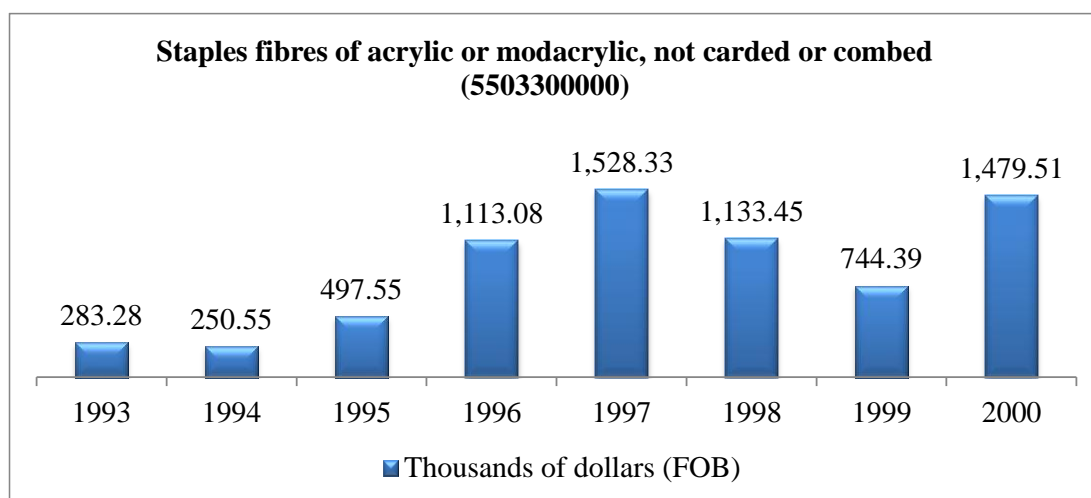
Elaborated by: Patiño, Pablo.

Import of this tariff heading was marked by a period of development, the same that was existed between 1993 and 1997. During these years, the average annual imported was 1.5 million dollars. As shown in graphic, between 1993 and 1994, imports doubled. However, imports maintained its values in 1995, the imported amounts dropped dramatically in 1997 to 766 thousand dollars, that is to say, decreased 64% compared to 1995. Both in 1998 and 1999, the values were the lowest in the period, while in 2000 this product stopped importing from Peru. This was due to the competence of Colombian suppliers, the same who offered greater volume of the product and, therefore, better prices.

Peru was the second largest supplier of this product with 19% of the total imported. As was mentioned above, the major supplier was Colombia, which contributed 72% of the Ecuadorian market.

2.4.10. Import of Staple fibres of acrylic or modacrylic.

Graphic No. 42 – Imports of staple fibres of acrylic or modacrylic, not carded or combed.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

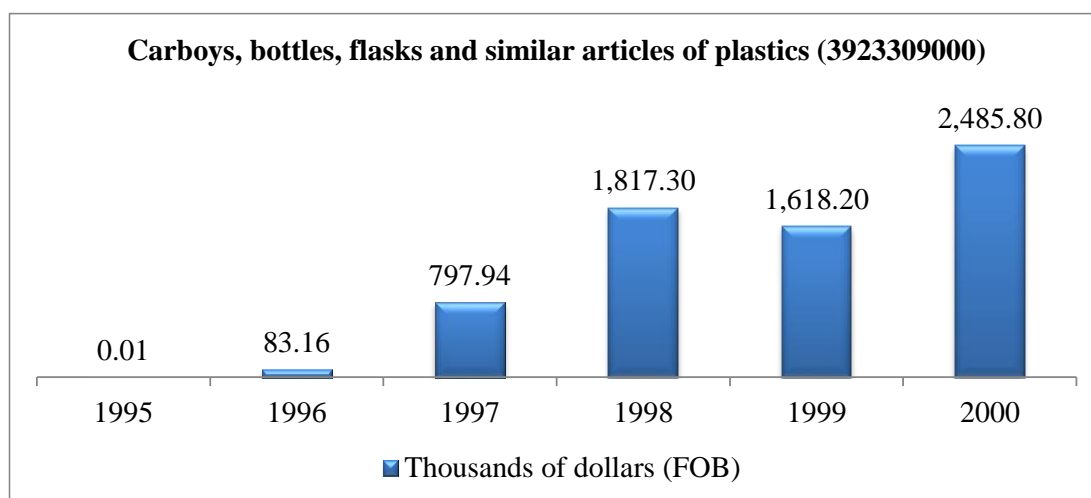
Elaborated by: Patiño, Pablo.

This tariff heading showed a growth process since 1993, the year with an imported amount of 283 thousand dollars, while in 2000 the imported value was 1.4 million dollars. As shown in graphic, between 1993 and 1994, it had a decline of 11.5%; however, since 1997, the values increased more than five times rising to 1.5 million dollars, the highest annual value in imports of this tariff heading. Therefore, in 1999 imports decreased by half compared to 1997, showing an immediate recovery of almost 100% in 2000, with the 1.4 million dollars before mentioned.

The main supplier of this tariff heading was precisely Peru, which covered 41% of the total imported, while Mexico (20%) and Spain (19%) were the other important suppliers for Ecuadorians importers.

2.4.11. Import of Carboys, bottles, flasks and similar articles of plastics n.e.s.

Graphic No. 43 – Imports of carboys, bottles, flasks and similar articles of plastics n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

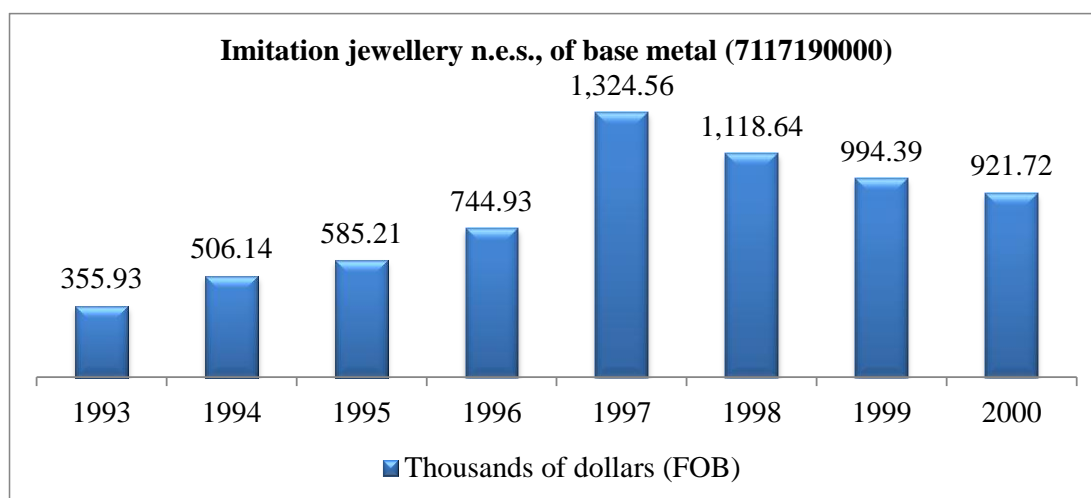
Elaborated by: Patiño, Pablo.

This product had an increase since 1997, with 797 thousand dollars, the same that tripled rising to 2.4 million dollars in 2000. On average, between 1997 and 2000, imports exceeded 1.6 million dollars. In 1998, imports increased 127% compared to 1997, but in 1999 the imported value decreased 10.9% compared to 1998. In 2000, imports increased again a 53.6% rising to 2.4 million dollars, the highest annual imported amount of this product.

This tariff heading, until 1996, had Colombia, the United States and Chile as the major suppliers. Peru was not in the top 10. However, since 1997, Peruvian exporters became the second largest suppliers of Ecuador, only exceeded by Colombian exporters. Considering the analyzed period as a total, Peru covered 11% of the total imported, while Colombia with the 57% and Chile with 14% were the major suppliers of this product.

2.4.12. Import of Imitation jewellery.

Graphic No. 44 – Imports of imitation jewellery n.e.s., of base metal whether or not plated with precious metal.



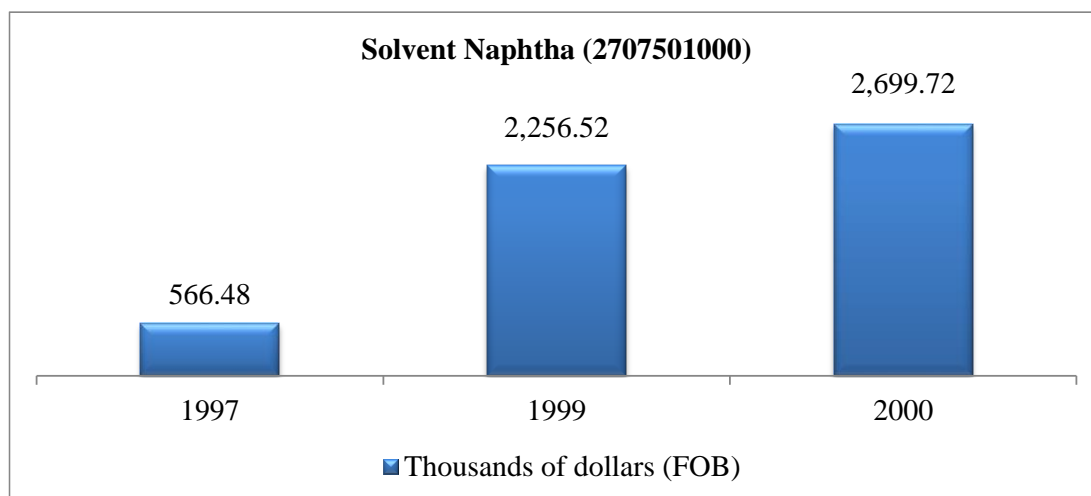
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Imports of jewellery, as shown the graphic, had two periods. The first one was marked by a continuous growth; in 1993 imports were 355 thousand dollars, while in 1997 imports covered 1.3 million dollars, the highest imported value of this tariff heading during the analyzed period. Imports increased more than four times. On the contrary, between 1997 and 2000, imports were gradually decreasing to 921 thousand dollars, which means, the declined was 30.4% during that period. Therefore, the major supplier of imitation jewellery of base metal was Peru with 75.5% of the total imported by Ecuador.

2.4.13. Import of Solvent naphtha.

Graphic No. 45 – Imports of solvent naphtha.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

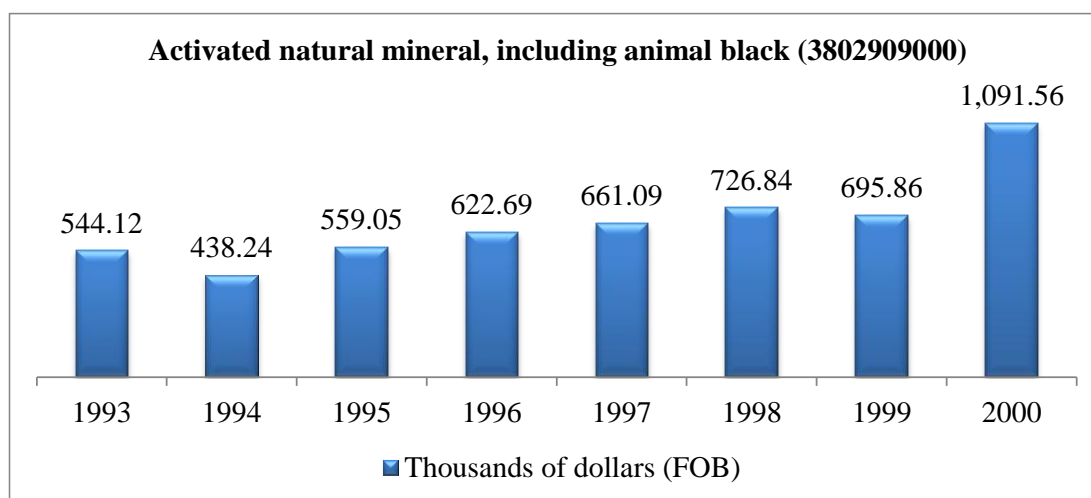
Elaborated by: Patiño, Pablo.

The solvent naphtha had a demand in recent years of the analyzed period. In 1997, imports were 566 thousand dollars, but in 1998 there is no record of imports. In 1999, the product was required by Ecuador, rising to 2.2 million dollars in imports. In 2000, it was obtained the highest imported value, the same that was 2.2 million dollars, showing an increase of 19.6% compared to 1999. In addition, imports represented 89.7% of the total in the last two years.

Despite this, Peru contributed only 3.5% in the total imports of this tariff heading, becoming the fourth best destination, only exceeded by the United States with 59.7%, Venezuela with 27.6%, and Chile with 3.5%.

2.4.14. Import of Activated natural mineral products.

Graphic No. 46 – Imports of activated natural mineral products, including animal black.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

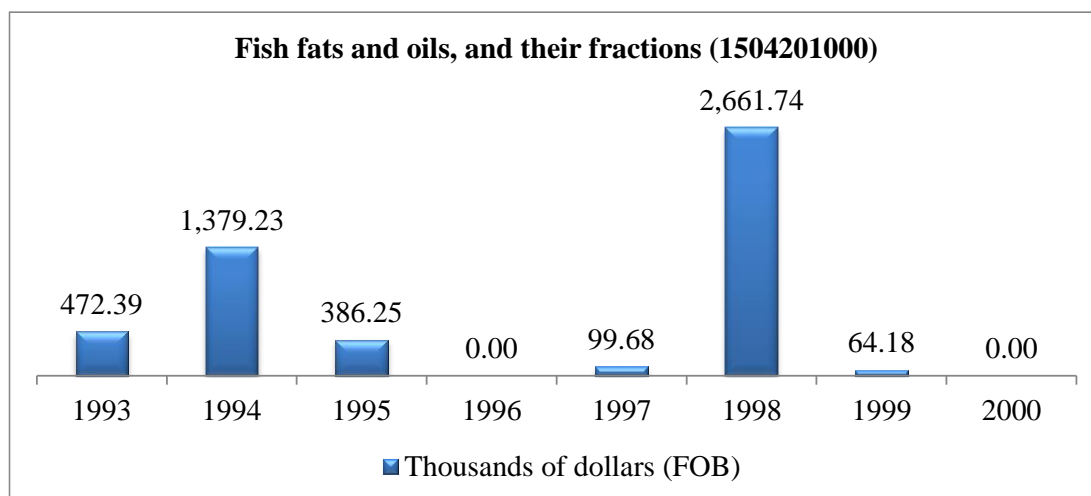
Elaborated by: Patiño, Pablo.

Imports of this tariff heading doubled since 1993, when the values covered 544 thousand dollars; while in 2000 the amount was one million dollars, the highest imported value from Peru. However, in 1994 decreased 19.4% compared to 1993. Subsequently, it increased 65.6% rising to 726 thousand dollars in 1998. Despite the decrease of 4.2% in 1999, the imported value had a recovery process in 2000 rising to one million dollars, which means an increase of 56.8% in comparison with the previous year.

In this way, Peru was the major supplier of this product with 59.3% of the total imported.

2.4.15. Import of Fish fats and oils.

Graphic No. 47 – Import of fish fats and oils, and their fractions.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

This tariff heading was characterized by irregular levels of imports. Therefore, only two years, 1994 and 1998, covered 79.8% of the total Peruvian imports. The main reason was that this type of fat was not a traditional import product, and thus Peru was the main supplier with 88.8% of the total imported in this tariff heading, considering that this product was required occasionally.

Conclusion.

In this chapter, the trade relationship between Ecuador and Peru in the 1993-2000 was analyzed. Exports and imports made by Ecuador in comparison with Peru were compared. In this work, the major 15 exported products from Ecuador to Peru and the major 15 imported products by Peru were analyzed.

It was noted that crude oil was the exported product to Peru that represented the largest incomes to Ecuador during the analyzed period. In the same way, if we do not consider the export of crude oil, the trade balance would have been positive but with a minimal difference. It is necessary to mention that Ecuadorian exports to Peru were mainly of raw materials, while a reduced group was focused on manufactured products. Therefore, the economic incomes were not as significant in relation to the high volumes recorded in tons.

Imports from Peru were characterized by the diversification of their products, but not to have a leading product, as the case of exports. Although most of the products were focused on raw materials, the products originated in Peru had more manufacturing processes.

In this way, from 1993 to 2000, there was a dynamic and prosperous growth of bilateral trade between Ecuador and Peru, based on the closeness of these two countries, despite the border conflict.

CHAPTER 3

Introduction

As was analyzed in the last chapter, a historical process related to the determination of the territorial limits of Ecuador and Peru marked the bilateral relationship between both countries. For this reason, the commercial relationships and the social development of their populations were limited. However, with the peace signing that took place on 1998, the commercial relationship and the social area improved for both countries. When Ecuador implemented dollarization in its economy, it was visualized as a more positive panorama and this meant an opportunity to strengthen the commercial exchange between Ecuador and Peru. Dollarization, which was implemented in 2000 with main purpose of overcoming the economic and financial crisis, was favored by the increase in the oil price, which continued to be the main export product. This economic crisis was not solved immediately, however, the country was able to face and overcome the difficulties especially in the terms of foreign trade.

Dollarization and the increase in oil price improved the commercial relationship with Peru and the trade balance continued to show positive results for Ecuador. In this sense, having the dollar as national currency had positive effects for Ecuadorian trade, however, this situation did not reduce the dependence of the country on the export of raw materials, especially of crude oil. The lack of industrial modernization has not allowed Ecuador to be part of the global market as an important and strong economy. On the other hand, Peru has become an emerging economy that is growing and developing at a fast pace.

In this chapter, an analysis of the commercial exchange between Ecuador and Peru in the 2001-2012 is developed. In this analysis the commercial relationship and the trade balance between both countries is described. In addition, the main 15 products that are exported to Peru and the main 15 products that Ecuador imports from Peru are analyzed in order to understand the evolution of this commercial relationship.

3.1. Dollarization process in Ecuador.

The Ecuadorian socio-economic context has been characterized by the unequal distribution of the economic resources among the different social classes. This situation continued even though there have been periods of economic growth such as the boom of cacao at the mid-nineteen century, followed by the boom in banana sales approximately a century later and the oil boom that initiated at the late 60's. In addition, the political instability has not allowed the elaboration of a solid national project that would be able to face the internal and external eventualities that may appear in the economy. This instability has led Ecuador to several economic crises, which had terrible consequences for the country.

The last economic crisis in Ecuador began in the 80s and was the one that led to dollarization. Due to the loan facility provided by the Central Bank of Ecuador, the creation of several financial institutions took place, however, the huge number of new institutions led to a breakdown in the financial system by the end of the 90s. This loan or credit boom and the increase in number of private financial institutions brought with them a reduction in profitability and liquidity and this whole situation brought as a result the insolvency of the financial system.

Under the mandate of Sixto Durán Ballén, this president established some economic reforms based on the Washington Consensus³⁰, with the main purpose of facing the financial crisis. The main measures sought to achieve “state decentralization which meant a radical trade opening and a greater intervention in the banking sector regarding the management of financial resources”³¹. However, this liberalization process for the financial system failed and it created a liquidity problem that was exacerbated with the Cenepa War³² that took place in 1995, and the phenomenon of “El Niño” of 1997, which affected directly the coastal productive sector, specifically

³⁰ The “Washington Consensus” is a term used by the economist John Williamson to refer to the structural reforms for economic liberalization promoted since the 80's by the main international financial institutions such as the International Monetary Fund and the World Bank. The main goal of these reforms was to resolve the economic crisis of developing countries, especially Latin American countries.

³¹ Miño, Wilson., “Breve Historia Bancaria del Ecuador”, Quito: 2008, p. 250

³² The term “Cenepa War” is used to refer to the war between Ecuador and Peru that initiated in January of 1995 and finished in February of the same year with the Itamaraty Peace Declaration that obligated both countries to withdraw their troops. This fact marked the beginning of a final peace negotiation between Ecuador and Peru.

the banana-exporting sector. In addition, the fall in oil price affected the incomes of the country worsening the economic situation.

These various problems caused a banking and financial crisis that led to the closure of many Banks around the country. This crisis achieved its critical point in March 1999 with the bankruptcy of the “Banco del Progreso” which was the biggest financial institution in Ecuador. After this event, the government in charge ordered the freezing of deposits that were over certain amounts, and also transferred fiscal resources and assumed the debts of the Banks that were closed in an attempt to save the financial system. However, these actions did not solve the economic crisis; on the contrary, they worsened the situation causing social uprising and political instability. In 2000, the government of Jamil Mahuad decided to implement officially the dollarization in the economy and replaced the Sucre for the American dollar as national currency.

Although the government of Jamil Mahuad was overthrown, the governments that followed it continued with the dollarization process and developed diverse strategies in an attempt to restore the financial and economic system that has remained until today.

Dollarization meant a drastic social and economic change. It had positive and negative consequences due to the disturbance that resulted from this process, but especially because of the economic crisis that preceded it. Migration became a social phenomenon in the majority of Ecuadorian families as a way to seek better life conditions for their relatives. The result of this situation was a decrease in the incomes of the country that was only exceeded by the oil exports, which had greater importance in the balance of payments. These remittances suffered a serious fall due to the world economic crisis of 2008. It caused the loss of jobs of migrants living in the United States, Spain and Italy, countries that felt directly the effects of the crisis.

In the foreign trade area, Ecuador is mainly an exporter of raw materials and its economy depends on oil exports. In this sense the dollarization process did not eliminate the vulnerability of the country to the changes in the oil price in the

international market. Similarly, the main Ecuadorian export products (raw materials) had to face changes in the international prices of each product.

National producers and exporters had to face their competitors in international markets without monetary or fiscal benefits. The devaluation of the currency, and their competitiveness strategy was focused on the modernization of equipment and industrial machinery in order to improve their productive processes. Consequently, this modernization strategy included personnel reduction and not paying salaries for a long period, causing a social problem to all the families affected by these new strategies. In the short term, dollarization affected the Ecuadorian productive system due to the lack of preparation and expertise to compete in the international market.

On the contrary, with dollarization, imports made by the country have shown a continuous growth. The reduction in inflation rates and the regular exchange rate motivated the purchase of goods and services from international markets. In addition, the remittances increased the purchasing power of migrant families, and this increased the national consumption levels, especially of imported products.

The import process were more dynamic due to the elimination of exchange rate risk. Therefore, this led to the elimination of restrictions to exporters from other countries who could offer their products and services in the Ecuadorian market and in some cases were preferred over national products. The Ecuadorian companies that import certain materials for the production and commercialization of their final products considered the new strategy as a positive decision as they could import raw materials and equipment at constant prices allowing companies to plan their production processes in the mid and long term. The dollarization process promoted and strengthened the existent relationships between countries and multinational companies. Also, it helped to gain the attention of new partners that were interested in making business in Ecuador.

As was mentioned before, after taking the dollar as national currency, the exporters from other countries found it easier to get into the Ecuadorian market and they also had an advantage in terms of quality and price as the Ecuadorian companies did not offer products of high quality. In this sense, the production levels and the

employment rates faced some difficulties. The national production did not have high levels of competitiveness compared to the international market; as a result, there was an increase in imported products that replaced the national ones and these imported products were preferred over Ecuadorian products in other international markets.

The need to have products with lower production costs and high quality has been one of the main tasks and purposes of Ecuadorian companies that seek to be at the same level of other companies in the international market. However, there are still many things to do and many actions to take in order to have a more productive and competitive country and this includes a joint work among the different social and economic sectors. Dollarization was one of the solutions to face the economic crisis; however, nowadays the actions and decisions must be taken considering the needs of all Ecuadorian citizens.

3.2. Commercial Exchange Ecuador – Peru between 2001 and 2012.

Table No. 23 – Commercial exchange between Ecuador and Peru.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports (Millions of dollars FOB)	341.6	374.5	642.4	605.7	876.0	1,039.3	1,505.0	1,731.0	939.4	1,335.5	1,766.2	1,991.3
Imports (Millions of dollars FOB)	95.5	144.0	167.0	228.8	358.5	325.9	415.5	544.6	625.2	977.6	1,096.0	1,087.8
Balance of Trade (Millions of dollars)	246.0	230.4	475.3	376.9	517.4	713.4	1,089.5	1,186.3	314.1	357.9	670.2	903.4
Trade (Millions of dollars)	437.1	518.5	809.5	834.6	1,234.6	1,365.3	1,920.5	2,275.7	1,564.7	2,313.2	2,862.3	3,079.1
Tons exported (Thousands)	1,985	1,927	2,839	2,354	2,589	2,555	3,129	2,490	2,009	2,254	2,261	2,540
Tons imported (Thousands)	136	296	310	395	610	526	633	705	874	1,112	1,203	1,017
Balance (Thousands of tons)	1,848	1,631	2,528	1,959	1,978	2,028	2,495	1,784	1,134	1,142	1,058	1,522

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The commercial exchange between Ecuador and Peru increased considerably since 2001. Since that year until 2012, the total trade between both countries increased more than seven times. During this term, there was a continuous growth of commercial exchange; however, in 2009 the effects of the global economic and financial crisis affected substantially this commercial growth.

During this period, Ecuador had a positive balance in terms of foreign trade. In 2008, the difference among the amount of exported products and imports ones made by

Ecuador was of 1,186.3 million dollars. It was generated by the 1,731.0 million dollars exported to Peru while the amounts imported from Peru covered 544.6 million dollars. In 2002, the difference was of 230.4 million dollars because Ecuadorian exports continued to grow covering 374.5 million dollars while imports from Peru covered 144.0 million dollars.

In terms of volume, the tons of Ecuadorian exports were much greater compared to the number of imports coming from Peru. Between 2001 and 2012, the total volume of exports to Peru was 28.9 millions of tons and Ecuador only imported from Peru 7.8 millions of tons.

Table No. 24 – Exports data of Ecuador and Peru.

Year	Exports Ecuador (millions of dollars FOB)			Exports Peru (millions of dollars FOB)		
	To Peru	The World	%	To Ecuador	The World	%
2001	341	4,678	7.29	95	7,026	1.35
2002	374	5,036	7.43	144	7,714	1.87
2003	642	6,222	10.32	167	9,091	1.84
2004	605	7,752	7.80	228	12,809	1.78
2005	876	10,100	8.67	358	17,368	2.06
2006	1,039	12,728	8.16	325	23,830	1.36
2007	1,505	14,321	10.51	415	28,094	1.48
2008	1,731	18,818	9.20	544	31,018	1.75
2009	939	13,863	6.77	625	26,962	2.32
2010	1,335	17,489	7.63	977	35,565	2.75
2011	1,766	22,322	7.91	1,096	46,268	2.37
2012	1,991	23,764	8.38	1,087	45,639	2.38

Source: Central Bank of Ecuador (BCE) – National Institute of Statistics and Informatics (INEI).

Elaborated by: Patiño, Pablo.

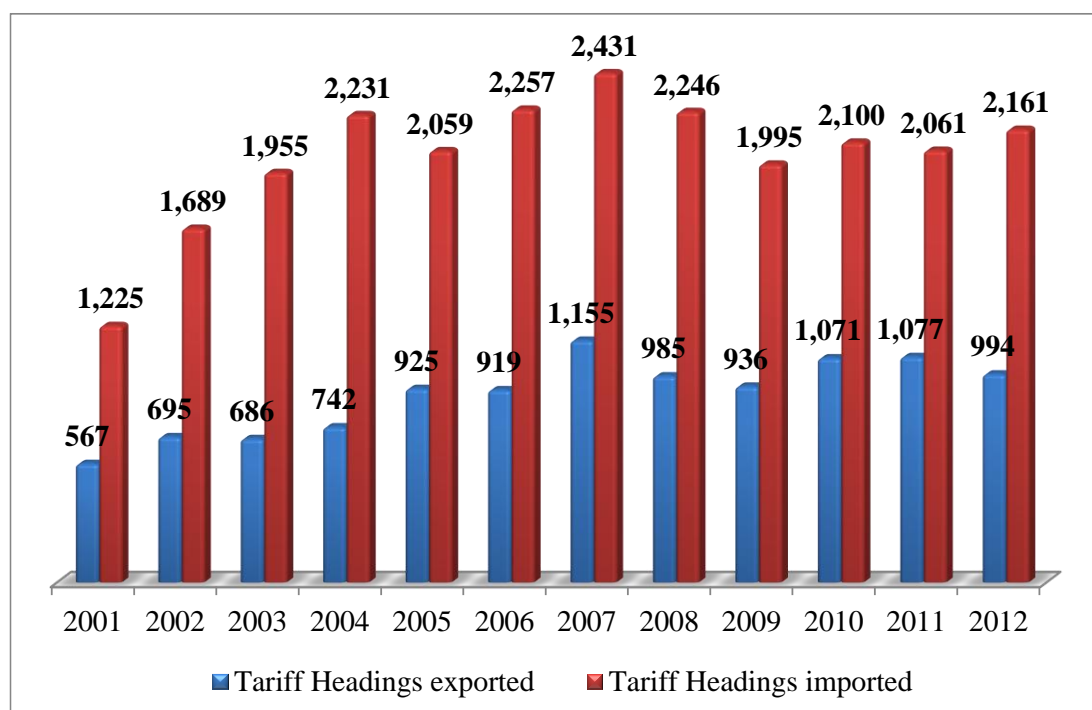
According to exports done by each country, exports of Ecuador to Peru, between 2001 and 2012, represented approximately 8% of the total Ecuadorian exports. During the same term, the annual growth rate of Ecuadorian exports to Peru was of 17.3%, which is higher compared to the annual growth rate of Ecuadorian exports to the rest of the world that covered 15.9%.

Regarding the Peruvian exports to Ecuador, the volume of these exports represented a lower income compared to the other Peruvian exports to the rest of the world.

Between 2001 and 2012, the average level of exports to Ecuador was only 1.9% of the total exported by Peru to the rest of the world. The annual growth rate of Peruvian exports to Ecuador was of 24.7%, which is a higher percentage compared to the 18.5% of Peruvian exports to other countries around the world.

The graphic below shows that exports to Peru continued to be superior in comparison with imports coming from this country. Crude oil exports played an important role as they were higher compared to the non-oil exports, which were around 1.4% of the total exported to the rest of the world. In this sense, if we do not take into consideration crude oil exports, Ecuador would have a negative trade balance compared to Peruvian one.

Graphic No. 48 – Trade of tariff headings of Ecuador with regard to Peru.

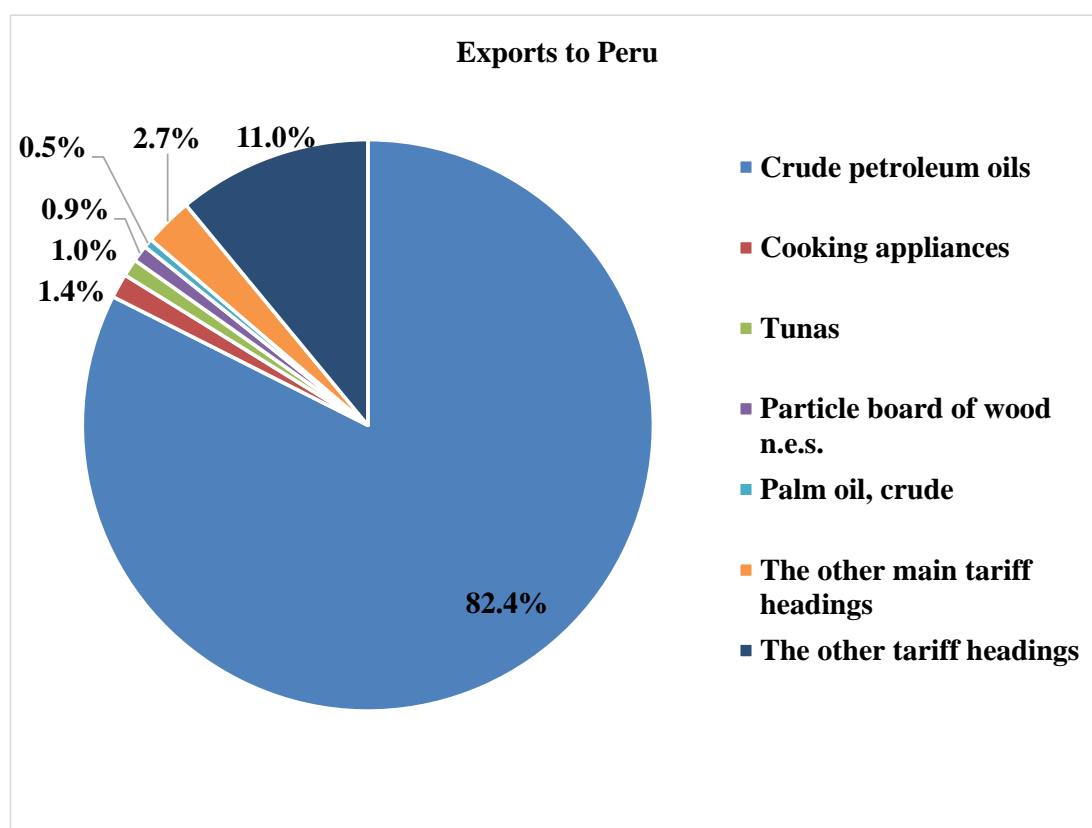


Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

In 2001, the products exported by Ecuador to Peru covered 567 while in 2012 they covered 994, achieving its higher level in 2007 with 1,155 exported products. In 2001-2012, the products that were imported from Peru had more diversification and they covered 2,034 products, even though the diversification did not mean an increase in incomes as is shown in graphic.

Graphic No. 49 – Export to Peru between 2001 and 2012 (Percentage of the total).

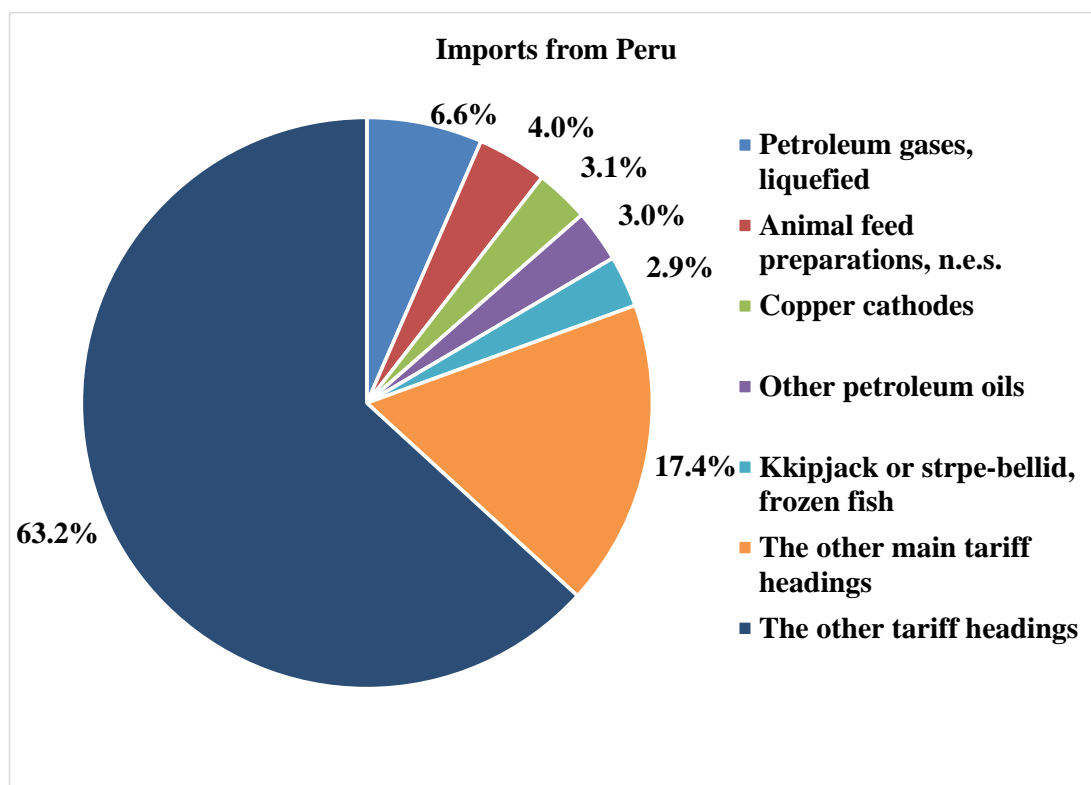


Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The country's dependence on crude oil export was the main characteristic of this term (2001-2012). As the graphic shows, this product represented 82.4% of exports to Peru. The other 14 products that are exported covered a 6.6% of all exports of the country while the 3,202 remaining products covered 11.0%. Regarding the other 3,202 products that are considered as the main exports for the country, they come from the metal industry (iron, cooper and aluminum). The different types of footwear produced in the country and also perfume were part of the total exports made to Peru. In the same way, plastic products, paper, glass and rubber were required by the Peruvian market. Other products that were sold to international markets are vegetable and animal oil and cocoa.

Graphic No. 50 – Imports from Peru between 2001 and 2012 (Percentage of the total).



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The Ecuadorian imports from Peru were characterized by the variety of products coming from this country, which covered 5,118 products. One of the main products imported was the liquefied oil gas that represented 6.6% of the total and the other 14 products imported covered 30.2%. The other tariff headings that were imported covered 63.2% of total imports made by Ecuador. Some of the products included in these tariff headings were fuel and its derivatives that were required by the Ecuadorian market during this whole period. This situation is contradictory since Ecuador's main and representative product is oil, however, the country has to import most of the products that result from refining processes.

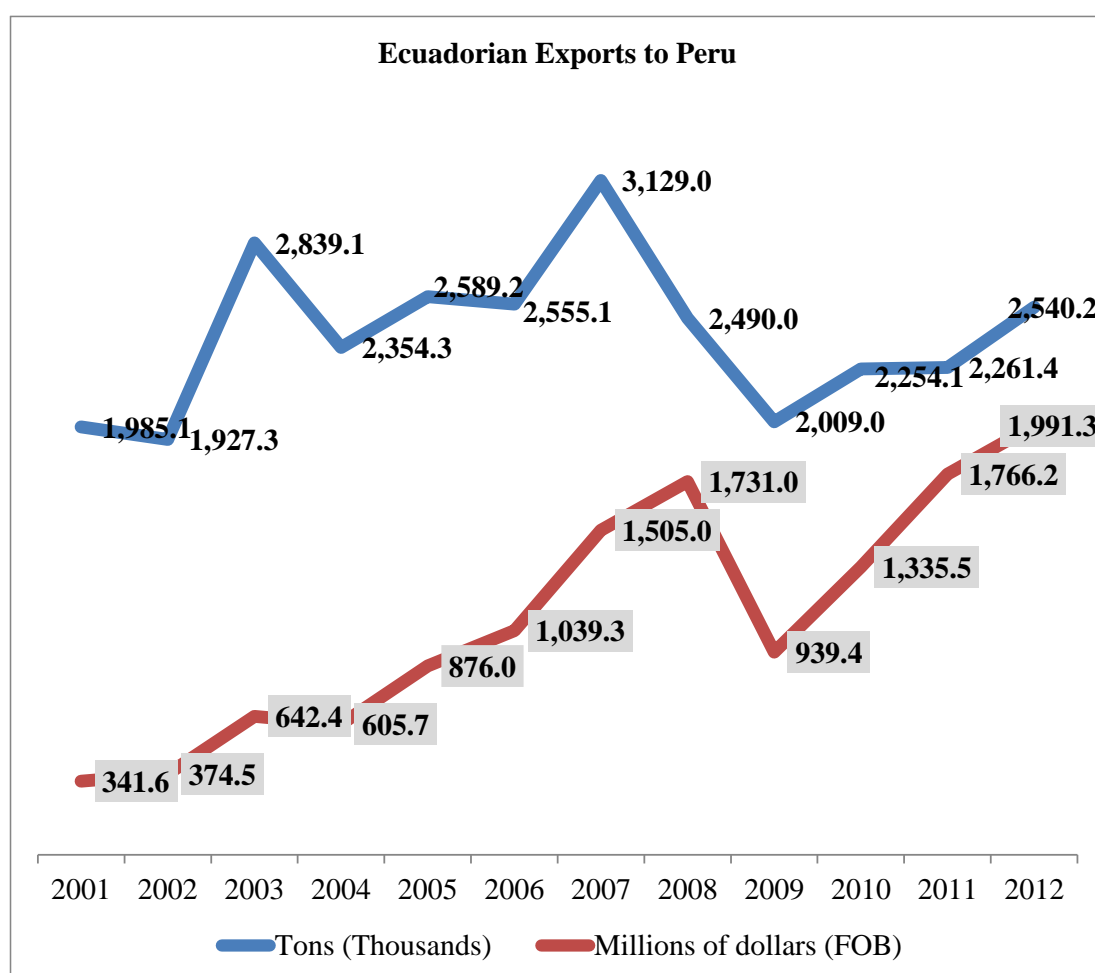
In the same way, there was a substantial import of synthetic or artificial fibers that are used in the textile industry such as cotton and cotton fabrics as well as accessories and pieces of clothing for kids and adults. Also, the import of products from the food industry had an important role in the trade balance, as Ecuador imports

wheat, soya and its derivate as well as bakery products. Additionally, other imports include fish and crustacean flours.

Finally, as it can be seen in this trade analysis, imports coming from Peru are characterized for being a result of a manufacturing and industrialization process. Imports that had a considerable growth during the period analyzed were machinery and mechanic equipment such as agricultural and electric machinery as well as material and industrial vehicles for the transportation of different materials and people. Other imports of manufacturing products were plastic and perfumery ingredients.

3.3. Ecuadorian Exports to Peru.

Graphic No. 51 – Ecuadorian Exports to Peru, 2001-2012.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

After dollarization took place in Ecuador, the level of Ecuadorian exports to Peru increased five more times. In 2001, exports were 341.6 million dollars while in 2012 exports raised to 1,991.3 million dollars. This significant increase transforms Peru into the main export market for Ecuador. Only in 2009, the level of exports reduced in comparison with the total exports of 2008 due to the global economic and financial crisis. However, since 2009 the Ecuadorian exports have been having a progressive increase.

Table No. 25 – 15 major tariff headings exported to Peru between 2001 and 2012.

#	Tariff Heading	Description	Tons	Thousands of dollars (FOB)	%/Total FOB-Dollar
1	2709000000	Crude petroleum oils	27,021,437.02	10,838,620.71	82.43
2	7321111000	Cooking appliances	47,851.32	181,057.00	1.38
3	1604140000	Tunas	33,312.34	131,161.62	1.00
4	4410190000	Particle board of wood n.e.s.	240,593.15	122,953.93	0.94
5	1511100000	Palm oil, crude	82,767.03	68,264.42	0.52
6	3004902900	Medications n.e.s., in dosage	7,982.13	44,498.92	0.34
7	2603000000	Copper ores and concentrates	20,603.11	44398.91	0.34
8	3402200000	Washing and cleaning preparations	58,527.91	44342.37	0.34
9	2616901000	Precious metal ores and concentrates	27,782.08	36,381.11	0.28
10	8418103000	Combined refrigerator freezers	6,927.92	34,690.66	0.26
11	2101110000	Coffee extract, essences, concentrates	4,049.38	34,475.22	0.26
12	6401920000	Waterproof footwear	17,109.97	33,851.02	0.26
13	1704100000	Chewing gum containing sugar	16,786.17	29,896.53	0.23
14	1701990000	Refined sugar, in solid form, n.e.s.	91,994.82	29,820.00	0.23
15	2309909000	Animal feed preparation, n.e.s.	48,001.93	29,203.03	0.22
		The other tariff headings	1,208,501.22	1,444,892.45	10.99
		TOTAL	28,934,227.50	13,148,507.90	100.00

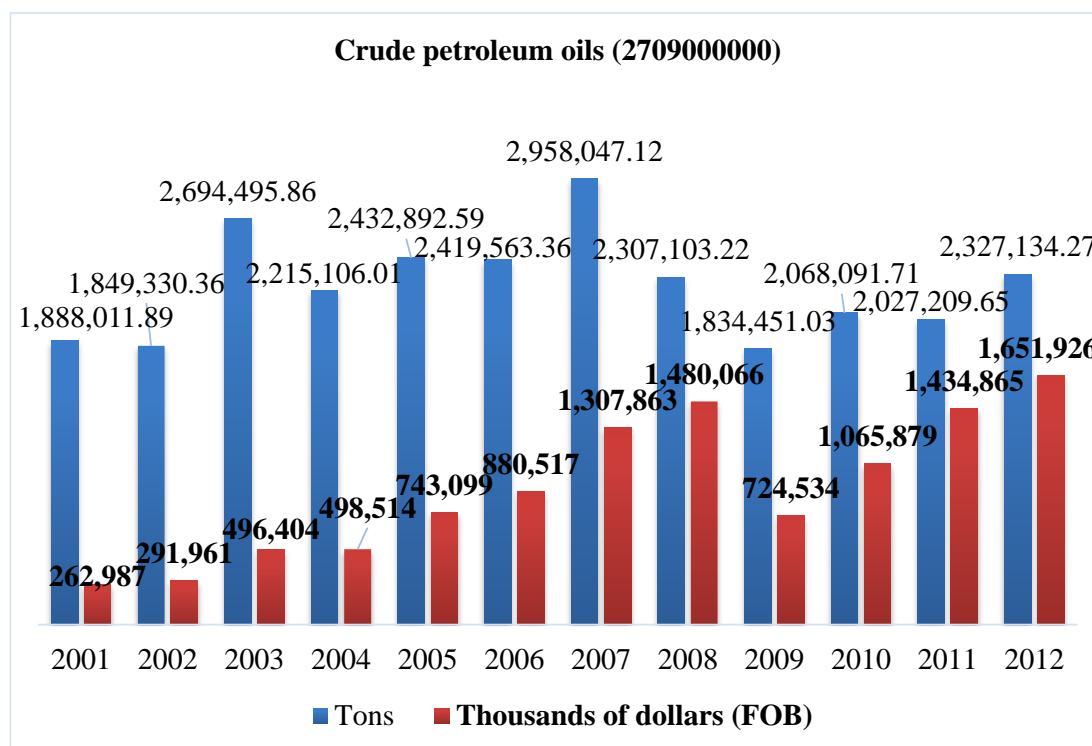
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Exports, during this term, were 13,148 million dollars (FOB). The major 15 exported products represented 89.01%, that is to say, it was 11,703 million dollars. However, oil exports still had an important role in the Ecuadorian trade balance, representing 82.43% of the total exports to Peru. If we only consider the non-oil exports, the total of these exports would not be over 2,309 million dollars. Compared to the term 1993-2000, in this period (2001-2012) crude oil exports had a greater importance in the total exports to Peru and they also increased.

3.3.1. Export of Crude oil.

Graphic No. 52 – Exports of crude petroleum oils and oils obtained from bituminous minerals.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

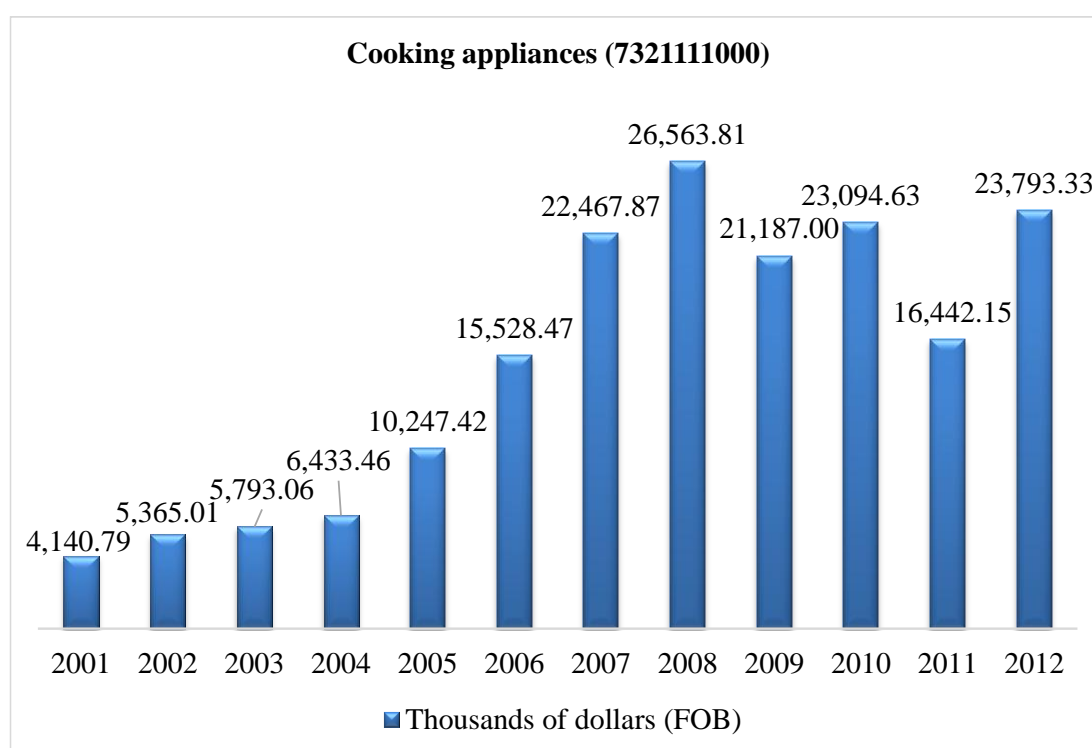
Considering the commercial exchange between Ecuador and Peru, oil has a great importance due to the benefits that result from its sale; its export represented an income of 10,838 million dollars for the country. It is important to note that in 2001 exports of oil were only of 262 million dollars but, in 2012, they increased to 1,651 million dollars, increasing more than six times. Only in 2009, the level of oil exports decreased as a consequence of the reduction in international oil price due to the global economic crisis of 2008. In spite of this, in the following years exports

maintained a gradual growth favored by the increase in the oil price and the improvement in Ecuadorian oil production.

Between 2001 and 2012, Ecuadorian oil exports had Peru as the second major destination to which was exported 13.5% of this product. Peru was exceeded by the United States to which was exported the 59.7% of oil production making this country the first destination of Ecuadorian oil exports.

3.3.2. Export of Cooking appliances.

Graphic No. 53 – Exports of cooking appliances.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

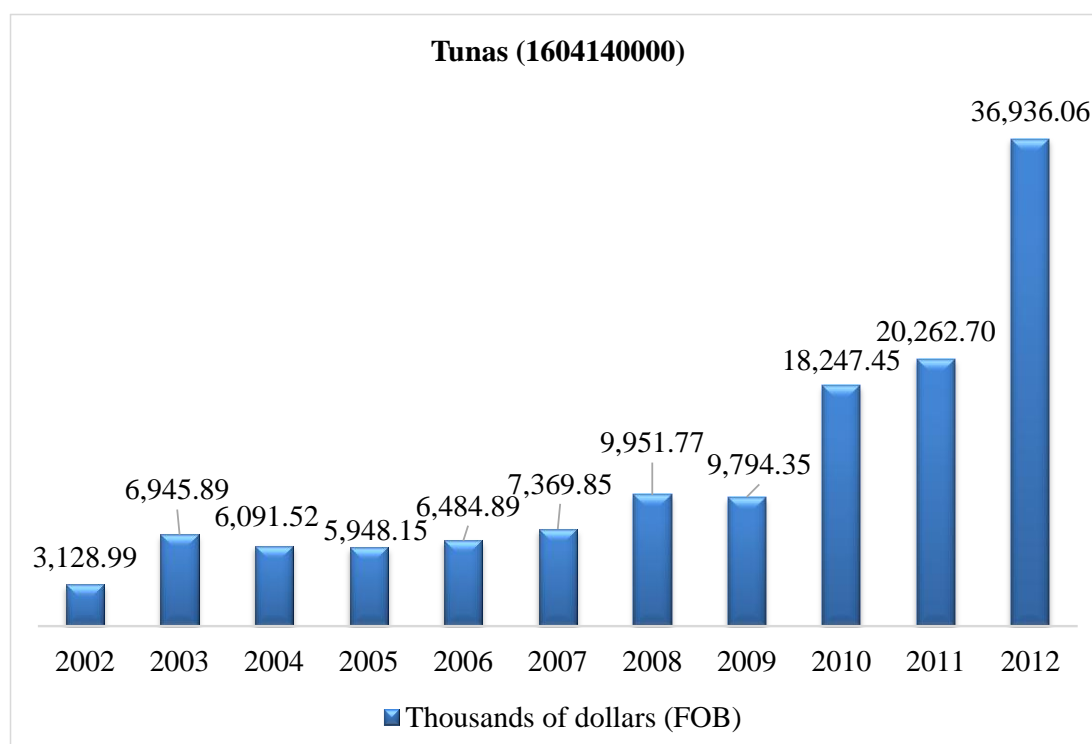
Elaborated by: Patiño, Pablo.

Cooking appliances were the main product of white goods required by the Peruvian market. Ecuadorian producers kept taking advantage of the reduced tariffs established by the Peruvian government. In this sense, the levels of cooking exports between 2001 and 2012 increased five times. In graphic, it can be seen that in 2001 exports were 4.1 million dollars while in 2012 these exports covered 23 million dollars. In 2008 was the only year in which cooking exports achieved its highest level selling 26.5 million dollars. During this term, these exports covered an average of 15 million dollars, which was an important income for the Ecuadorian economy.

Between 2001 and 2012, exports of this tariff heading (cooking appliances) covered 230 million dollars and the 27.4% of this total was exported to Peru. Venezuela was the first export destination of this product to which was exported 28.6% of the total Ecuadorian exports.

3.3.3. Export of Tunas.

Graphic No. 54 – Exports of tunas, prepared and preserved (whole or in pieces).



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

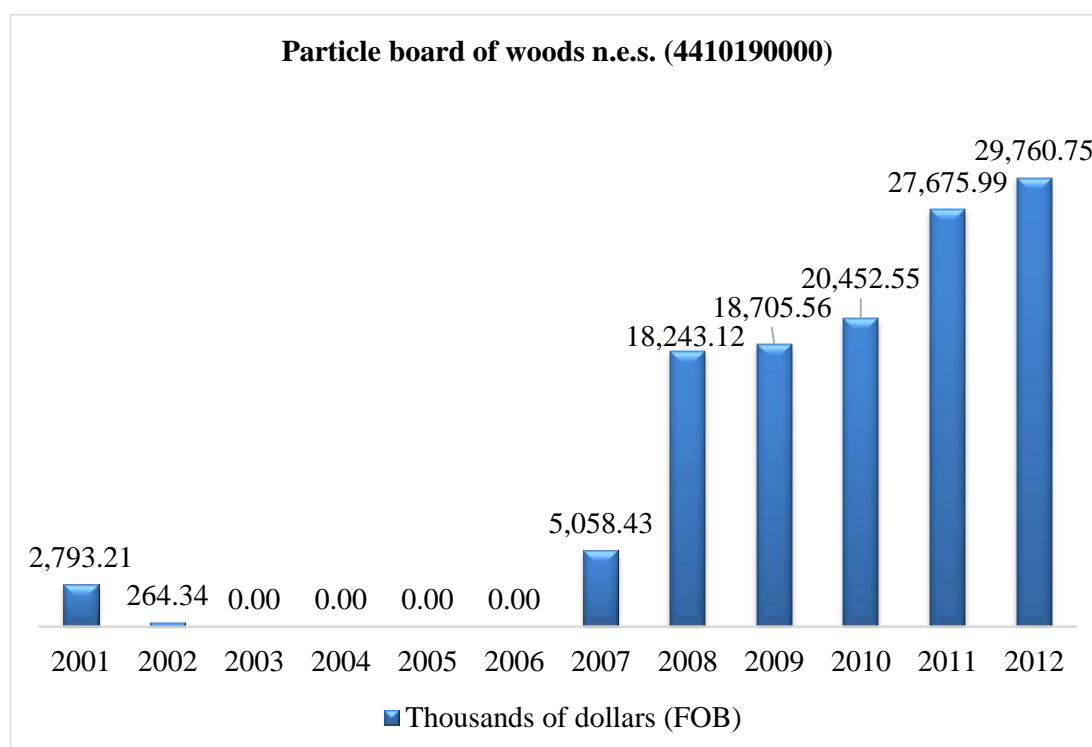
Elaborated by: Patiño, Pablo.

Exports of this product showed a considerable growth especially in the last three years of the term that is being analyzed. In 2001, there were no exports of tuna to Peru. Since 2002, these exports began to grow from 3.1 million dollars to 36.9 million dollars in 2012, which was the year with the highest export levels of tuna. Although there was an increase between 2002 and 2009, the greatest increase in tuna exports occurred in 2010 when the total exports doubled its value compared to the year before. In the last three years (2010, 2011, 2012) Ecuadorian tuna exports to Peru represented one third of the total exports made by the country. During this term, Peru occupied the eleventh position on the list of tuna export destinations having only the 3.2% of the total tuna exports. The main countries to which Ecuador

exported its tuna production were the United States (18.2%), Spain (14.1%), Venezuela (10.2%), Netherlands (9.1%) and the United Kingdom (8.0%).

3.3.4. Export of Particle board of wood.

Graphic No. 55 – Exports of particle board of wood n.e.s.



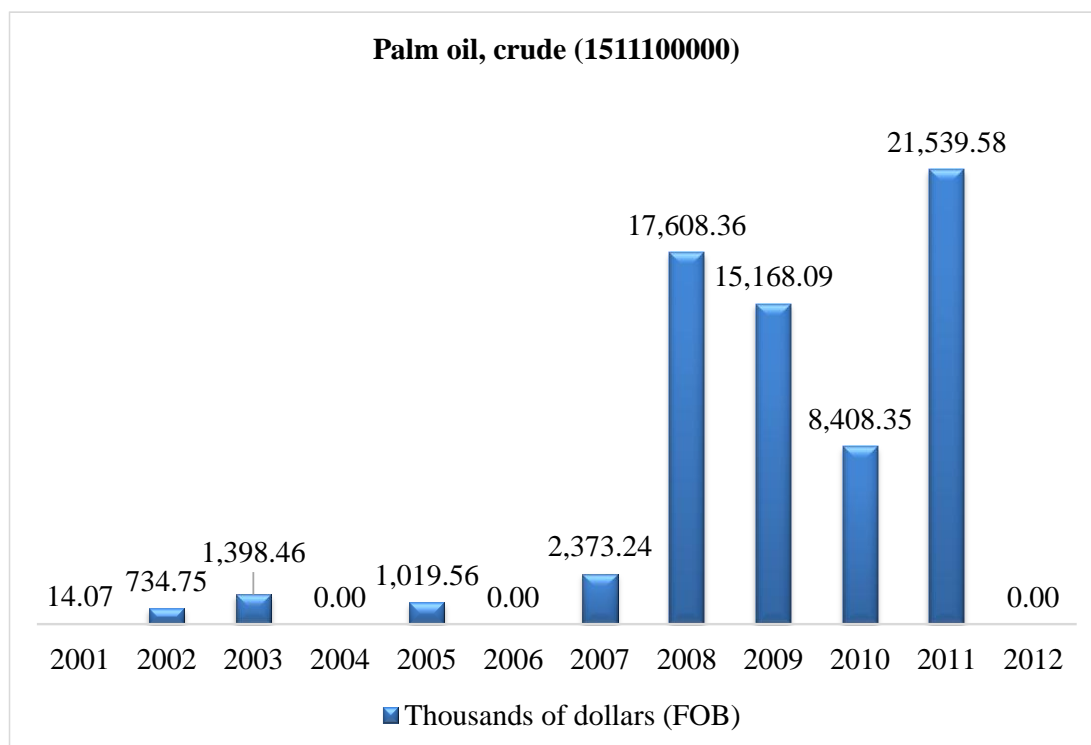
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Exports of this tariff heading were irregular in the first years of this term (2001-2012), being more frequent and constant in the last six years of this period. In 2001, the total exported was 2.7 million dollars reducing in 2002 to 264 thousand dollars. Between 2003 and 2006, no exports were made of this product to Peru. Since 2007, exports of particle boards of woods began to grow covering 5.0 million dollars and they increased five times until 2012 covering 29.7 million dollars. Considering the exports of these years, the export values had an average of 19.9 million dollars. Also, this product kept a continuous growth despite the global crisis of 2008. For this reason, the Peruvian market became the first country to which wood products were exported, representing 53.1% of all the Ecuadorian exports.

3.3.5. Export of Crude palm oil.

Graphic No. 56 – Exports of palm oil, crude.



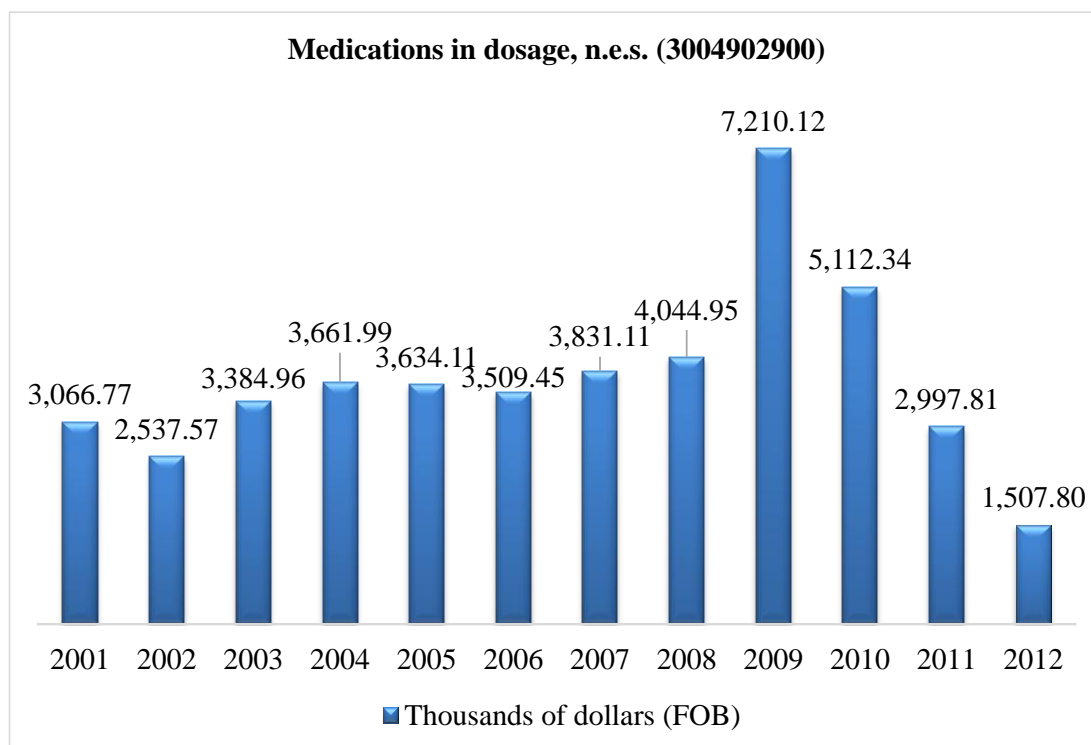
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The export of crude palm oil was characterized for being irregular during the term that is analyzed. Until 2007, exports of oil were not over the 5.5 million dollars, and it has to be considered that between 2004 to 2006 there were no exports to Peru. Since 2008, oil exports began to increase, however, until 2010 there was a decrease process. It was overcome in 2011, when the total exports of crude palm oil reached 21.5 million dollars. During these 4 years, crude palm oil exports represented the 92% of the total Ecuadorian exports to Peru. For this reason, Peru became the fifth country that required Ecuadorian crude palm oil having the 6.7% of the total exports. The main destination continued to be Venezuela that covered 38.9% of the Ecuadorian exports.

3.3.6. Export of Medications in dosage.

Graphic No. 57 – Exports of medications in dosage, n.e.s.



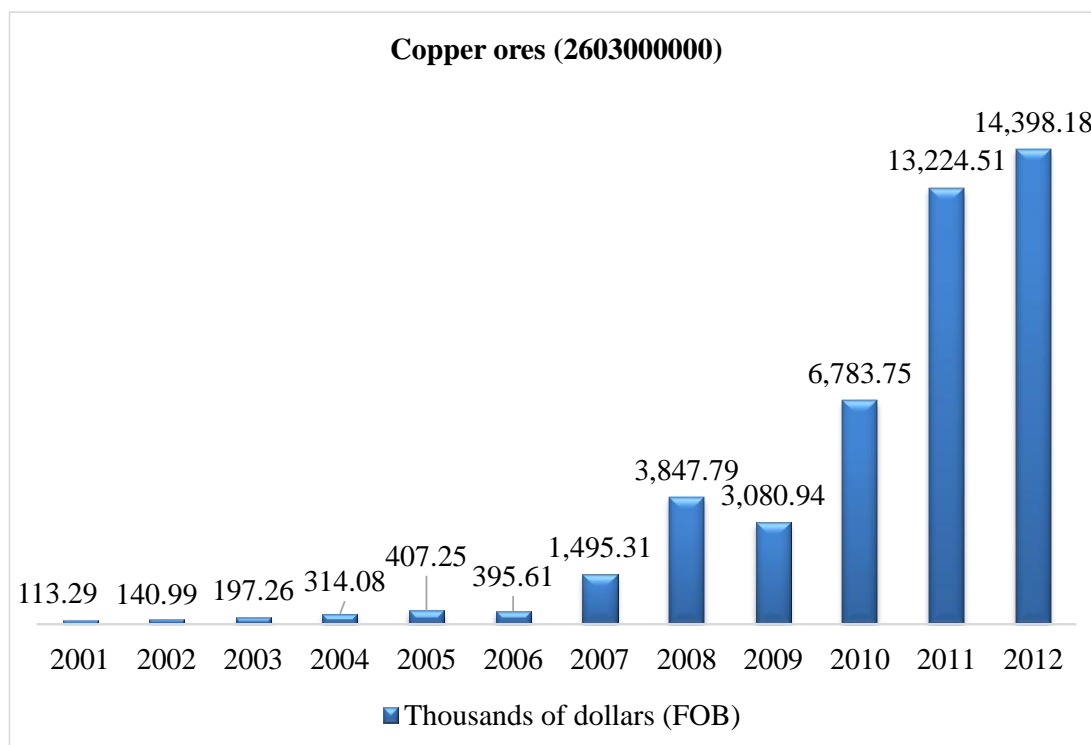
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The export of this tariff heading generated significant incomes for Ecuadorian exporters during the term that is being analyzed. As an average, exports of medicines, between 2001 and 2012, reached 3.7 million dollars. The highest levels of sales occurred in 2009 covering 7.2 million dollars and in 2010 with 5.1 million dollars. The lowest level of sales occurred in 2012 in which exports of medicines covered only 1.5 million dollars. During this period, Peru was the first market to which medicines were exported covering 22.4% of the total exports of this product.

3.3.7. Export of Copper ores.

Graphic No. 58 – Exports of copper ores and concentrates.



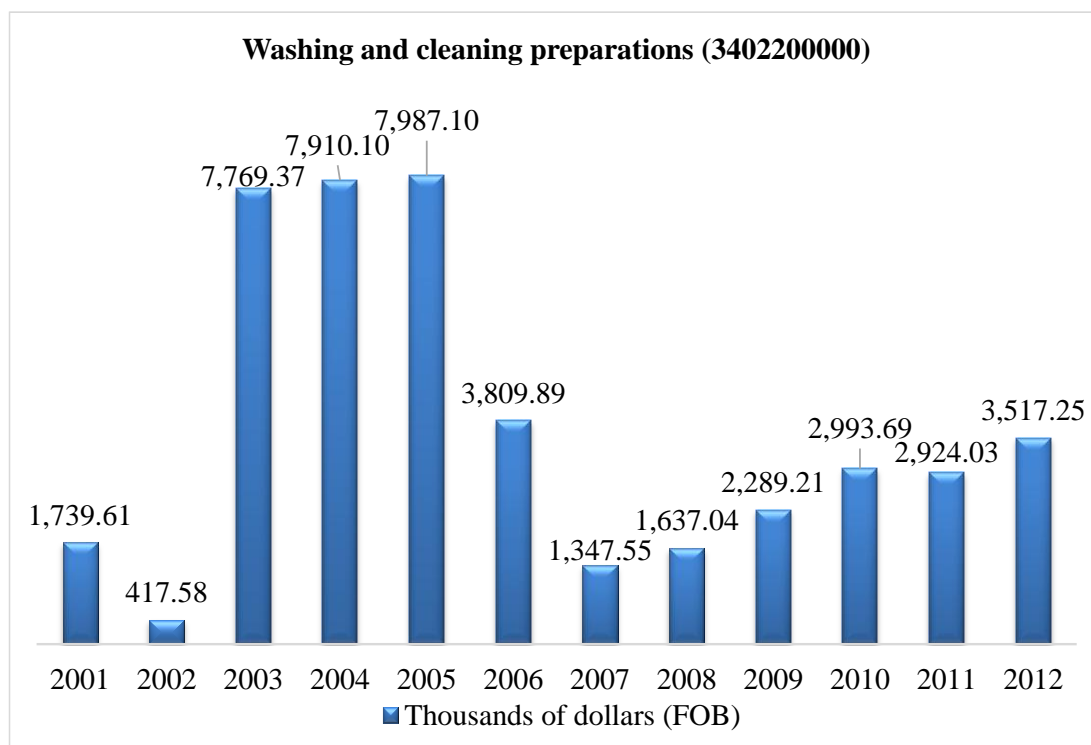
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The demand of this product, from the Peruvian market, was characterized for its dynamism especially since 2007. Before that year, the export levels covered 450 thousand dollars. In 2007, the export of copper minerals covered 1.4 million dollars and in 2008, exports doubled that value. Although, there was a decrease in 2009, exports increased its levels in 2010 covering 6.7 million dollars. Finally, in 2011, the total exports doubled their value in comparison with exports of 2010. The highest level of exports was in 2012 with 14.3 million dollars that belong to exports made to Peru. For this reason, this country became the first market that required copper minerals from Ecuador and exports to Peru represented 94.1% of the total Ecuadorian exports.

3.3.8. Export of Washing and cleaning preparations.

Graphic No. 59 – Exports of washing and cleaning preparations.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

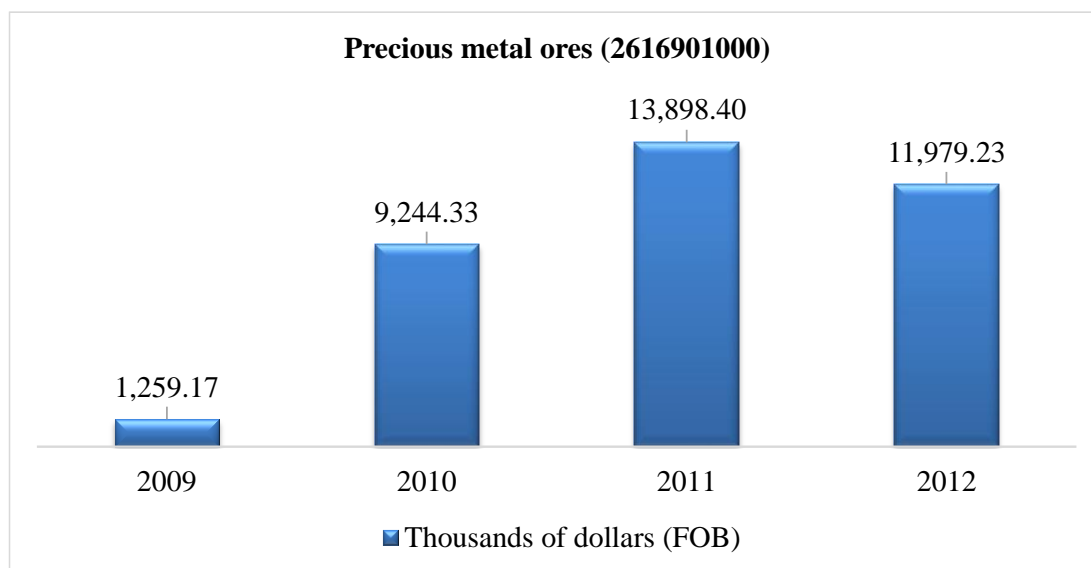
Elaborated by: Patiño, Pablo.

This tariff heading became one of the most exported products occupying the number eight position on the list of the most exported products of Ecuador to Peru. This was a result of the level exports between 2003 and 2005. In this period, exports increased to 23.6 million dollars, which represented 53% of the total exports to Peru. Although in the following two years there was a considerable decrease in exports, the amounts had a continuous increase reaching 3.5 million dollars in 2012.

The Ecuadorian exports to Peru represented 48.9% making Peru the second destination country of Ecuadorian exports. Colombia was the first market that required this Ecuadorian product to which it was 49.5% of the total exports of this tariff heading.

3.3.9. Export of Precious metal ores.

Graphic No. 60 – Exports of precious metal ores and concentrates n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

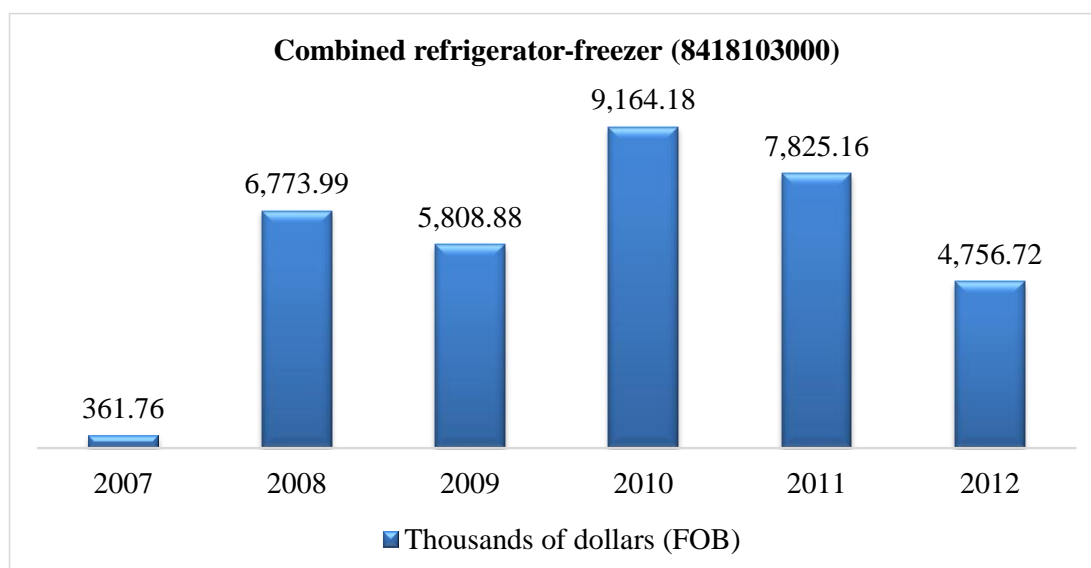
Elaborated by: Patiño, Pablo.

Precious metal ores generated high incomes for the country, because exports of this product to Peru were 36.3 million dollars. As can be seen in graphic, only in the last 4 years precious metal ores were exported to Peru, however, the amount of sales was considerable and continued to grow. Only in 2009, exports covered 1.2 million dollars, but for 2010 this amount increased more than seven times reaching 9.2 million dollars. In 2011, these exports achieved its highest point by selling 13.8 million dollars even though in 2012 exports decreased to 11.9 million dollars.

In this sense, Peru was the main destination of Ecuadorian precious metal ores exports with 70.3% of the total exports. Peru was above other countries such as China (18.6%) and the United States (10%), which are considered important markets for Ecuadorian exports.

3.3.10. Export of Combined refrigerator-freezers.

Graphic No. 61 – Exports of combined refrigerator-freezers, fitted with separate external doors, with a volume equal or superior to 269 liters but inferior to 382 liters.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

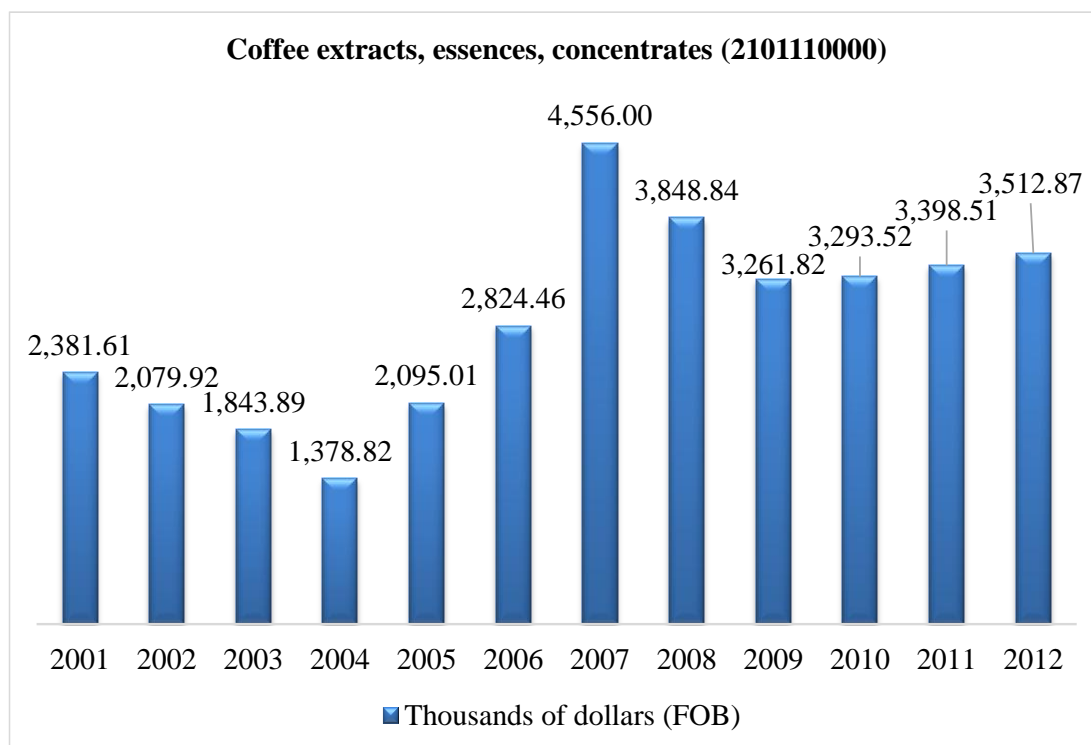
Elaborated by: Patiño, Pablo.

The search for new markets of this product included the neighbor country and the proximity to this country helped to increase the exports levels. Even though in 2007 the export covered 361 thousand dollars, from 2008 to 2012 exports exceeded the 6.8 million dollars. In 2010, the amount of exports was over the 9.1 million dollars being this amount the highest level of exports during this period.

Peru was the main market for export of refrigerators and freezers. During the term that is analyzed, of the 54.6 million dollars generated in sales 63.4% were exported to Peru while 28.9% was exported to Venezuela, which is the second market for Ecuadorian exports.

3.3.11. Export of Coffee extracts, essences, concentrates.

Graphic No. 62 – Exports of coffee extracts, essences, concentrates.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

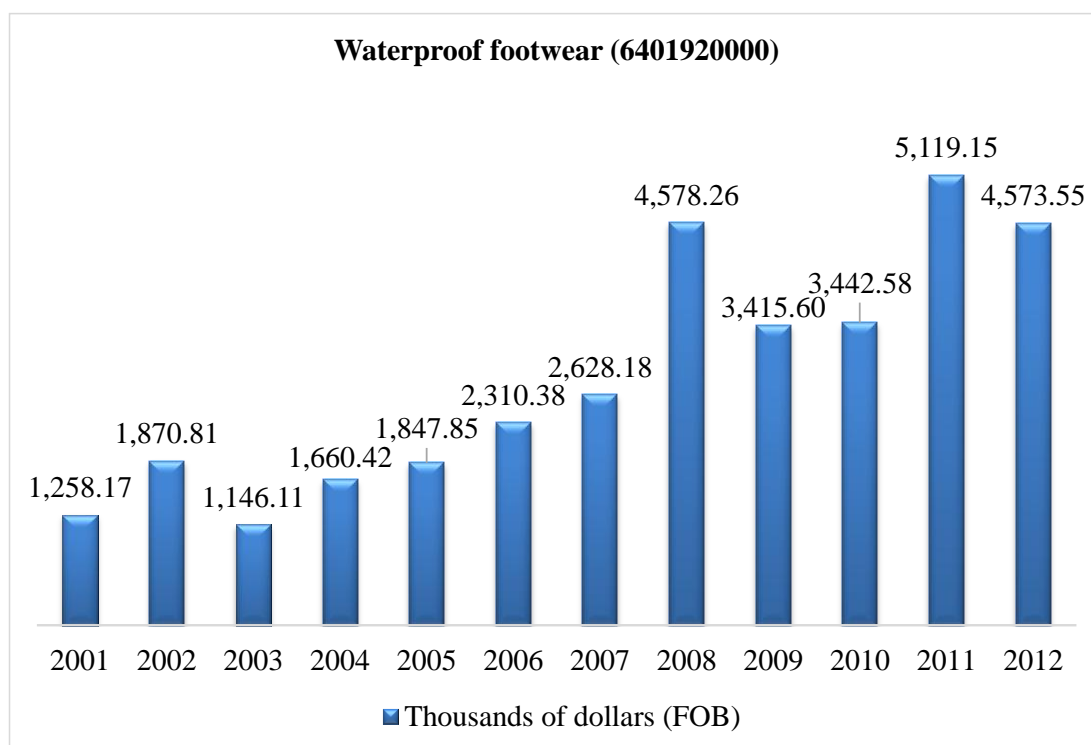
Elaborated by: Patiño, Pablo.

The tariff heading of this product, which includes coffee extracts, essences and concentrates, has shown stages of growth and decrease during the period that is being analyzed. In 2007, the export of these essences and extracts achieved its highest level with 4.5 million dollars while in 2004 only 1.3 million dollars were exported to Peru. On average, between 2001 and 2012, exports to Peru were over the 2.8 million dollars.

Even though exports level to Peru was high, this country represents only 3.4% of the total exports of this product, occupying the sixth position on the list of exports destinations. The first market of export was Germany with 26.3%, followed by Poland with 23.3% and Russia with 17.1%, these countries are considered the main markets for extract and essences exports.

3.3.12. Export of Waterproof footwear.

Graphic No. 63 – Exports of waterproof footwear, covering the ankle but not covering the knee.



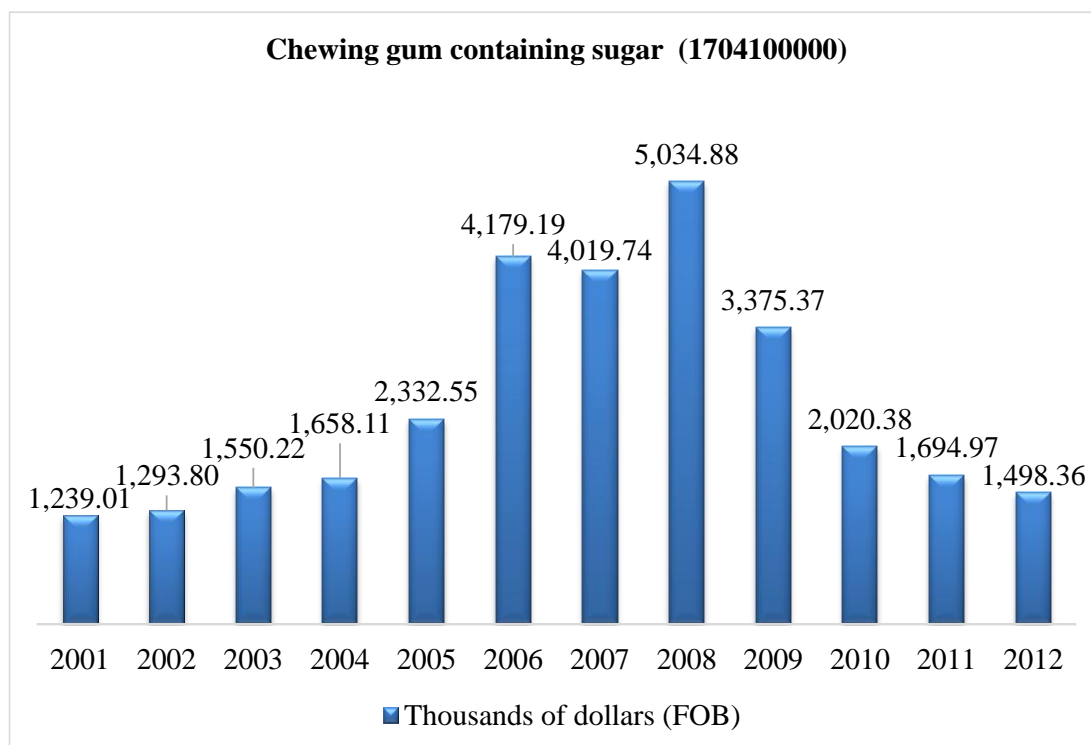
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Waterproof footwear exports have increased considerably since 2001. Only in this year, exports were 1.2 million dollars while in 2008 exports tripled their amount reaching 4.5 million dollars and in 2012, it achieved its highest exports level with 5.1 million dollars. As a total, during this period, the footwear exports rose to 33.8 million dollars. Peru was the second exports destination, representing only 19.9% of the total exports. The main market of footwear export was Colombia to which is exported 78% of the total waterproof footwear production.

3.3.13. Export of Chewing gum.

Graphic No. 64 – Exports of chewing gum containing sugar, except medicinal.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

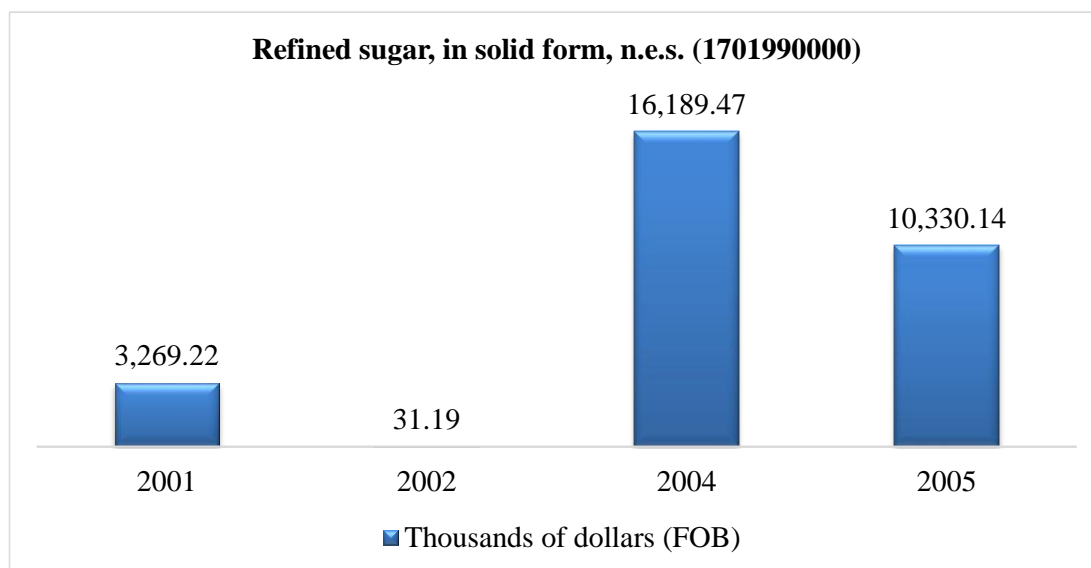
Elaborated by: Patiño, Pablo.

Chewing gum exports to Peru, during the term that is being analyzed, had two stages. In 2001, exports covered 1.2 million dollars and reached 5.0 million dollars in 2008 showing an increase of almost four times in comparison with the years before. However, in the following years exports decreased substantially, in 2012 exports of chewing gum represented only 1.4 million dollars. In the years between 2001 and 2012, the annual average export amount was 2.4 million dollars.

In this context, Peru was the second destination for Ecuadorian chewing gum exports. Of the total exports made by Ecuador to the world, Peru represented an 18.3% while Colombia was the first destination with the 52.8% of the Ecuadorian chewing gum exports.

3.3.14. Export of Refined sugar.

Graphic No. 65 – Exports of Refined sugar, in solid form, n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

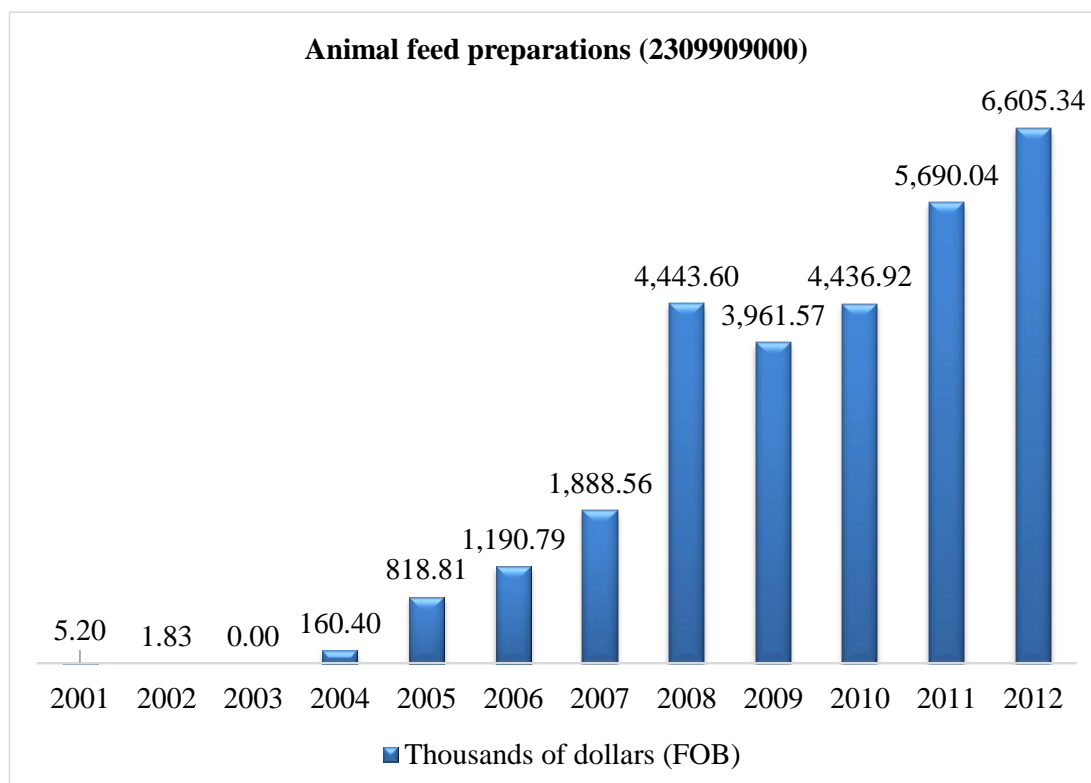
Elaborated by: Patiño, Pablo.

The exports of this tariff heading were made occasionally, although they represented an important income for the country. In 2001, exports of these products were 3.2 million dollars, and in 2002 exports covered only 31,000 dollars. Then, in 2004, exports of this product achieved its highest level with 16.1 million dollars and in 2005 exports covered 10.3 million dollars. The total exports were 29.8 million dollars and only the two last years of exports represented an 88.9% of the total amount of exports. As can be seen, these exports have been made only to supply the Peruvian market in times of scarcity.

In spite of this fact, Peru was the main market for the Ecuadorian exports of refined sugar. Exports to this country covered a 59.5% of exports made by Ecuador to the world.

3.3.15. Export of Animal feed preparations.

Graphic No. 66 – Exports of animal feed preparations n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

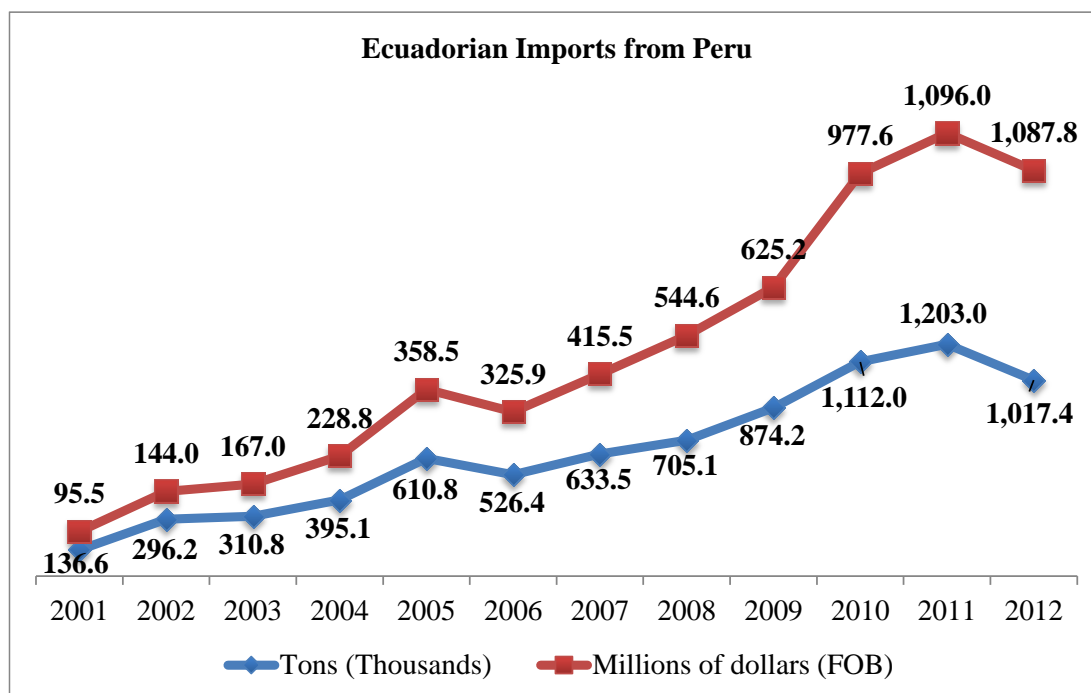
Elaborated by: Patiño, Pablo.

The exports of this product showed a progressive increase since 2001 until 2012. In the first three years, the amount of exports was reduced. In 2004, exports of animal feed preparations covered 160,000 dollars and in 2012 they increased to 6.6 million dollars. On average, during this term, exports were 2.4 million dollars each year.

Peru was the second destination for the Ecuadorian exporters of this tariff heading, representing an 18.9% of the total Ecuadorian exports. Honduras was the first market to which this product was exported having the 32% of the total exports made by Ecuador.

3.4. Ecuadorian imports from Peru.

Graphic No. 67 – Ecuadorian imports from Peru, 2001-2012.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The imports made by Ecuador showed a constant growth during the term that is being analyzed. In 2001, the amount of imports covered 95.5 million dollars and in 2012 imports from Peru covered 1,087 million dollars. As can be seen in graphic, imports from Peru had an increase of more than eleven times during this term. The year that registered the highest amount of imports was 2011 covering 1,096 million dollars.

After the dollarization process, exports coming from Peru showed a progressive increase as was mentioned before. In fact, in 2001 the amount of Peruvian exports coming to Ecuador only represented 1.35% of their total exports while in 2012 exports coming to Ecuador covered 2.38%. However, Ecuador was not major preferred destinations of the Peruvian exporters.

Table No. 26 – 15 major tariff headings exported to Peru between 2001 and 2012.

#	Tariff Heading	Description	Tons	Thousands of dollars (FOB)	%/Total FOB-Dollar
1	2711190000	Petroleum gases, liquefied	694,252.86	397,458.88	6.55
2	2309909000	Animal feed preparations, n.e.s.	342,716.42	240,147.52	3.96
3	7403110000	Copper cathodes	32,760.18	184,832.81	3.05
4	2710193800	Other petroleum oils	99,452.16	180,408.74	2.97
5	0303430000	Skipjack or stripe-bellid bonito, frozen fish	115,586.46	177,125.55	2.92
6	1507100000	Soya-bean oil crude	151,792.91	169,733.04	2.80
7	2707501000	Solvent Naphtha	271,198.69	156,843.38	2.59
8	2711120000	Propane, liquefied	163,857.42	136,814.22	2.26
9	7901110000	Zinc not alloyed unwrought	56,962.60	110,786.07	1.83
10	3923309000	Carboys, bottles, flasks and similar articles of plastics n.e.s.	62,022.31	104,335.50	1.72
11	0407001000	Eggs, bird, in shell, hatching	26,360.45	85,654.60	1.41
12	1905310000	Sweet biscuits	55155.88	85,126.75	1.40
13	8544491000	Electric conductors, cooper n.e.s.	14,356.27	80,564.44	1.33
14	2716000000	Electrical energy	0.00	61,424.37	1.01
15	0303420000	Tunas, yellowfin, frozen	33,097.82	61,078.13	1.01
		The other tariff headings	5,702,213.38	3,834,700.23	63.21
		TOTAL	7,821,785.81	6,067,034.23	100.00

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

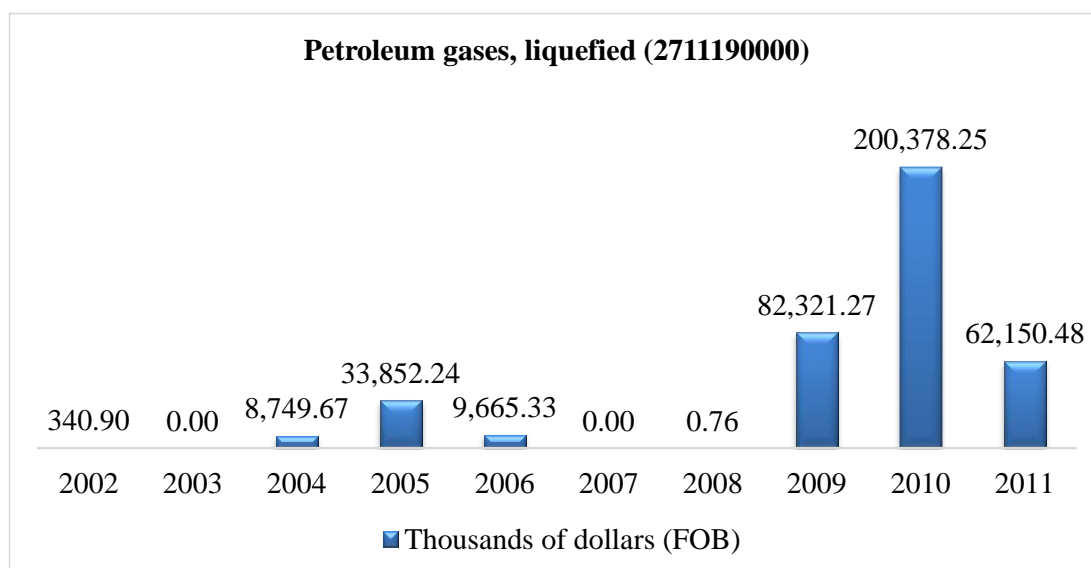
Elaborated by: Patiño, Pablo.

In the term that is being analyzed (2001-2012), imports from Peru covered 6,067 million dollars. The 15 major products that were imported represented 36.7% of the total amount of imports, and in monetary terms, this covered 2.2 million dollars in imports from Peru.

The major imported product from Peru was liquefied petroleum gas, which covered 396 million dollars, representing a 6.55% of the total imports from Peru. The other main imported products from this country were animal food, refined copper cathodes, lubricant oils and frozen fish. This group of products represented 12.9% of the total imports. As can be seen, imports coming from the Peruvian market are characterized for their diversification in the range of products that are required, even though the amounts were not so high compared to the level of exports to this country.

3.4.1. Import of Liquefied petroleum gas.

Graphic No. 68 – Imports of petroleum gases and other gaseous hydrocarbons n.e.s., liquefied.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

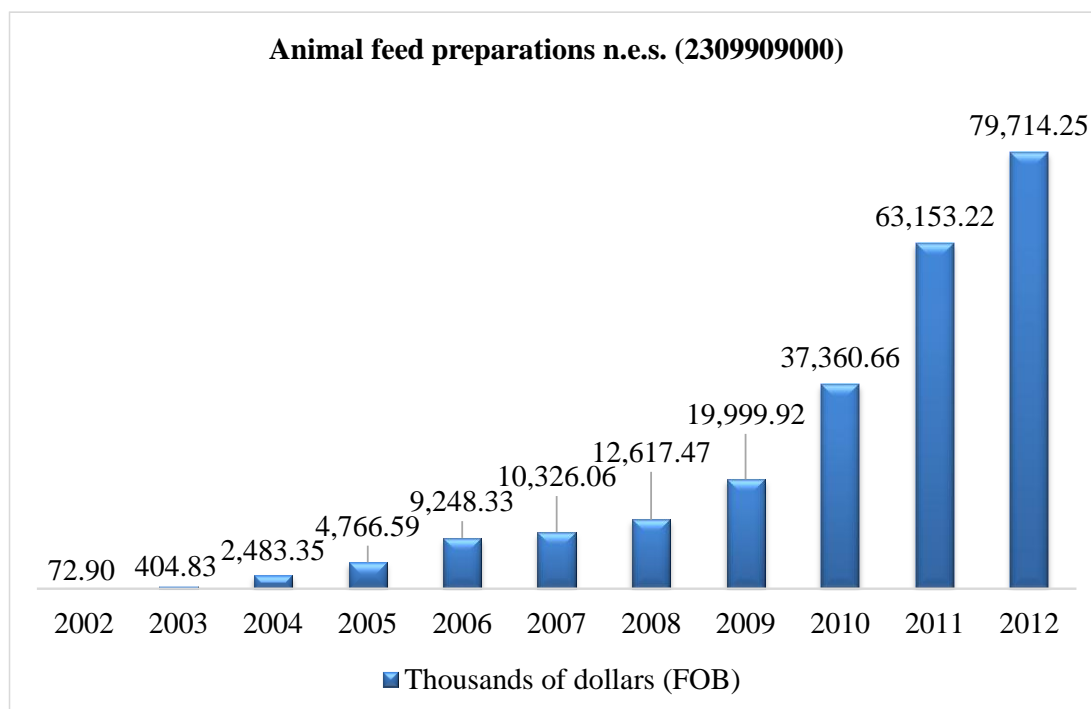
Elaborated by: Patiño, Pablo.

Liquefied petroleum gas was one of the main Peruvian products required by the Ecuadorian market. However, as can be seen in graphic, the amounts imported of this product were representative during six years, especially from 2009 to 2011. During those years, imports covered 344.8 million dollars, representing an 86.7% of the total imports from Peru. The year that generated more imports was 2010, as the amount increased to 200.3 million dollars. As can be seen, the import of this tariff heading from Peru was discontinuous, due to the fact that main suppliers of petroleum gas have been Venezuela and the United States.

In this sense, Peru became the third supplier of this product to Ecuador, with only 10.9 % of the total Ecuadorian imports. The countries that are considered the main suppliers, occupying the first and second position, were Venezuela, which covered the 21.4% of the demand, and the United States that represented the 15.5% of the total imports of petroleum gas in the 2001-2012.

3.4.2. Import of Animal feed preparations.

Graphic No. 69 – Imports of animal feed preparations n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

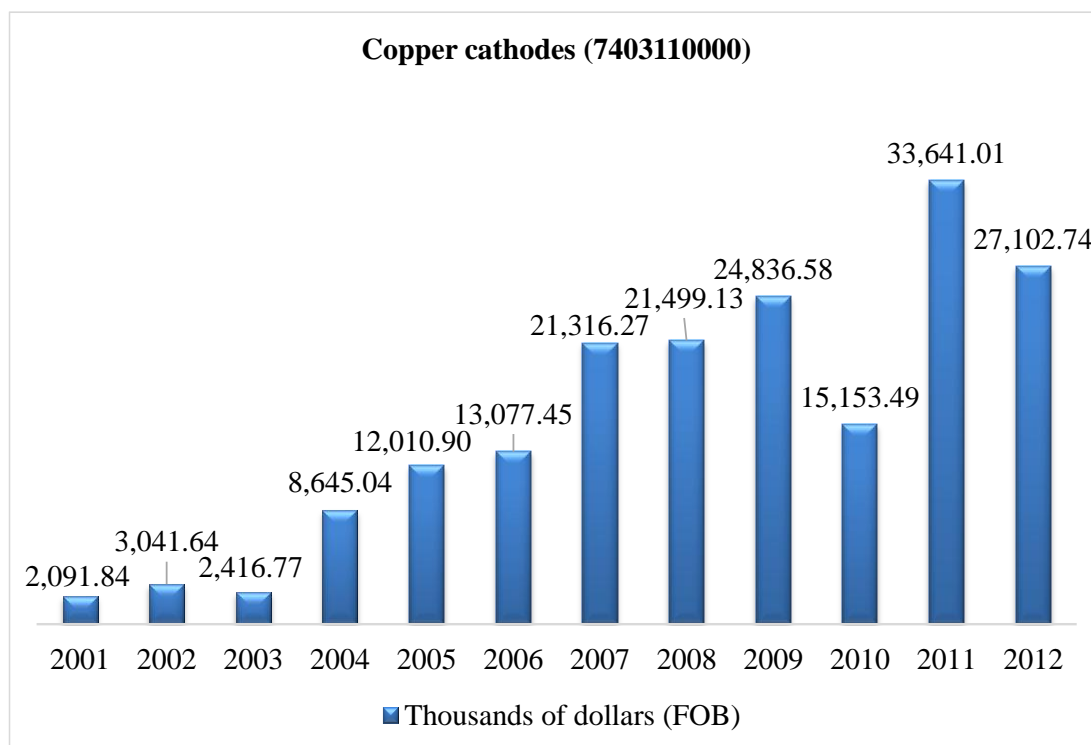
Elaborated by: Patiño, Pablo.

This tariff heading had a continuous growth since 2001. For this reason, it became the second imported product from Peru covering 240.1 million dollars. In 2002, the imported amount was 72,000 dollars. In 2012, it increased to 79.7 million dollars being this year the one with greater level of imports during the period that is being analyzed.

As can be seen in graphic, in the eleven years that are being analyzed, imports had a significant growth. In this context, it can be said that Peru became the main supplier of animal feed preparations with 97.2% of the total Ecuadorian imports. Colombia was the second country in the list of suppliers, with only 1.5% of total imports of this product.

3.4.3. Import of copper cathodes.

Graphic No. 70 – Imports of copper cathodes and sections of cathodes unwrought.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

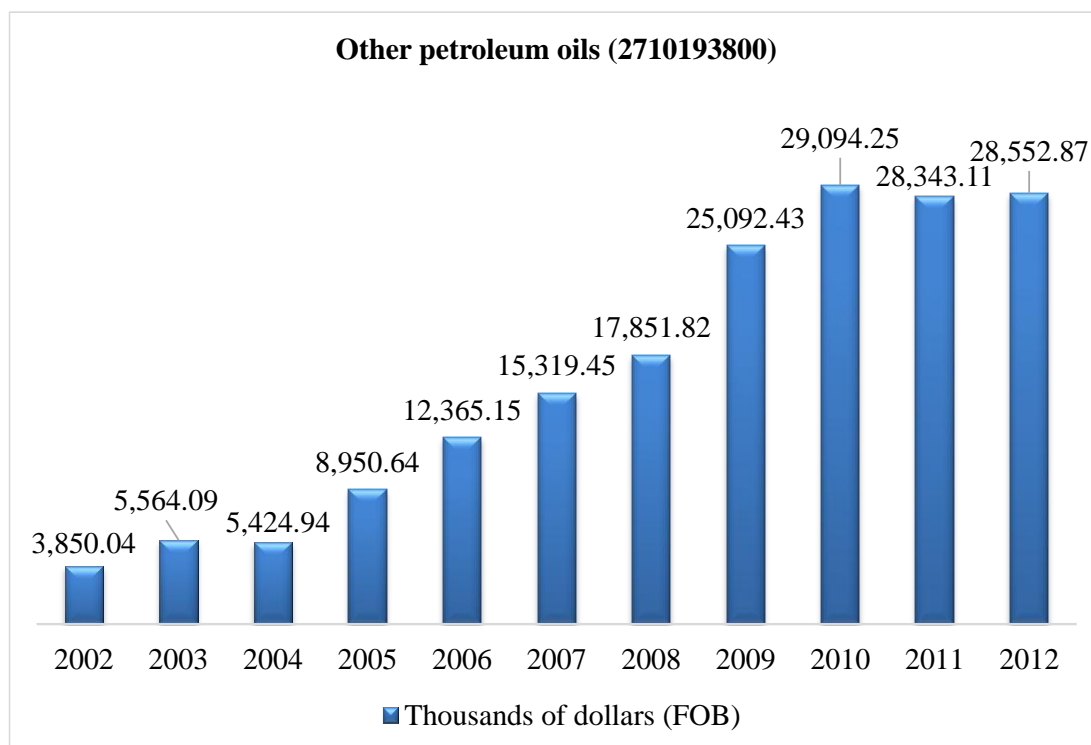
Elaborated by: Patiño, Pablo.

The import of copper cathodes also demonstrated a continuous growth and it had a great contribution to the total Ecuadorian imports from Peru. The total imports from this country were 184.8 million dollars; and the last 6 years were the ones that had higher levels of imports covering more than 77.6% of the total imports. In the first years of this term, between 2001 and 2003, imports covered only 7.5 million dollars. This amount was overcome in 2008 when imports covered 8.6 million dollars. Since 2008, the amount of imports was higher than 10 million dollars.

Therefore, Peru was the main supplier of this product to Ecuador, with the 99.9% of the total Ecuadorian imports of this tariff heading. This makes Peru nearly the only supplier of animal feed preparations during the period that is being analyzed.

3.4.4. Import of Petroleum oils and preparations.

Graphic No. 71 – Imports of other petroleum oils and preparations.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

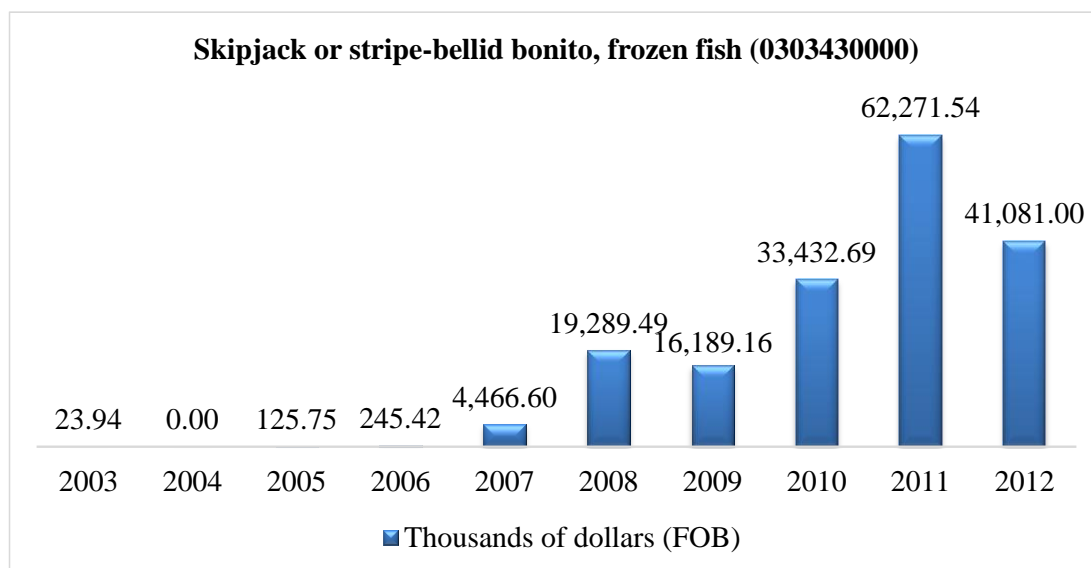
Elaborated by: Patiño, Pablo.

The petroleum oils that are part of this tariff heading contributed with a total of 180.4 million dollars to imports from Peru during the period that is being analyzed. In 2002, imports from Peru were 3.8 million dollars and in 2012 the amount increased to 28.5 million dollars, showing an increase of more than seven times during these years.

In the same way, it is important to mention that in the last four years the imported amounts represented 61.5% of the total imports from Peru; on average, the annual amount of imports were 27.7 million dollars. In fact, during this period the Ecuadorian market required petroleum oils from Peru. For this reason, Peru was the main supplier of petroleum oils covering 40.8% of the total Ecuadorian imports of this product.

3.4.5. Import of frozen fish.

Graphic No. 72 – Imports of skipjack or stripe-bellid bonito, frozen fish.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

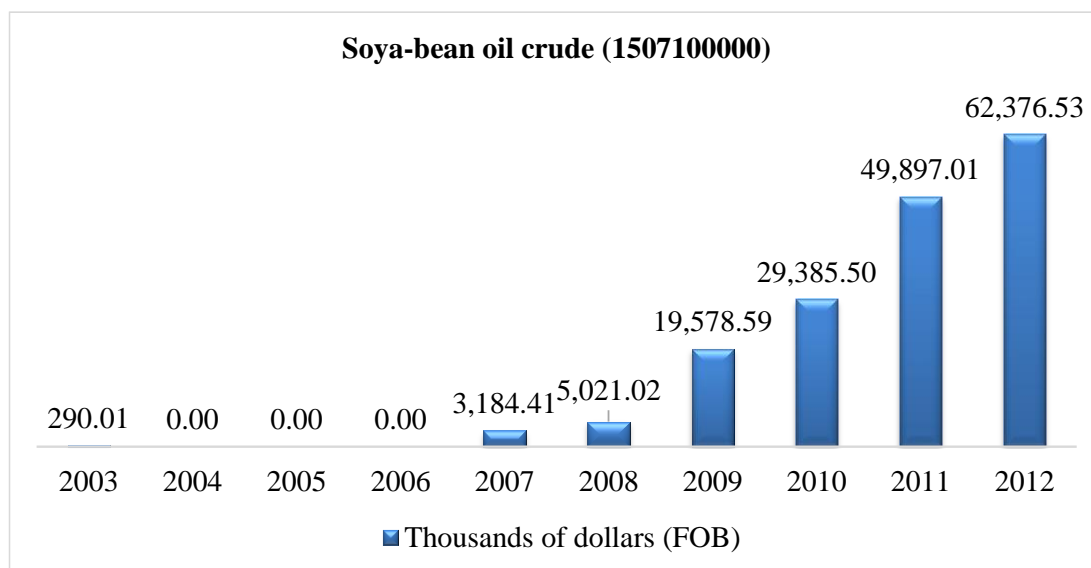
Elaborated by: Patiño, Pablo.

Imports of frozen fish, as can be seen in graphic, showed an important increase from 2007. Before that year, the amounts were lower than 250,000 dollars annually. In 2007, imports increased to 4.4 million dollars while in 2012 imports covered 41 million dollars, being this amount the second highest amount of imports during this period. In 2011, imports of frozen fish achieved its highest amount covering 62.2 million dollars.

It is important to mention that Peru was the second main supplier of frozen fish for Ecuador covering 27.5% of the total Ecuadorian imports.

3.4.6. Import of Soya-bean oil crude.

Graphic No. 73 – Imports of soya-bean oil crude, whether or not degummed.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

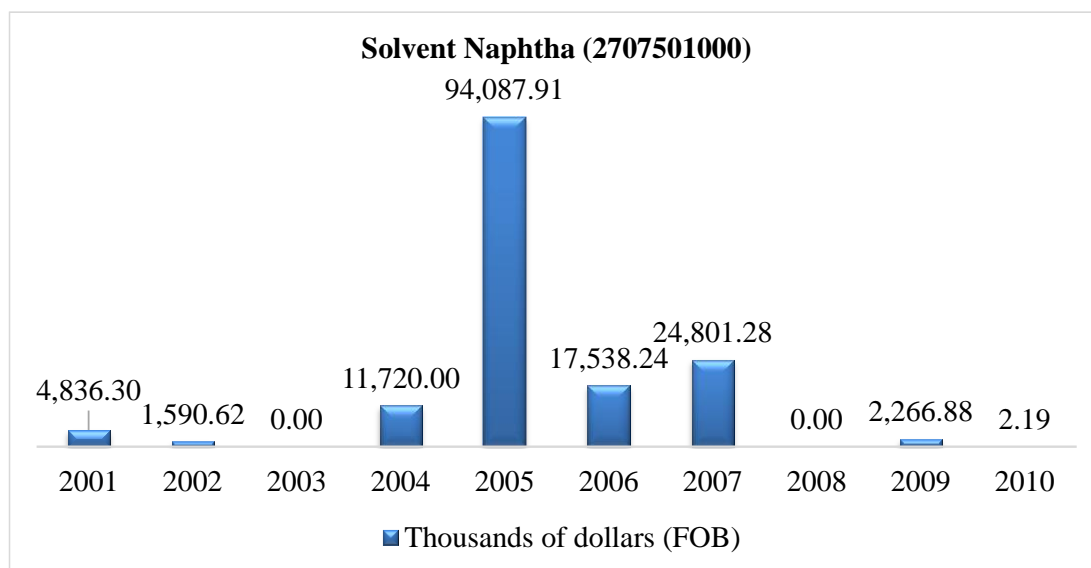
Elaborated by: Patiño, Pablo.

The soya-bean oil is used mainly in cuisine and in the last few years it is also used in the biodiesel industry. The imports of this product from Peru increased since 2007, the year in which imports covered 3.2 million dollars, reaching 62.3 million dollars in 2012. In this way, it can be seen a positive trend of growth for this product, because imports of soya-bean oil showed an important increase every year, as can be seen in graphic.

Despite this situation, Peru was the second major supplier of this product, providing an 18.8% of the total Ecuadorian imports. Argentina was the first country that exported soya-bean oil to Ecuador with 76% of the total Ecuadorian imports.

3.4.7. Import of Solvent Naphtha.

Graphic No. 74 – Imports of solvent naphtha.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

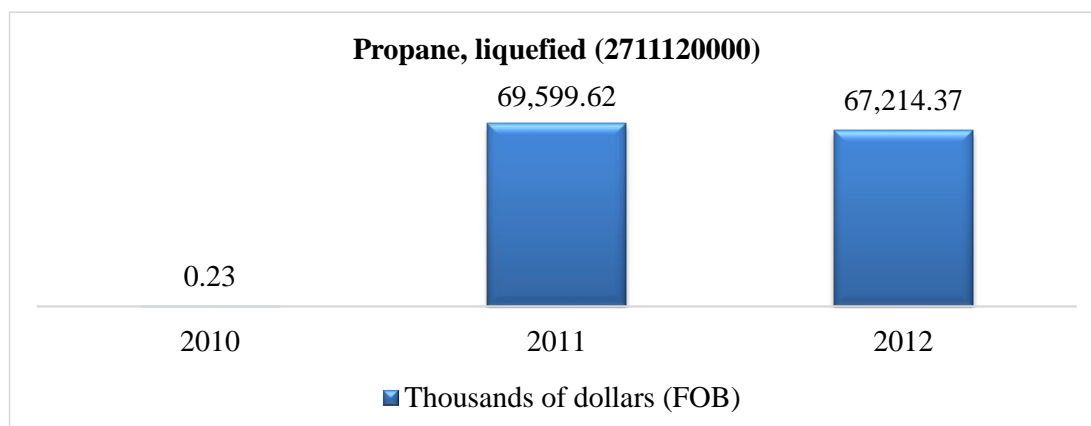
Elaborated by: Patiño, Pablo.

Imports of solvent naphtha were characterized for being irregular. The term that had higher levels of imports were the years between 2004 and 2007, the same that covered 148.1 million dollars, representing a 95% of the total imports. It is important to note that only in 2005 imports totaled 94 million dollars, which represented the 60% of the total imports from Peru. The main motive of having high amounts of imports from Peru was that Ecuador had to supply its demand by buying solvent naphtha from Peru because other countries that traditionally used to provide this product did not cover the whole demand of the Ecuadorian market.

For this reason, Peru occupied the eleventh position in the list of suppliers of this product for the Ecuadorian market providing 2% of the total imports. The amount of Ecuadorian imports of solvent naphtha were superior to 8,285 million dollars; and the countries considered as the major suppliers of this product were the United States (30% of the total imports), Venezuela (13.9% of the total imports) and Panama (11.2% of the total imports).

3.4.8. Import of Liquefied propane.

Graphic No. 75 – Imports of propane, liquefied.



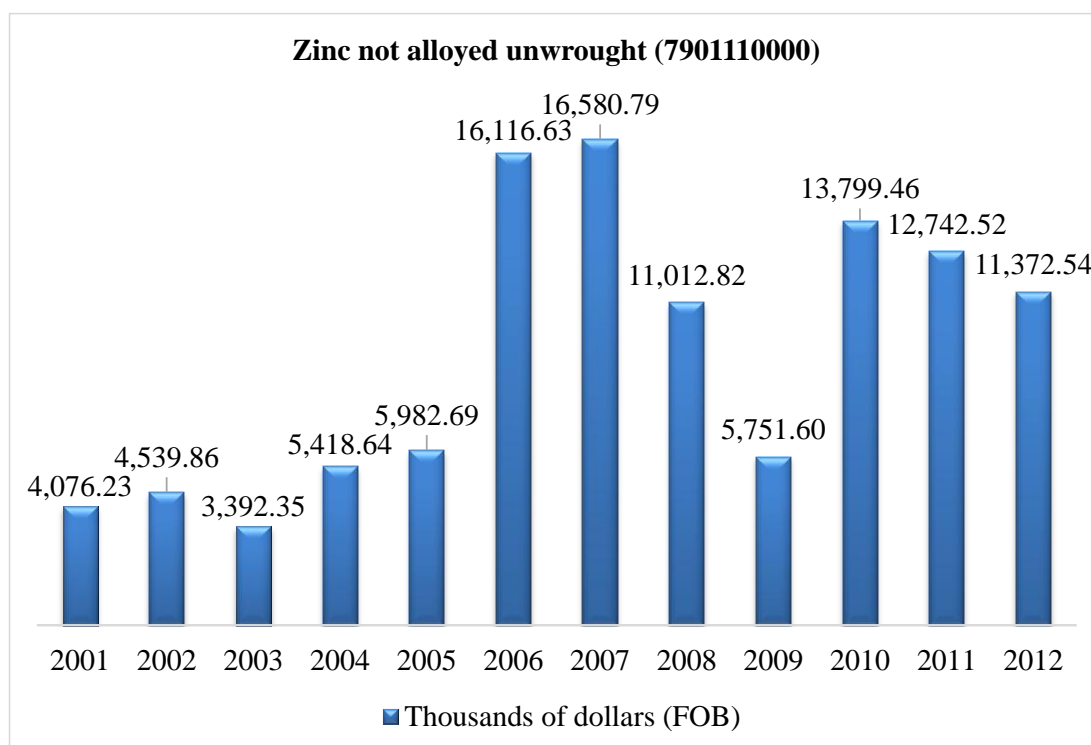
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Imports of liquefied propane from Peru took place in 2011 and 2012. These imports were made with the main objective of having a market close by that could provide this product. This proximity between Ecuador and Peru also reduced the transportation costs. For this reason, Peru became the third major supplier of liquefied propane with the 17.4% of the total Ecuadorian imports of this product.

3.4.9. Import of Zinc.

Graphic No. 76 – Imports of zinc not alloyed unwrought containing by weight 99.99% or more of zinc.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

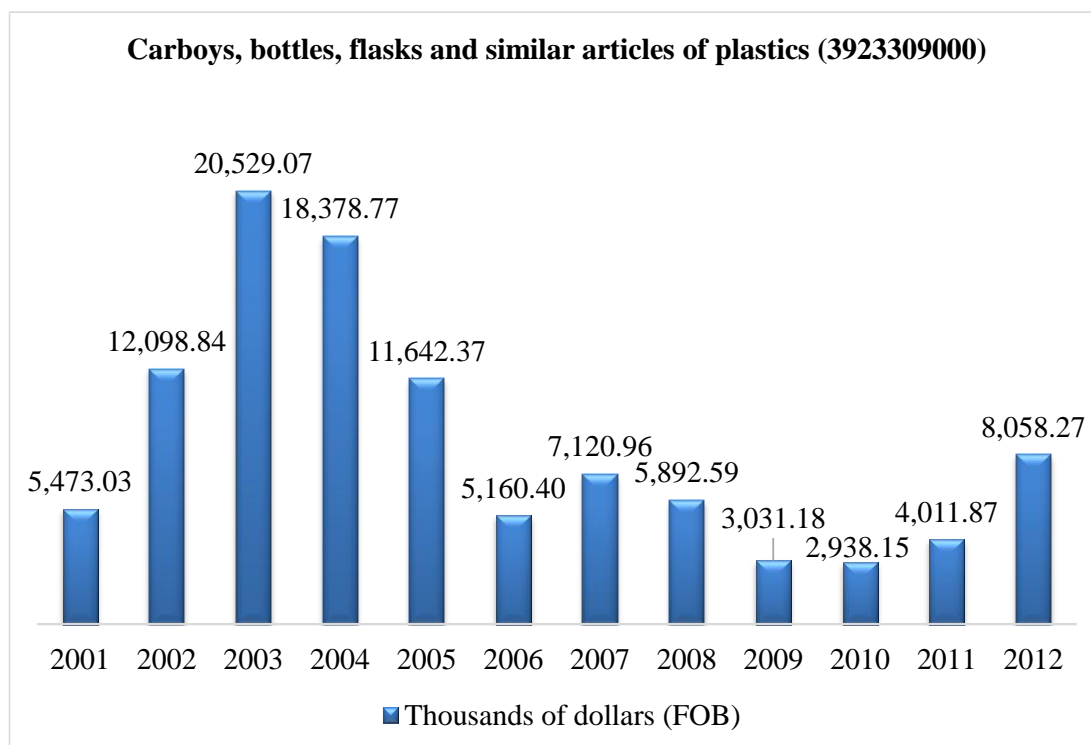
Elaborated by: Patiño, Pablo.

The import of metals that are part of this tariff heading had a great demand in the Ecuadorian market. In 2001, imports were 4 million dollars and the amounts of imports quadrupled by 2007 reaching 16.5 million dollars, which was the year with the highest import level. However, after there was a decrease in the amounts of imports, reducing imports to 11.3 million dollars in 2012. During the period that is being analyzed, the average of imports was 9.2 million dollars.

Peru was the major trade partner that supplied the Ecuadorian market with this product with 98% of the total Ecuadorian imports.

3.4.10. Import of Carboys, bottles and flasks.

Graphic No. 77 – Imports of carboys, bottles, flasks and similar articles of plastics.



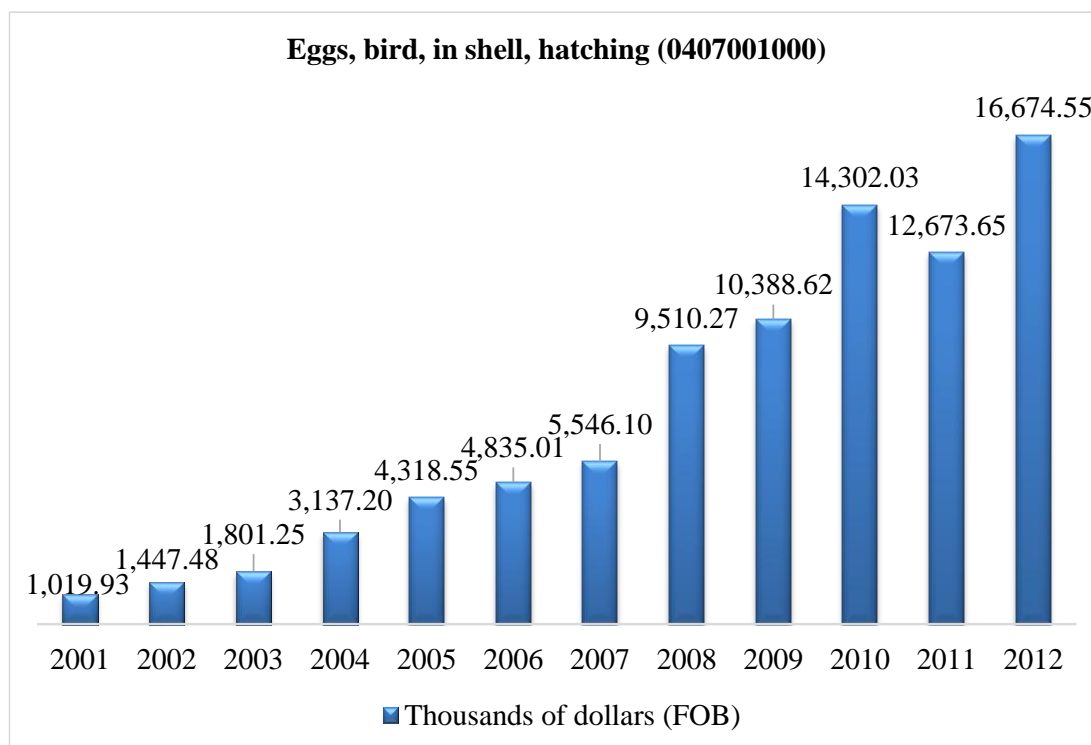
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

Imports of this product covered 104.3 million dollars becoming, in this way, the tenth most imported product from Peru during the term that is being analyzed. As can be seen in graphic, despite the decrease in imports during some years, imports of this product also showed an immediate recovery during this term. In 2011, imports were 5.4 million dollars and in 2012 they covered 8 million dollars. However, 2003 and 2004 were the years that showed highest levels of imports covering 20.5 and 18.3 million dollars, respectively; these amounts represented 40% of the total imports of Ecuador from Peru. For this reason, Peru was the major supplier of this product with the 58.9% of the total Ecuadorian imports.

3.4.11. Import of Bird eggs.

Graphic No. 78 – Imports of bird eggs, in shell, fresh, hatching.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

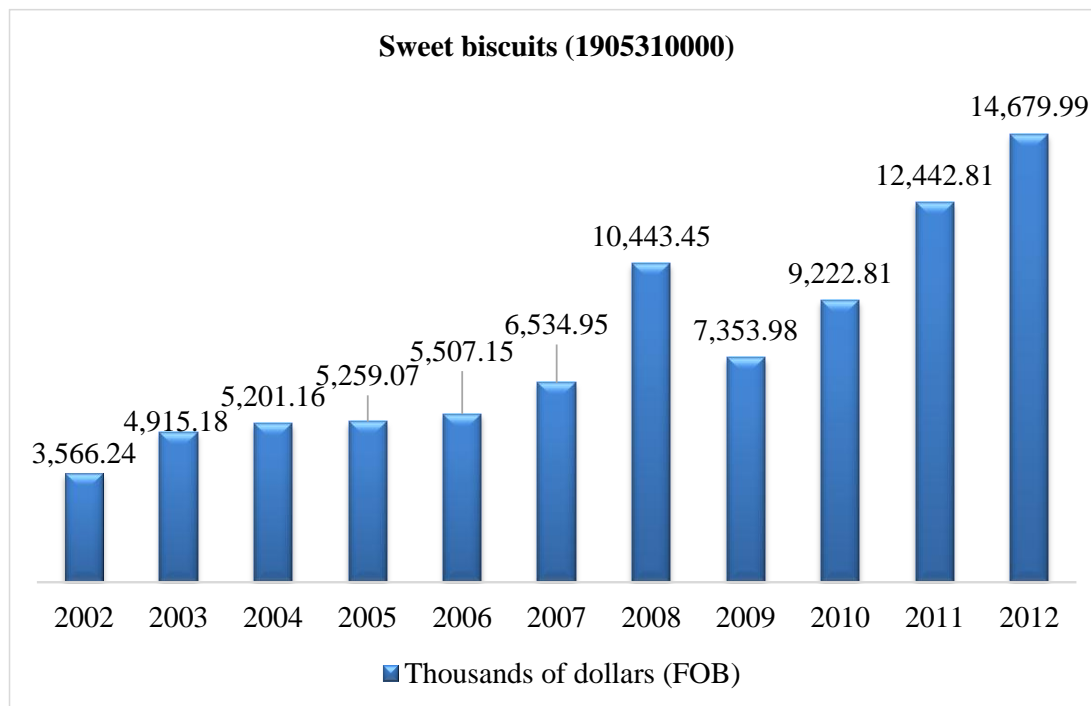
Imports of products included in this tariff heading showed a continuous and progressive growth during the term analyzed, covering 85.6 million dollars in imports. In 2001, imports were 1 million dollars but in 2012 imports increased to 16.6 million dollars, which was the highest amount during the period that is being analyzed. Only in 2011, there was a decrease in the import level; this reduction was of 11.3% compared to the amount imported in 2010. In 2012, imports increased to 16.6 million dollars, which represented a 31.5% of growth. The highest amount of imports took place on 2004, year in which imports increased a 71.4% compared to 2003; and, in 2008 the increase in imports represented 74.1% in comparison with the amount imported in 2007.

The central and southern regions of the Ecuadorian highlands are the areas that have a greater demand of this product; the proximity to Peru makes the transportation of this product easier. For that reason, the transportation costs were lower and the prices

were more competitive. Consequently, the major supplier of this product was Peru from which Ecuador imported 88.6% of the total bird eggs imports.

3.4.12. Import of Sweet biscuits.

Graphic No. 79 – Imports of sweet biscuits.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

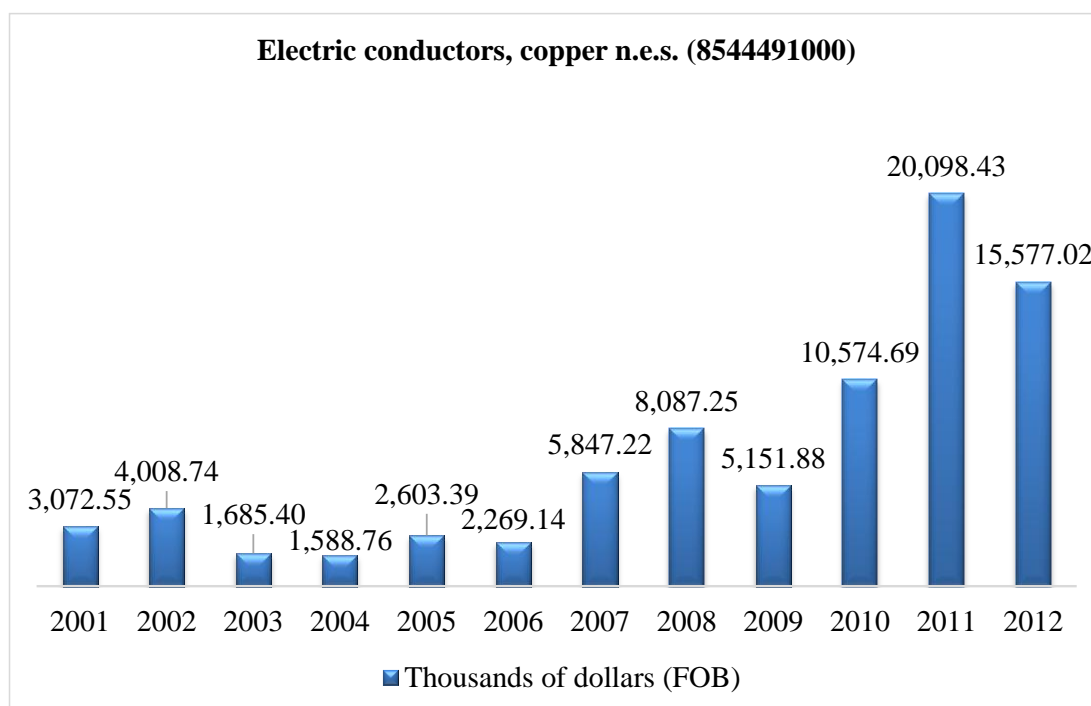
The products included in this tariff heading showed a progressive growth since 2002, year in which imports were 3.5 million dollars. In 2012, the imported amounts were superior to 14.6 million dollars, this year being one that had the highest amount of imports, and contributing the most to the annual imported amounts.

As can be seen in graphic, in 2009 there was a decrease in imports of 29.5% compared to imports of 2008, being the only year in which imports reduced its amounts. Since 2010 until 2012, the Ecuadorian imports from Peru covered 7.7 million dollars annually.

The main supplier of this product was Peru, which covered 58.3% of the total Ecuadorian imports, while the second provider was Colombia. These two countries are considered the major suppliers for Ecuadorian sweets biscuits demand.

3.4.13. Import of copper electric conductors.

Graphic No. 80 – Imports of electric conductors, for a voltage not exceeding 80 V, copper n.e.s.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

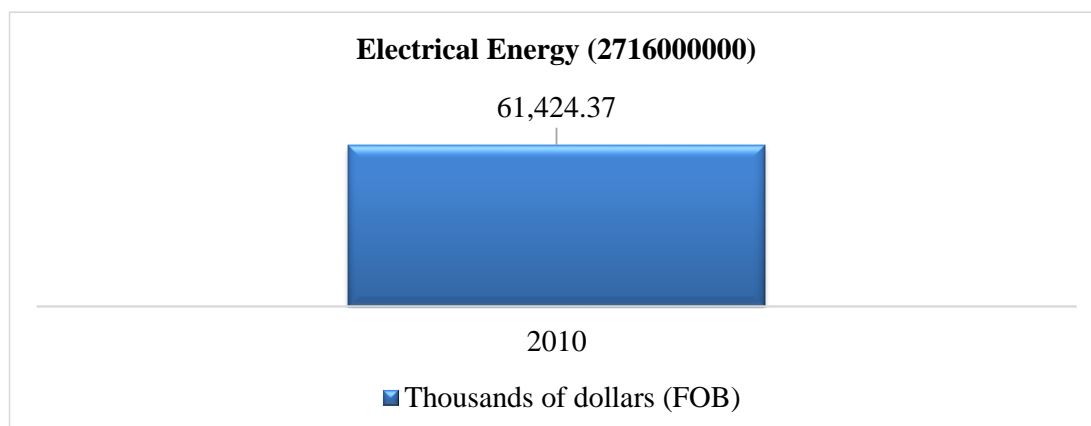
Elaborated by: Patiño, Pablo.

Peruvian exporters supplied copper electric conductors demand, especially from 2007. In the first six years of the period that is being analyzed, imports were 2.5 million dollar. In 2007, the amount of imports were 5.8 million dollars and they increased a 38.3% covering 8 million dollars in 2008. In 2009, the amounts decreased and the total imported was only 5.1 million dollars. Since 2009 until 2011, imports quadrupled their amount covering 20 million dollars, which was the highest annual level achieved during this period. In 2012, imports of copper electric conductors decreased 22.4% in comparison with the 2011.

Peru was the second major supplier of this important product covering 22.8% of the total Ecuadorian imports. Chile was the first provider of this tariff heading and Ecuador imported from this country 32.5% of the total amount of imports.

3.4.14. Import of Electrical energy.

Graphic No. 81 – Imports of electrical energy.



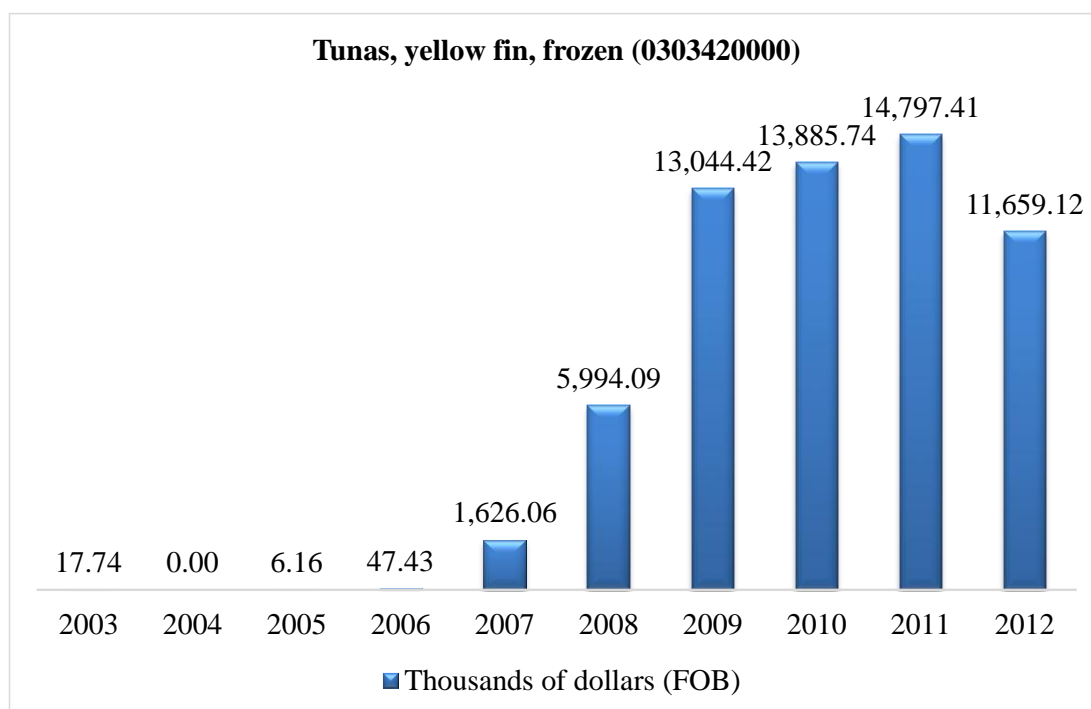
Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

As can be seen in graphic, the only year in which Ecuador imported electricity from the Peruvian market was in 2010 and this import covered 61.4 million dollars. This import was made with the purpose of avoiding electricity rationing in the country. It was due to the decrease in electricity amounts provided by Colombia, country that exported 93.35% of the electric energy that Ecuador used during the period analyzed. Colombia continues to be the major supplier of this tariff heading for the Ecuadorian market.

3.4.15. Import of yellow fin tunas.

Graphic No. 82 – Imports of tunas, yellow fin, frozen excluding heading No 03.04, livers and roes.



Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The import of the type of tuna included in this tariff heading began to increase from 2007. In that year, the amount imported was 1.6 million dollars and it increased nine times by 2011, the year in which imports covered 14.9 million dollars, being the highest annual amount imported. Later, in 2012, imports of yellow fin tuna decreased 21% compared to imports made in 2011. In this context, Peru was the second major supplier of yellow fin tuna covering a 17.3% of the total Ecuadorian imports.

3.5. Market opportunities for Ecuador.

The Peruvian market has maintained tight commercial relationships with the United States and China; and, in South America, its main partners have been Brazil, Chile and Ecuador. In the last few years, the trade openness has allowed an increase in the trade exchange levels among the different countries of this region. The South American market is having a good moment in economic terms, especially Peru. Even though Peru is not the main regional power, this country stands out for having great

economic growth, great growth of exports amounts and a high international competitiveness.

As was analyzed before, Ecuador's foreign trade activity with Peru is based on crude petroleum oil exports. The other non-traditional products that are exported include stoves and tuna. In addition, Ecuador provides Peru with raw materials while the Peruvian market exports to Ecuador value-added products.

According to what has been analyzed in this chapter, a projection of Ecuadorian exports to Peru will be developed. The main objective was determining the major Ecuadorian products that have the possibility of increasing export amounts in the Peruvian market. The period will be 2009-2013, in order to gain updated information, considering the fact that in 2008 there was a global crisis and its effects remained until 2009. In order to select the products that will be part of this study, some standards or facts are going to be taken into consideration.

The first fact that has to be considered is the inclusion of Peru, since 2005, in the Free Trade Zone as a member of the Andean Community of Nations. In this context, the products made or manufactured in countries that are members of this Community can be commercialized without paying taxes or other charges applied to imports. They only have to take into consideration the internal fee or tax of each country. This trade agreement favors the products that are made or manufactured in Ecuador; in that way, they can compete under equal conditions with Peruvian products and products from other countries that are part of this Community.

The second fact that has to be considered is the growth of the economic sector in the Peruvian market, which has a high demand of products that has not been supplied by national production. This sector could be supplied by importing products with similar characteristics from other countries such as Ecuador. A third fact to be analyzed is related to international consumption trends. In addition of these facts, it is necessary to emphasize the proximity between Ecuador and Peru which turns into a competitive advantage that has to be used by Ecuadorian exporters in the best way possible.

According to the facts or standards that had been listed, crude petroleum oil is considered as the first product of analysis because it is the major exported product to Peru. In the same way, a product from the non-oil sector of raw materials and a product from the non-oil sector of manufactures that have constant amounts of export during the period have been selected for analysis. In the first case, tuna is chosen as the product to be analyzed; and, in the second case, cooking appliances are chosen to develop the study. Finally, it is important to mention the global trend of consuming natural and healthy products; for this reason, the market opportunity for coffee extracts, essences and concentrates is analyzed.

After developing the study of the Ecuadorian products that were selected for this analysis, the Balassa Index will be calculated, which is also called the Index of the Revealed Comparative Advantages Index (RCA). This index allows measuring “the importance degree of one product in exports from one market to another market, versus the importance of exports of the same product to the rest of the world”³³.

The formula that explains this index is the following:

Table No. 27 – Balassa Index.

$IB_{ij}^k = \frac{X_{ij}^k / XT_{ij}}{X_{iw}^k / XT_{iw}}$	
where	
X_{ij}^k	= Exports of product k of the country i toward the country j .
XT_{ij}	= Total exports of country i to the country j .
X_{iw}^k	= Exports of product k of the country i to the world (w).
XT_{iw}	= Total exports of the country i to the world.

Source: ECLAC (United Nations Economic Commission for Latin America and the Caribbean).

³³ ECLAC., “Indicators of foreign trade and commercial policy: measuring of position and commercial dynamism”, Santiago de Chile: 2008, p. 24

The lecture of the obtained index is made according to this scale:

When the index is between +0.33 and +1, it means that there is a comparative advantage for the market or country.

When the index is between -0.33 and -1, it means that there is a comparative disadvantage in the market or country.

When the index is between -0.33 and +0.33, it means that there is a tendency towards internal trade.

Finally, an analysis of competitiveness based on the method of the Product Positioning and its Efficiency recommended by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) will be applied to the Latin American Integration Association (ALADI). This method indicates that when the competitiveness of a product varies, this can be explained based on the changes produced in the positioning and efficiency of the product.

The positioning relates to imports amount of a product and the percentage that it represents in the total of Peruvian imports. The positioning is favorable when the amount imported by Peru of this product from other markets increases faster than the total purchases of the country. The efficiency is related to the relationship between imports of a product that is made in Ecuador and the total imported by Peru of the same product. A high efficiency is obtained when the Ecuadorian exporters take advantage of the opportunities that the Peruvian market offers.

Table No. 28 – Competitive Situations.

		Efficiency Variation	
		High (increase or is zero)	Low
Positioning Variation	Favorable (increase or is zero)	Optimum/Good	Lost opportunities
	Unfavorable	Vulnerability	Withdrawal

Source: ALADI.

The optimum situation is achieved with a favorable positioning and high efficiency; that is to say, the imported consumption of a product grows in the Peruvian market and the Ecuadorian exporters take advantage of this opportunity.

The situation of lost opportunities has a favorable positioning but the efficiency is low, this means that the product is dynamic in the Peruvian market but at the same time the participation and presence of Ecuadorian products is reduced.

The vulnerability situation indicates that a certain product imported by Peru has not had the same growth in the total imports amount; however, the Ecuadorian producers have maintained or expanded their participation in this market.

The last situation referred to is the withdrawal situation in which the total imported amount grows more than consumption of a product, and competitors from other countries displace the Ecuadorian producers.

3.5.1. Market Opportunities for crude petroleum oils.

Table No. 29 – Percentage growth rate of crude petroleum oil.

Product	Tariff Heading	Year	Exports (thousands of dollars FOB)	Percentage Growth Rate
Crude petroleum oil	2709000000	2009	724,534.00	
		2010	1,065,879.80	47.11%
		2011	1,434,865.19	34.62%
		2012	1,651,926.79	15.13%
		2013	1,499,214.09	-9.24%
Average Growth Rate				21.90%

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

This tariff heading showed a growing tendency since 2009 until 2012; however, in 2013, it decreased 9.24% compared to 2012. Despite of this situation, the growth rate, in the period that is analyzed, was of 21.9 % as an average. The Balassa Index of this product was of 1.55; it means that the Peruvian market provides a comparative advantage for the Ecuadorian exporters.

3.5.2. Market Opportunities for tuna.

Table No. 30 – Percentage growth rate of tuna.

Product	Tariff Heading	year	Exports (thousands of dollars FOB)	Percentage Growth Rate
Tunas, prepared and preserved	1604140000	2009	9,794.35	
		2010	18,247.45	86.31%
		2011	20,262.70	11.04%
		2012	36,936.06	82.29%
		2013	39,741.83	7.60%
Average Growth Rate				46.81%

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

The exports of tuna had a considerable growth since 2009 until 2013, which is shown in the growth rate that was of 46.81 % as an average. The Balassa Index of this product was of 0.53; it indicates that a comparative advantage exists in the Peruvian market for this product.

3.5.3. Market Opportunities for cooking appliances.

Table No. 31 – Percentage growth rate of cooking appliances.

Product	Tariff Heading	Year	Exports (thousands of dollars FOB)	Percentage Growth Rate
Cooking appliances	7321111000	2009	21,187.00	
		2010	23,094.63	9.00%
		2011	16,442.15	-28.81%
		2012	23,793.33	44.71%
		2013	26,615.39	11.86%
Average Growth Rate				9.19%

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

This tariff heading had an average growth rate of 9.19%. Although in 2011 exports reduced a 28.81% compared to 2010, these exports recovered immediately since 2012 with a growth rate over 44.71%. This product obtained an Index of Balassa of 2.09; it means that this Ecuadorian product has an important comparative advantage in the Peruvian market that can be used in better way by Ecuadorian exporters.

3.5.4. Market Opportunities for coffee extracts, essences and concentrates.

Table No. 32 – Percentage Growth Rate of coffee extracts, essences and concentrates.

Product	Tariff Heading	Year	Exports (thousands of dollars FOB)	Percentage Growth Rate
Coffee extracts, essences, concentrates	2101110000	2009	3,261.82	
		2010	3,293.52	0.97%
		2011	3,398.51	3.19%
		2012	3,512.87	3.37%
		2013	3,473.67	-1.12%
Average Growth Rate				1.60%

Source: Central Bank of Ecuador (BCE) / Foreign Trade Statistics.

Elaborated by: Patiño, Pablo.

In addition to having low exports amounts, this was the product that had the lowest average growing rate among the products that are analyzed, having only 1.6% of growth. Even in 2013, exports decreased 1.12% compared to 2012. The Index of Balassa of this product was of 0.30 showing that is based on internal commerce of the product.

3.5.5. Analysis of Competitiveness.

Table No. 33 – Competitive situations of selected Ecuadorian products.

		Efficiency Variation	
		High (increase or is zero)	Low
Positioning Variation	Favorable (Increase or is zero)	1) Crude petroleum oil. 2) Tuna.	1) Cooking appliances. 2) Extracts.
	Unfavorable		

Elaborated by: Patiño, Pablo.

As can be seen in table, the selected Ecuadorian products face two competitive situations. The optimal situation includes crude petroleum oil and tuna, which are traditional export products to Peru. This is due to the dynamic demand of the Peruvian market and the high efficiency; it has allowed the Ecuadorian producers to take advantage of this market opportunity in the best way possible. Cooking

appliances and coffee extracts, essences and concentrates are included in the lost opportunity area because the demand of these products in the Peruvian market shows an increasing level; however, the participation of Ecuadorian producers as providers of these products has reduced.

Conclusion.

In this chapter, an analysis of the commercial relationship between Ecuador and Peru in the 2001-2012 was made. In the same way as the previous chapter, the major 15 exported products from Ecuador to Peru and the major 15 imported products by Peru was analyzed.

In the period analyzed, the trade balance was positive for Ecuador in comparison with Peru. This was a result of the generated incomes from the sales of crude petroleum oil. This Ecuadorian product continued to be the major exported product to the Peruvian market and it covered more than 80% of the total exports. If we do not consider the contribution of crude oil exports, the commercial panorama of the country would be very different. An important aspect to be noticed in this period is that the productive model continued to be focused on a reduced group of primary products; for this reason, the country continued to have its role as provider of raw materials and as a consumer of manufactured products coming from other countries.

With the dollarization process, imports increased; this was due to the economic and exchange rate stability that eliminates the speculation and the protectionism over national production. For this reason, during 2001 and 2012, imports diversify as well as they increase considerably, situation that did not happen in the term before.

In addition, dollarization has made Ecuadorian producers focus their efforts on certain aspects such as improving their supply, modernizing their equipment, machines and processes, reducing their production costs and adding value to their products and services. Even though Ecuador continues to be an exporter of raw materials, the country has achieved important progress in order to be part of the manufacture commerce in which stands out productive sectors such as cooking appliances, wooden boards and medicines.

Finally, the exportable supply of Ecuador, which includes both raw materials and manufactured products, has an important opportunity to increase in the Peruvian market. According to the market analysis made of the four Ecuadorian products, it was found that two of them, crude oil and tuna have a great positioning in the Peruvian market and nowadays they have grown according to the dynamism of its demand. In the case of the other two products, cooking appliances and coffee extracts, essences and concentrates, Ecuadorian producers have not taken advantage of the great potential the Peruvian market offers.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

This thesis has allowed me to analyze the political, social and economic development that our neighbor country, Peru, has achieved. It is important to say that Ecuador, even before its independence, had a war conflict with this country, situation that affected considerably the progress that both countries have always sought. Nowadays, the relationship between Ecuador and Peru is based on a work that seeks to develop a joint agenda in order to solve the multiple problems that still exist.

Peru has a market of over 30 million people that shows important levels of growth in its productive sectors. Since the 90's, these sectors have been supported and promoted by the different governments. One of the major problems of this country is the socio-economic inequality, which is reflected in the high levels of poverty of its population. 23.9% of the population live in total poverty and 4.7% are extremely poor.

Once the investigation and analysis of the Peruvian economy has been done, it is important to note other positives aspects of this country such as the promotion of public and private investments as well as the support to construction and service sectors, and the great incentive to exports. The Peruvian economy was even able to face the low growing rates that occurred in 2009 as a consequence of the global crisis that initiated in 2008.

In the same way, Peru has promoted new productive sectors that this country considers as strategic ones such as the manufacturing sector and the construction one. Both sectors have received an important governmental and private investment with the main objective of helping the country become a prominent producer of manufactured products and in this way stop being just an exporter of raw materials. The country still has certain deficiencies that have to be improved in order to become a competitive country in the international scenario. All of this has to be done without forgetting about traditional sectors such as fishing and mining, which are two fundamental sectors for the Peruvian economy. In this context, it is important to say that the mining sector has become one of the most productive sectors in the country

due to the diversity of metallic, non-metallic and mineral resources that are found in great part of its territory.

One of the major progresses achieved by Peru was its foreign trade area, thanks to its policy of trade openness that has allowed the country to increase its levels of bilateral and multilateral trade with countries of Latin America and other countries around the world. The reduction of trade taxes and the elimination of other procedures during the 90's was an essential fact that helped increasing the commercial exchange of this country. The primary or traditional sector is still a fundamental part of Peruvian trade; however, one of its main objectives is based on promoting the non-traditional sectors in order to help them to adapt into competitive international market. Nowadays, Peru has 17 valid commercial agreements that include 52 countries to which Peru sends approximately three quarters of its total exports.

The trade between Ecuador and Peru, as it was analyzed in chapters 2 and 3, has two main phases with special characteristics. The first phase was between 1993 and 2000, which was marked by having low levels of commercial exchange despite of being neighbor countries. Their commercial relationship was not so good until the peace sign took place and finished years of conflict among both countries. Since Ecuador implemented the dollarization, the trade balance improved considerably and not only had it meant an increase in monetary terms but also dollarization helped to diversify the products that were commercialized. In this context, it has to be included the fact that Peru freed the 100% of its products, and for this reason, nowadays, all the member countries of the Andean Community of Nations are part of a Free Trade Zone. As a result, the products that were not commercialized had an opportunity to be sold in new markets and increase its positioning and competitiveness.

Dollarization brought some benefits to Ecuador; once dollarization was implemented, it created more stability; and those citizens who had lower incomes could maintain their purchasing power while the productive sectors had the opportunity to increase and improve their levels of production. In terms of commercial exchange dollarization had two main effects. On one hand, the exchange rate stability attracted the Peruvian exporters that saw an opportunity to compete in

better conditions in the Ecuadorian market. In addition, it was eliminated the protectionism over national production as well as speculation. This situation was the second effect of dollarization, as Ecuadorian producers were exposed and vulnerable and had to face the increase amount of products coming from Peru and other countries. This has led Ecuadorian producers to modernize their productive processes, reduce their production costs and offer products of high quality in order to compete in the national market and at international level. Although all these processes are being applied recently, it is important to mention that most producers and exporters are taking this initiative as a way to increase the incomes not only for their companies but also for the country.

Ecuador during the whole period that is being analyzed maintained a surplus in its trade balanced compared to Peru, and the main reason for this to occur was the export of crude oil. This primary product generated incomes for the country that were over an 80% of the exported amount to Peru. If we do not consider exports of crude oil, the economic panorama of Ecuador would have been different as we are a country that depends highly on oil crude exports. For this reason, the non-oil traditional products did not represent a significant amount in the trade balance. In this sense, it is important to say that exports of Peru to Ecuador have increased in the last few years, showing a tendency of continuous growth.

Imports from Peru, in the first period that was analyzed, were more diverse compared to exports made to this country, although did not represent a significant amount in the total imports. Peru was not the main supplier of the products demanded by Ecuador and in this sense, the amount of imports from Peru was not significant. However, after the dollarization took place, imports increased considerably and its dynamism allowed import amounts to increase constantly. At the same time, the products that were imported doubled their amount compared to the period 1993-2000, mainly those products that had a process of manufacture or industrialization. The diversification in the products that were provided by Peruvian exporters was one of the main changes that took place during this period. On the other side, Ecuador has not increased its exportable supply, and has based its exports in traditional products which are not value added.

The increase level in imports of manufactured Peruvian products meant that the imported volume was not so high compared to the amounts that were bought. In the case of Ecuadorian exports to Peru, the situation was different because most of the products exported were raw materials, so the values were inferior compared to the tons that were exported. Ecuador has not been able to include into its exportable supply products with added value which nowadays are the ones with better prices and this would increase the incomes of the country. Ecuador is still a producer and exporter of primary or traditional products, which is a fact that makes the country more vulnerable to what occurs in the international market. This vulnerability is more evident considering the high growing rates that Peru has and the improvement of its manufacturing sector in both production and commercialization areas.

RECOMMENDATIONS

- ❖ It is necessary for the country to improve and promote the National Plan for Good Living 2013-2017, so in this way Ecuador can prioritize the participation and inclusion of all the productive sectors. This would help to solve the lack of production of value added products and help to create and promote new products and services that would be less vulnerable to the changes and requirements of the international market.
- ❖ The governmental institutions should provide more opportunities and facilities for the creation and development of new companies and provide constant monitoring in order to help them become sustainable and competitive in the national market but more importantly in the international arena. In this context, the Foreign Trade Ministry and the different Chambers of Commerce and Industry are in charge of developing and promoting trade initiatives. These institutions should be the main promoters of the diversification for the exportable supply of the country helping in this way to decrease the dependence of the country to exports of traditional products.
- ❖ To the readers of this thesis, that are part of companies or industrial sectors, I recommend to include into their company objectives the production of products and services with added value and to develop new competitive

strategies taking into consideration the prices and quality that are offered in the international market.

- ❖ Finally, I recommend to all Ecuadorian citizens to get involved in the social, political and economic processes of the country in order to give and contribute with new alternatives and solutions for the different problems and deficiencies that still exist in the country, This would help to improve the productive and commercial model of the country.

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ANNEXES

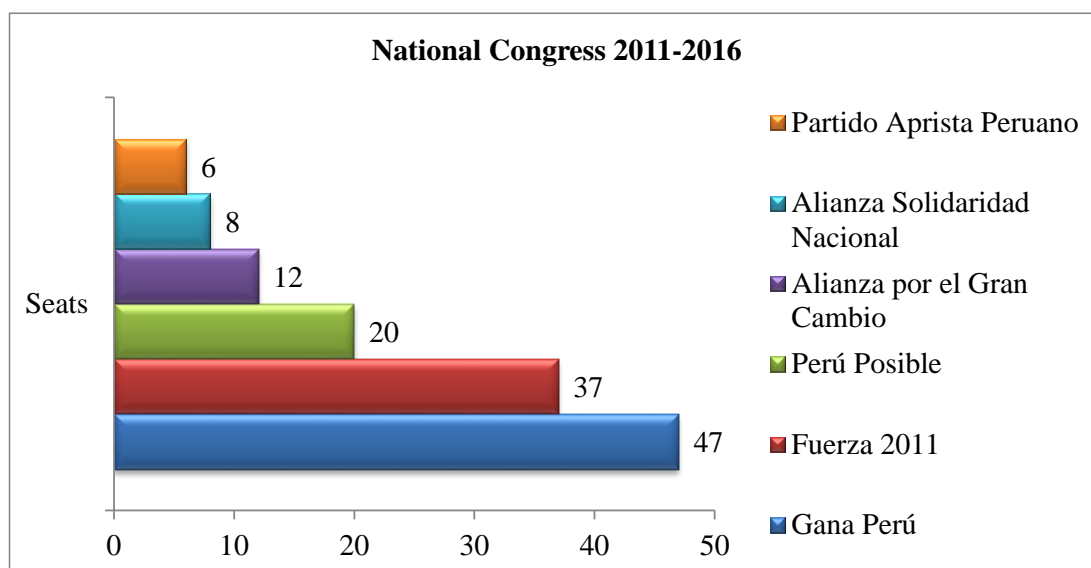
Annex No. 1 – Composition of the Government 2014.

Public Office	Name
President of the Republic	Ollanta Humala Tasso
Chairman of the Council of Ministers	Ana Jara Velásquez
Minister of Foreign Affairs	Gonzalo Gutierrez Reniel
Minister of Defence	Pedro Cateriano Bellido
Minister of Economy and Finance	Alonso Segura Vasi
Minister of the Interior	Daniel Urresti Elera
Minister of Justice	Daniel Figallo Rivadeneyra
Minister of Education	Jaime Saavedra Chanduví
Minister of Health	Aníbal Velázquez Valdivia
Minister of Agriculture	Juan Benites Ramos
Minister of Labour and Promotion of Employment	Fredy Otárola Peñaranda
Ministro de Production	Piero Ghezzi Solís
Minister of Foreign Trade and Tourism	Blanca Silva Velarde-Álvarez
Minister of Energy and Mines	Eleodoro Mayorga Alba
Minister of Transport and Communications	José Galardo Ku
Minister of Housing, Construction and Sanitation	Milton Von Hesse
Minister of Women and Vulnerable Populations	Carmen Omonte Durand
Minister of Environment	Manuel Pulgar-Vidal
Minister of Culture	Diana Álvarez-Calderón Gallo
Minister of Development and Social Inclusion	Paola Bustamante Suárez

Source: Website of the Republic of Peru / Council of Ministers.

Elaborated by: Patiño, Pablo.

Annex No. 2 – National Congress of Peru, 2011-2016.



Source: National Electoral Panel (JNE) / National authorities.

Elaborated by: Patiño, Pablo.