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The Japan-Peru FTA: Antecedents, Significance and Main Features*

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Abstract

The Economic Partnership Agreement (EPA) between Japan and Peru came into effect on March 1, 2012. This paper provides background information about this agreement's significance, mostly from a Peruvian point of view. It focuses on the following subjects: the statistical trends showing Peru's declining shares in Japan's trade and investment flows with Latin American countries between the mid-1970s and mid-2000s, the main explanatory factors of such a deterioration in Peru's economic position over that period, the changes of trade policy strategy in both countries since the 2000s, and the EPA negotiation process and some of its key results as featured in the text of the agreement.

Keywords: Peru, Japan, Free Trade Agreement
JEL classification: F13, F14, P45

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Introduction

The Economic Partnership Agreement – also known as Free Trade Agreement (FTA) – between Japan and Peru is a strategic tool not only of trade policy but of foreign policy as well. In fact, the decision to negotiate it reflected both countries shared purpose of reinvigorating their bilateral relations, which had cooled off during the first half of the past decade when Alberto Fujimori settled in Japan after his unprecedented resignation to the Presidency of Peru via fax. From a Peruvian perspective, the significance of this FTA lies additionally in its potential contribution to the objective of recovering the privileged position that Peru had some decades ago in the economic relations of Japan with South America.

With the purpose of substantiating the argument above, this research paper is organized as follows. Its first section provides a panoramic and compact account of the statistics that show the loss of relative weight of Peru in the trade and investment flows between Japan and Latin American countries, from the mid-seventies onwards. The second section analyses the main factors explaining the said Peru's loss of economic relevance before Japan. This facilitates a better understanding of the significance that the FTA with Japan has for Peru in the framework of its recent strategy, which is discussed in the third section of the paper, alongside with some of Japan's economic motivations in favor of the FTA with Peru. The ensuing common ground between both national interests provides the needed background for the fourth section, referred to the negotiation of the FTA and its main results as featured in the agreement's text. Some final remarks conclude the paper.

I. Overview of Japan's trade and investment flows with Latin America

A widely known fact is the sharp contraction of Japan's relative weight in Latin American trade flows with the Asia-Pacific region. Table 1 shows the shift of Japan from being the largely dominant Asian trade partner of Latin America in the seventies, as destination market (77.5%) and also as import supplier (86.1%), to having in recent years a share of around 20% in both flows –exports and imports- of Latin America's trade with the Asia-Pacific region.[1]

[1] As widely known is China's rise to the position of main Asian trade partner of Latin America since the 2000s decade. Previously, starting in the mid-eighties, the rising shares as Asian trade partners of Latin America were those of the so-called 'Newly Industrializing Economies' (South Korea, Hong Kong, Taiwan) and, to a lesser extent, of some ASEAN countries [Ruiz, 1990; Moneta, 1991; Torres, 1991].

Table 1

Trade of Latin America with Japan: 1975, 1990, 1997, 2008/6

	Exports				Imports			
	1975	1990	1997	2008	1975	1990	1997	2006
Latin America	77.5%	54.7%	39.5%	19.9%	86.1%	60.7%	39.5%	20.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Mexico	9.3%	20.8%	11.6%	10.9%	8.4%	23.5%	31.5%	58.8%
Central America	10.5%	1.5%	1.6%	1.2%	8.0%	8.7%	5.8%	5.9%
Costa Rica	0.5%	0.2%	0.4%	0.5%	1.8%	3.0%	1.7%	2.3%
CAN	15.2%	17.9%	14.2%	13.7%	30.3%	19.8%	17.8%	11.6%
Bolivia	1.2%	0.0%	0.0%	1.1%	2.5%	1.3%	1.7%	0.9%
Colombia	1.8%	3.7%	4.1%	2.0%	4.0%	9.1%	6.7%	3.6%
Ecuador	0.7%	0.7%	1.8%	0.5%	4.3%	3.1%	1.9%	1.8%
Peru	9.8%	6.1%	5.4%	9.8%	6.0%	1.7%	3.4%	2.2%
Venezuela	1.7%	7.3%	2.8%	0.2%	13.5%	4.7%	4.2%	3.2%
Chile	12.1%	19.8%	30.7%	38.4%	2.2%	10.4%	7.4%	4.4%
MERCOSUR	53.0%	40.0%	41.9%	35.8%	51.1%	37.5%	37.4%	19.3%
Argentina	8.8%	5.7%	6.3%	2.7%	14.2%	3.3%	7.9%	3.6%
Brazil	43.5%	33.9%	35.1%	32.5%	36.2%	29.5%	26.9%	14.8%
Paraguay	0.2%	0.0%	0.1%	0.5%	0.3%	3.8%	1.9%	0.8%
Uruguay	0.4%	0.3%	0.3%	0.2%	0.4%	0.8%	0.7%	0.2%

Source: World Bank's WITS (World Integrated Trade Solution) data, as processed for this research paper.

Peru's decreasing share as a Latin American trade partner of Japan

But less known in detail are some of the changes that took place within Latin America in its countries' relative weights in trade flows with Japan, during the three decades depicted in the first three tables of this section. In particular, Table 1 shows that Peru, despite having the second largest population of Japanese ancestry in South America, has lost importance in the region's trade with Japan, especially in the respective import flows –from fifth place in 1975 to eighth in 2006- and also, though to a lesser extent, in the respective export flows –from third to fourth between the said years.

Even more revealing are other changes in the ranking of Latin American countries' trade with Japan. In fact, standing out from Table 1 are, on one hand, the sharp decreases in the shares of the two largest South American economies –Brazil and Argentina- as importers from Japan as well as exporters to Japan and, on the other hand, the strong increases in Chile's share as exporter to Japan and in Mexico's share as importer from Japan. As a result, Brazil, the South American country endowed with the largest population of Japanese ancestry, is no longer the main Latin American trade partner of Japan –as it was until nineties, but has become the second in recent years –after Chile as exporter and after Mexico as importer. Other interesting changes are the improved shares of Costa Rica and Colombia in Latin American imports from Japan –which, between 1975 and 2006, moved up from tenth to seventh place and from

seventh to fourth place, respectively.

Before looking at to what extent those ranking changes may be explained by changes in the sector structure of Latin American traded products, and/or by changes in the country distribution of Japan's FDI in Latin America, it seems relevant to continue analyzing the Japan-Latin America trade flows in aggregate but this time from a Japan's trade perspective.

This perspective allows for characterizing the ranking changes among Latin American countries portrayed above, as a tense re-distribution of a shrinking pie. Indeed, this re-distribution did not occur in the midst of an increasing participation of Latin America in Japan's world trade but, on the contrary, it happened while the region's participation in Japanese trade was declining, especially as a destination market for Japanese exports (from 7.1% in 1975 to 4.6% in 2008) and also, though to a lesser extent, as supplier of Japanese imports (from 3.7% in 1975 to 3.2% in 2006).

It is in such a context, of a diminished importance of Latin America in Japan's foreign trade, that Japanese exports to the region were directed relatively less to South America (which share in regional imports from Japan fell significantly –from 58.7% in 1975 to 38.2% in 2008) and relatively more to Mexico (turning this country into the main Latin American importer from Japan, as it has already been pointed out).

In addition, Table 2 provides a detailed overview of what happened within South America and unveils some interesting facts: while the shares in imports from Japan of the two sub-regional groupings (MERCOSUR and CAN, which together account for the bulk of South American GDP) dropped both –and quite significantly so in the CAN case- between 1975 and 2008, a medium-sized individual economy (Chile) almost tripled its share during the same period. At the same time, even though Peru and Colombia both increased their respective shares in imports from Japan at the CAN level, only Colombia increased its share also at the level of the whole Latin America (from 2.8% to 3.1% between 1975 and 2008) while Peru's share at this level was reduced to almost half (from 4.8% to 2.7% over the same period).

Table 2

Exports of Asia-Pacific/Japan to Latin America: 1975, 1997, 2008

	CAN			Chile			MERCOSUR			Latin America
	1975	1997	2008	1975	1997	2008	1975	1997	2008	
Asia-Pacific	24.1%	11.2%	13.0%	2.2%	7.6%	8.2%	33.3%	29.8%	30.6%	100%
East Asia	23.7%	11.0%	12.9%	2.3%	7.4%	8.1%	32.4%	29.5%	30.3%	100%
Japan	23.3%	13.2%	10.7%	2.4%	5.8%	7.6%	33.0%	21.4%	19.8%	100%
China	n.a.	8.3%	16.2%	n.a.	13.4%	9.2%	n.a.	40.0%	38.3%	100%
NIEs	25.2%	9.7%	9.1%	1.0%	7.7%	7.5%	22.4%	34.3%	25.1%	100%
Korea	23.4%	11.3%	10.8%	1.0%	8.3%	10.3%	24.9%	31.8%	22.7%	100%
Singapore	18.1%	2.4%	1.7%	0.8%	3.8%	1.3%	26.6%	33.4%	18.1%	100%
ASEAN-4	48.0%	7.4%	15.8%	1.4%	8.4%	5.7%	28.1%	43.3%	38.9%	100%
Oceania	31.5%	18.3%	17.8%	0.7%	14.8%	9.6%	48.5%	40.6%	44.4%	100%
	Colombia			Peru			Venezuela			CAN
	1975	1997	2008	1975	1997	2008	1975	1997	2008	
Asia-Pacific	11.6%	35.8%	28.7%	24.9%	19.8%	24.7%	37.8%	28.2%	28.6%	100%
East Asia	12.3%	36.6%	29.4%	20.7%	18.8%	25.1%	39.7%	27.8%	27.1%	100%
Japan	11.9%	41.0%	29.0%	20.7%	13.9%	25.4%	38.7%	26.9%	24.9%	100%
China	n.a.	20.0%	27.5%	n.a.	28.1%	25.6%	n.a.	34.2%	31.0%	100%
NIEs	22.1%	34.4%	34.5%	13.2%	25.2%	23.7%	51.2%	25.7%	22.7%	100%
Korea	9.5%	36.4%	34.3%	11.7%	26.5%	22.6%	33.8%	24.8%	22.9%	100%
Singapore	45.9%	29.8%	36.3%	20.6%	27.5%	26.3%	28.2%	35.6%	21.8%	100%
ASEAN-4	6.5%	27.6%	28.9%	39.5%	21.5%	24.8%	53.1%	40.4%	19.0%	100%
Oceania	3.2%	17.0%	6.6%	75.9%	39.9%	11.7%	14.0%	37.4%	78.9%	100%

Source: World Bank's WITS (World Integrated Trade Solution) data, as processed for this research paper.

Other interesting facts get unveiled thanks to the similarly detailed data in Table 3, this time on Japanese imports from Latin America –that is, on Latin American exports to Japan. These still originate for most part –and increasingly so- in South America (82.3% in 2006, up from 79.2% in 1975)[2], but basically because Chile more than tripled its share as Latin American exporter to Japan, given that the share of MERCOSUR decreased significantly and the share of CAN stagnated.

Moreover, in the same way that Table 1 showed that within MERCOSUR the export shares negatively affected were the ones of Argentina, Uruguay and Brazil –in such a relative order, Table 3 shows that, within the CAN, Peru is still the main exporter to Japan but its share has been the most negatively affected one, whereas Colombia's and Venezuela's [3] shares increased both at the Andean level and the one of Colombia increased also at the level of the whole Latin America (from 1.7% in 1975 to 1.9% in 2006).

[2] Mexico's share as Latin American exporter to Japan also increased (from 10% in 1975 to 15.2% in 2006), but the one of Central America was significantly reduced (from 10.8% to 2.5% over the same period).

[3] The period analyzed explains the inclusion of Venezuela as part of the CAN.

When looking for explanations behind ranking changes such as the identified above, the search usually starts by exploring the possible roles of changes in types of products traded and/or of changes in the destination of investments. Thus, these possible roles are examined in the rest of this section.

Table 3

Imports of Asia-Pacific/Japan from Latin America: 1975, 1997, 2006

	CAN			Chile			MERCOSUR			Latin
	1975	1997	2006	1975	1997	2006	1975	1997	2006	America
Asia-Pacific	14.0%	12.3%	13.9%	11.0%	24.4%	25.1%	52.8%	46.3%	44.0%	100%
East Asia	14.0%	12.4%	14.1%	11.3%	24.7%	25.6%	52.4%	46.1%	44.1%	100%
Japan	14.6%	14.0%	12.7%	12.2%	27.4%	39.0%	52.4%	40.4%	30.6%	100%
China	n.a.	20.7%	18.0%	n.a.	11.3%	17.4%	n.a.	62.8%	51.2%	100%
NIEs	8.6%	8.8%	12.3%	5.1%	29.3%	32.2%	50.6%	40.4%	36.8%	100%
Korea	14.7%	11.3%	12.0%	12.1%	29.3%	40.3%	6.8%	38.1%	34.8%	100%
Singapore	8.7%	4.7%	20.9%	7.8%	21.0%	7.5%	62.0%	22.5%	36.3%	100%
ASEAN-4	10.4%	8.2%	3.6%	2.0%	18.5%	10.4%	55.8%	61.3%	65.9%	100%
Oceania	13.7%	10.6%	5.8%	2.3%	11.8%	6.8%	68.8%	51.6%	41.7%	100%
	Colombia			Peru			Venezuela			CAN
	1975	1997	2006	1975	1997	2006	1975	1997	2006	
Asia-Pacific	11.4%	15.6%	10.3%	64.1%	50.2%	51.8%	10.9%	15.3%	30.8%	100%
East Asia	11.5%	15.4%	10.2%	65.7%	50.8%	51.8%	11.1%	15.5%	31.1%	100%
Japan	11.6%	25.0%	15.3%	66.3%	35.8%	55.7%	10.9%	22.7%	13.6%	100%
China	n.a.	0.4%	4.4%	n.a.	81.6%	48.9%	n.a.	4.7%	44.4%	100%
NIEs	17.2%	14.9%	20.1%	40.2%	41.3%	52.5%	19.7%	13.6%	17.1%	100%
Korea	15.0%	15.5%	18.2%	69.9%	23.1%	59.7%	0.0%	13.0%	6.7%	100%
Singapore	19.8%	13.3%	28.3%	19.1%	33.1%	6.4%	61.0%	53.0%	63.1%	100%
ASEAN-4	1.3%	5.8%	12.3%	83.0%	74.6%	73.4%	4.4%	11.2%	6.4%	100%
Oceania	7.7%	25.4%	17.8%	7.4%	24.8%	49.3%	0.8%	5.8%	2.8%	100%

Source: World Bank's WITS (World Integrated Trade Solution) data, as processed for this research paper.

Role of the sector structure of Latin American exports

To what extent may the aforementioned changes, in the relative position of Latin American countries in its region's trade flows with Japan, be explained by differences in the sector structure of Latin American countries' exports to Japan?[4]

On the basis of Table 4 data, the straight answer is that in none or very little extent regarding the changes in relative weights among Chile, MERCOSUR and Peru, because there are no major differences in the sector structure of their respective products exported to Japan. As a matter of fact, all three have in common a growing

[4] This paper does not address this same question in reference to Latin American imports. As is well known, imports from developed countries such as Japan typically include, for most part, capital goods, consumer durables and technologically sophisticated inputs. Therefore, we would expect that differences in their structure among Latin American countries be more subtle and would require a more disaggregated analysis, left for further research.

concentration of their exports to Japan in commodities or primary goods (PG) between 1997 and 2008. Thus, we should look for other factors in order to duly explain Chile's impressive gains in participation within the South American trade flows with Japan and the concurrent losses of MERCOSUR and Peru. Some of the most relevant factors are reviewed in Section II of this paper, focused on the particular case of Peru but where it will be examined a factor also important for the case of MERCOSUR, referred to transport infrastructure and logistics.

Table 4

Sector Structure of Latin American Exports to Japan: 1997, 2008

	Mexico		Costa Rica		Colombia	
	1997	2008	1997	2008	1997	2008
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PG	69.3%	41.3%	88.4%	31.1%	87.0%	79.3%
NRBM	8.5%	14.2%	2.6%	0.2%	12.7%	3.3%
LTM	12.9%	29.5%	5.3%	59.1%	0.2%	2.0%
MTM	4.9%	12.4%	1.5%	9.6%	0.1%	15.2%
HTM	3.5%	2.6%	2.2%	0.1%	0.0%	0.2%
NC	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%
	Peru		Chile		MERCOSUR	
	1997	2008	1997	2008	1997	2008
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PG	47.7%	75.9%	46.3%	72.7%	50.3%	67.9%
NRBM	19.6%	14.1%	36.4%	18.6%	14.3%	8.1%
LTM	32.3%	9.8%	16.8%	6.7%	24.7%	14.9%
MTM	0.5%	0.3%	0.3%	1.8%	8.2%	7.9%
HTM	0.0%	0.0%	0.2%	0.1%	2.5%	1.3%
NC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: World Bank's WITS (World Integrated Trade Solution) data, as processed for this paper.
Note: Sector structure based on S. Lall's following classification: PG = Primary Goods; NRBM = Natural Resource-Based Manufactures; LTM = Low-Technology Manufactures; MTM = Medium-Technology Manufactures; HTM = High-Technology Manufactures; NC = Non-Classified.

On the other hand, changes in the sector structure of products exported to Japan are likely an explanatory factor of the increased shares of Mexico, Costa Rica and Colombia in Latin American trade with Japan, not only as exporters to this country but also –and even more so- as importers of Japanese products. In fact, Table 4 shows the diversification of each of these three Latin American countries' exports to Japan, where manufactures are already predominant in the cases of Costa Rica and Mexico, and in all three cases there are remarkable achievements in exports of medium-technology manufactures (MTM) as well as some interesting evidences of exporting high-tech manufactures (HTM).

Such export performances obviously reflects the existence of a manufacturing production capacity undergoing a process of competitiveness upgrading, implying a growing demand for inputs and capital goods of better quality as the produced in developed economies, therefore generating a dynamic flow of imports from countries like Japan. All of which explains in turn the increased participation of the three aforementioned countries in Latin American imports from Japan.

Peru's decreasing share as a Latin American recipient of Japanese investments

There is a consensus among experts in attributing the propelling role for both phenomena –i.e. the export diversification towards more technology-intensive manufactures, and the related greater dynamism in imports from developed economies- to the attraction of investments in manufacturing activities not –or to a lesser extent- based on natural resources, given that investments of that sort are the more prone to generate intra-industry trade. According to the specialized literature, the attraction of that type of investments was enhanced by NAFTA in the case of Mexico; in the Costa Rica case, it emerged from the installation in the country of an important multinational INTEL [see, for example: CEPAL, 2000]; and in Colombia it responded to the country's condition of main participant in the CAN automotive agreement as well as of main CAN member exporter of manufactures to the Andean sub-regional market [BID-INTAL, 2005].

To what extent have Japanese investments in Latin America played such a propelling role? Unfortunately, the more reliable of the accessible statistics sources on the matter do not facilitate an answer. For long periods as the covered by this study, they do not release investment data disaggregated by sectors but aggregate flows only, and these pose the following caveats.

As shown in Table 5, when options for direct investment in production capacity (FDI) were sharply reduced due to the Latin America's debt crisis and its following "lost decade" of the eighties, Japanese investment was diverted to Panama and other "tax heavens" in the Caribbean and has, for the most part, remained there in spite of the region's regained attractiveness in the next decades. However, those "tax heavens" are useful not only for speculation purposes but also in order to conduct *trading* and financial operations related to "real" FDI in different locations, which is why these statistics underestimate "real" FDI in other countries of the region.

Table 5

Japanese Investment in Latin America and the Caribbean: 1965-2004

	1965-1975	1976-1990	1991-1999	2000-2004
World	1,377	19,658	46,102	37,966
Latin America	17.6%	12.8%	10.5%	16.0%
and Caribbean	100%	100%	100%	100%
Mexico	5.0%	4.6%	7.2%	2.7%
Caribbean	15.2%	35.2%	49.0%	64.6%
Cayman Isles	0.3%	19.5%	29.6%	58.7%
Bermuda	11.7%	3.4%	7.9%	3.4%
Bahamas	0.8%	9.1%	1.7%	1.3%
Central America	4.4%	43.2%	27.3%	18.8%
Panama	3.3%	43.0%	27.2%	18.8%
Costa Rica	0.3%	0.1%	0.1%	0.0%
CAN	19.0%	1.8%	1.3%	0.1%
Bolivia	0.3%	0.0%	0.0%	0.0%
Colombia	0.5%	0.3%	0.2%	0.0%
Ecuador	0.0%	0.0%	0.0%	0.0%
Peru	16.3%	0.6%	0.2%	0.1%
Venezuela	1.9%	0.8%	1.0%	0.0%
Chile	3.1%	0.6%	0.8%	0.4%
MERCOSUR	52.6%	14.5%	14.3%	13.4%
Argentina	0.7%	1.1%	1.0%	0.9%
Brazil	51.4%	13.4%	13.2%	12.4%
Paraguay	0.4%	0.1%	0.1%	0.1%
Uruguay	0.2%	0.1%	0.0%	0.0%

Source: Japan's Ministry of Finance data, as processed for this research paper.

In some cases, such underestimation can be concealing FDI that has effectively taken place. This is very likely the case of Colombia, where an important part of the Japanese automotive FDI migrated from Peru due to an effective strategy of the former with respect to the CAN sub-regional market, whereas the latter applied a wrong trade policy during the nineties in terms of tariffs and before the CAN [Gonzalez-Vigil, 2001]. It is possible that similar statistical mists also blur the picture of what happened in Costa Rica and Chile. Although in the case of the latter, the statistical fog would have to be too dense to conceal a Japanese FDI significant enough to be taken as an explanation of the impressive gains in Chile's participation in South American trade with Japan –already examined with the help of the first three tables.

But the said underestimation does not hide other relevant facts. First, in Table 5 it can be observed the incentive that NAFTA represented for Japanese investments in Mexico during the nineties, as part of other factors that made the U.S. market more important

for the Japanese FDI [see, for example: SELA, 1991]. Second, the same table also shows that Brazil continues to be the main Latin American destination of "real" Japanese FDI, which has traditionally concentrated there in manufactures [Saavedra-Rivano, 1994] and has targeted primarily the Brazilian domestic market and then also the MERCOSUR sub-regional market. This targeting could explain in part the significant loss in the participation of Brazil in South American exports to Japan, but it does not explain the even greater loss in Brazil's participation in South American imports from Japan –both losses shown in Table 1. And third, Table 5 shows blatantly the steep fall of Peru as a Latin American destination of Japanese FDI, from an enviable second place between 1965 and 1975 to a marginal position thereafter.

Summing up, specifically in regards to among South American countries' changes in their relative weights as trade partners of Japan, the statistics examined have made clear that these changes can be attributed to differences in sector structures of exports to Japan for the case of Colombia only, because the ones of Chile, MERCOSUR and Peru are all the three similar in their high and growing concentration in primary goods. As for the examined data on Japanese investments, its serious shortcomings notwithstanding, leaves the impression that the changes in question are hardly attributable to such investments in the cases of Brazil and Chile, whereas for the case of Peru it is found the expected correlation between its both decreasing shares in trade and investment.

Thus, other explanatory factors are needed to duly explain the ranking changes within South America before Japan. Given this research paper's focus, the analysis in its following section is limited to the most relevant factors behind Peru's deteriorated position in investment and trade flows with Japan. However, some of the identified factors –such as the infrastructure and logistics of transport, for instance- also seem to form part of the explanation of MERCOSUR's losses in trade shares and are important reasons of Chile's much improved position as trade partner of Japan.

II. Main explanatory factors of the deterioration in Peru's investment and trade relations with Japan

Having found in the previous section that the sector structure of exports does not explain the fall of Peru's share in South American trade with Japan, and given that it is still pending the explanation of the strong fall in Peru's share as a recipient of Japanese FDI in Latin America, it is now pertinent to analyze the main factors explaining the

significant deterioration happened –from the mid-seventies until the mid-2000s- in the Peru-Japan economic relations, especially in the investment aspects though also in their bilateral trade[5].

The main factors have been four:
1) The high level of human insecurity and the threat to the Peruvian State that represented the terrorism of "Shining Path" (SL) and of the "Tupac Amaru Revolutionary Movement" (MRTA) –both acronyms in Spanish of course;
2) The economic instability of the eighties –accentuated during the second half of that decade, which besides of contracting and impoverishing the Peruvian economy as a whole, significantly debilitated a number of activities with strategic roles in the agglomeration of economic gravity forces, thus providing the excuse for ulterior decisions (taken during the nineties) that ultimately precipitated the loss of national control over some of those crucial activities –such as maritime and air transport;
3) The geopolitical insecurity that resulted from the strategic mistrust that tainted the relations of the U.S. with Peru during the three decades elapsed between the seventies and the nineties; and
4) The low quality of Peru's trade policies implemented since the mid-seventies until the year 2000.

It is evident that the aforementioned factors had a generalized impact and negatively affected not only Peru's investment and trade relations with Japan. However, this bilateral economic relation was the relatively most affected indeed, not only because several of the said factors refer to insecurity issues and it is well-known the proverbial Japanese obsession with security, but also –and more importantly so- because the Peru-Japan economic relations were directly and effectively torpedoed by actions derived from those factors and especially from the more linked to the insecurity equation. This justifies the order in which the factors have been listed above and will be discussed in the next paragraphs[6]. The analysis that follows also deals with the interrelations among the factors and mentions, when pertinent, the main corrective

[5] This research paper does not cover the –economic and political- cooperation aspects. These have been excellent during almost all the time since Peru-Japan diplomatic relations were established in 1873, with the sole exceptions of two difficult periods: during the second world war, and during the government of Alejandro Toledo (2001-2006) [Aquino, 1994; Nakao, 2010].

[6] The entire analysis in this section puts the emphasis on "internal" factors and particularly on those where the main responsibility lies with Peru. But it is worth to clarify that in several of these factors –and their adverse consequences- there has been a great deal of interference by interests linked to the changes in relative weights among South American countries examined in Section I. Even though there are enough documentations and indications in this regard, it is preferable not to tackle them in a paper such as this one.

measures applied during the period examined –with various levels of success or consistency as it will be seen.

Targeted terrorists attacks in the nineties

For the reasons explained in the previous paragraph, the most important explanatory factor is the high levels of human insecurity and political risk that were generated by the rise of terrorist actions led by SL and the MRTA during the eighties until the beginning of the nineties. The key corrective measure in this regard was the successful capture of the leaders of both organizations as a result of the antiterrorist strategy implemented by the first government of Alberto Fujimori (1990-1995). Even though from that point onwards the Peruvian State was no longer under siege by SL and MRTA, these terrorist groups did succeed in their specific aim of halting the inflow of Japanese investment and the reactivation of trade with Japan to the levels that were to be expected with Fujimori as President.

The two most harmful acts of sabotage were the pre-meditated murder of three Japanese experts from JICA (*Japan International Cooperation* Agency) in April of 1991, and the armed assault on the residence of Japanese Ambassador and its occupation with prominent hostages from December 1996 to April 1997. The dates of these attacks are very revealing of the specific motivations behind them, because the first one occurred when there were high expectations for Japanese investment and trade with Peru, due to the recently inaugurated Fujimori Administration which from its beginning implemented decisive measures to stabilize the economy and to fight terrorism. The second attack occurred when similar expectations revived from news that important agreements to launch Japan's investment and trade with Peru were to be signed following a visit of the Japanese Prime Minister. No other Peruvian international trade and investment relation was so targeting and effectively boycotted by SL and MRTA terrorist acts.

Also basically for political and security reasons, Peru-Japan trade and investment relations did not take off during the first half of the 2000s decade. Among such reasons, worth noting are: the pronounced cooling of the relations with Japan during the government of Alejandro Toledo (2001-2006), which resulted mostly from his unwise narrowing of this important bilateral relation to the tense particular issues related to Fujimori; and the preoccupying signals that were given by Toledo's government and his predecessor's – the transitional government of Valentin Paniagua (2000-2001), of

relaxation and eventual reversal of the fight against the terrorist groups that had brutally damaged Peru in general and its relations with Japan in particular, by hastily allowing for a massive release of convicted terrorists[7].

Peru's economic debacle in the eighties and its sequels in key sectors

The second explanatory factor deals with another basic aspect of security –the economic one- and has to do with the high levels of economic instability and risk that resulted from the disastrous handling of macroeconomic affairs as well as of the foreign debt problem during the first government of Alan García (1985-1990), which led to hyperinflation and total banning from international credit. This did not only adversely affect trade and scared away investment in general and from Japan in particular, but it also significantly debilitated public and private finances, thereby generating the conditions for the State to give up later on –during the nineties- some strategic economic sectors (especially those of international transport services and their related logistics and infrastructure activities, as will be discussed below) in the hands of interests linked to neighboring countries that compete with Peru in terms of agglomeration of economic gravity forces. This surrendering was promoted by some Peruvian private groups who, in order to reestablish their capitalization hardly hit by the crisis of the eighties, had associated with such interests to do businesses jointly in those strategic activities.

The needed macroeconomic corrective measures were successfully applied by Fujimori's first government, and since then there has been consistency on the matter. Sound macroeconomic management has indeed continued during all the administrations after Fujimori's, including the second government of Alan García (2006-2011) who, in such respect, has redeemed himself before his country. Nevertheless, neither his second government nor the following of Toledo did enough or were inconsistent in terms of the actions required to correct Fujimori's prejudicial measures regarding the strategic economic activities affected by the macroeconomic debacle of the eighties (as will be analyzed as part of the fourth factor). This is one of the reasons that explain why the benefits of macroeconomic stability and sustained economic growth since the nineties were not fully capitalized by Peru in regards to its trade and investment relations with Japan. The other reasons deal with the first factor already discussed and with the two factors that will be presented next.

[7] Between August 2001 and July 2006 a total of 2106 prisoners for terrorist acts were released, according to precise information made public only lately [*Expreso* newspaper, Lima, 24 July 2010].

U.S.-Peru geopolitical mistrust between the seventies and nineties

It is appropriate to discuss in third place a factor that also deals with security, but this time from a geopolitical point of view. The relations between the US and Peru became tainted of a strong strategic mistrust since the military government of Velasco (1968-1975) took the decision of buying important military equipment from the Soviet Union, after that Chile made similar purchases from the U.S. The following Peruvian governments over the next decades failed to balance such decision with changes in the sourcing of equivalent purchases or with other significant strategic rapprochement measures before the U.S. The ensuing unsolved mistrust likely contributed to reinforce the importance of Colombia, Ecuador, and especially Chile, as allies in the pursuit of U.S. strategic interests in the Pacific South American zone. This outcome was most probably taken into consideration by the Japanese when deciding the distribution of their trade and investment relations in that zone, given the well-known strategic relation between Japan and the U.S.

During the period of Fujimori in power (1990-2000), such strategic mistrust may have weighted even more than democratic and human rights concerns in preventing the U.S.-Peru relations from being revalued as expected, given the impressive achievements in the fight against terrorism and successful macroeconomic policies implemented over that period. To this effect contributed all those interested in making sure that the said bilateral relationship was not revalued, who swiftly resorted to varied of tactics in order to fuel the strategic mistrust: from the more grotesque such as arguing that Peru, with Fujimori as President, would become a beachhead in South America for a Japanese economic "invasion"; to more elaborated speculations that Peru with Fujimori would become a laboratory for a trilateral (Japan-U.S.-Latin America) handling of the region's affairs [Stallings and Szekely, 1993]. Most of these alarming tactics deliberately misjudged the nature of the Japan-U.S. relation and purposely exaggerated the demonstration effect over Latin America of Peru with Fujimori [Gonzalez-Vigil, 1994]. But they may have contributed to the absence of a strategic rapprochement between Peru and the U.S. during the nineties, a fact that likely refrained Japan from taken the bold investment and trade initiatives deserved by Peru in that decade, although the most dissuasive effect certainly came from the terrorist attacks already mentioned.

It corresponds to Toledo's government (2001-2006) the great credit for having taken the main corrective measure regarding the geopolitical insecurity factor, by strategically

approaching the U.S. and putting this super power at the center of a new Peruvian international strategy. This will be further discussed in the fourth section of this paper, and will be better understood with the help of the analysis that follows in this section.

Peru's wrong trade policies between the years 1975 and 2000

The fourth explanatory factor is the poor quality of Peru's trade policies –especially during the period elapsed between the 1975 and 2000 years. This is a period of time lengthy enough to include diverse governments with different ideological and policy orientations, thereby allowing for detecting their common flaw in terms of trade policy. This was the lack of solid trade strategies coherent with superior national security and foreign policy objectives, which made trade policy an easy prey of sudden swings in private sector interests and/or of superficial ideological preferences according to the government of the moment. This fundamental weakness distorted the handling of most of the basic issues in trade policy –in its broad sense covering both at-the-border and behind-the-border measures, particularly of those crucial to the agglomeration of economic gravity forces as well as to the facilitation and promotion of trade and investment in goods and services, besides of the traditional tariff issues. Much better was the quality of the policies on such issues that were implemented during that period by neighboring countries belonging to the same economic gravity zone –i.e. the Pacific South American zone- such as Chile and Colombia [see, for example: Kuwayama, 1999].

Those Peruvian trade policies discouraged Japanese investment in a wide range of important sectors that included natural resource activities, manufacturing industries and key infrastructure and logistic services. On natural resource activities, the Japanese had to back away from their intention of investing a large amount of FDI in Peruvian mining by using the financing of big projects as a mechanism for obtaining ownership participation –the so-called debt-to-equity mechanism- in order to secure the supply of metals in the needed volumes. Such intention was initially curbed by the refusal of the military government of Morales Bermudez (1975-1980) to equate ownership control to the level of financing, and then it was entirely frustrated over the eighties, first because of delays during the second government of Fernando Belaunde (1980-1985) in payments owed for financing received, and finally due to Peru's complete default during the first government of Alan Garcia (1985-1990). Similar problems experienced during those three Peruvian administrations were also responsible for the fact that the Japanese financing of the North Peruvian Oil Pipeline failed to drive Japanese FDI in Peru's hydrocarbons sector [De la Flor, 1991].

With regards to the manufacturing sector, Japanese FDI in the automotive industry's segments with key spillover effects –i.e. the assembly of vehicles though with increasing local manufacture of auto parts and accessories- had grown in Peru since the end of the sixties with the aim of turning the country in a hub for its projection to the Andean sub regional market. But later, during the nineties, such industrializing FDI was pushed to migrate to other CAN countries –Colombia and Venezuela- by the inept Peruvian trade policy of the Fujimori administrations. This policy, as has been documented [Gonzalez-Vigil, 2001], not only resulted in Peru's auto exclusion from the CAN free trade area and customs union but also from the automotive CAN agreement, thus giving clear signals that it was not attaching priority to the Andean sub regional market in spite of the high manufacturing content of the intra-CAN trade. To make things even worse, that policy also kept a national tariff structure that increased Peru's industrial production costs in comparison to similar costs in neighboring countries of the Pacific South American zone. All of which became an incentive for FDI in manufacturing to relocate to another country in the zone, consequently weakening Peru's economic gravity power.

Even greater negative effects, in terms of diverting economic forces away from Peru and towards its neighboring countries, had the bad Peruvian policy measures in maritime and air transport matters implemented during the eighties and even more so in the nineties. In these matters, the contrast with Chile's well-known strategy aimed at positioning itself as the maritime and air traffic hub in the Pacific side of South America, is very useful to better understand the reasons behind the trade ranking changes revealed by the statistics already examined in Section I. It was so that, while Peru's flawed policies allowed the destruction of Peruvian merchant marine and airlines, the Chilean government intensified its systematic support to a national airline –LAN- and two shipping lines –CSAV and CCNI- facilitating their quality improvements and growing international presence. Moreover, while Chile was getting ahead of its South American neighbors in terms of modernization of ports and airports, it was not until the 2000s decade that Peru began to take similar measures for its mains port and airport –both in Callao. This happened around 20 years after Japan's interest in the port of Callao had been frustrated, when the plan to modernize it with Japan's financing was filed away in the early eighties and then progressively replaced by a cost-augmenting transfer of basic logistic operations from the port to private firms located outside the port, the larger of them controlled by Chilean capital and linked to the Chilean shipping lines aforementioned –thus aligned to Chile's hub strategy.

It is therefore not surprising at all that such Peruvian policy gaffes –so much facilitators of the Chilean strategy- had negative effects in terms of the competitiveness of the port of Callao and of the design of the maritime routes for its export cargo. In fact, with regards to container cargo, during the first half of the 2000s decade, the port of Callao had two key disadvantages compared with the port of San Antonio (Chile), namely higher costs and less connectivity [Belaunde and Bryce, 2006]. This occurred in a context where rates charged by the private operators located outside the port of Callao represented as much as 71% of the total port costs faced by exporters and importers [Sgut, 2005], and at least 22 % of Callao's cargo routed through the Pacific was already directly controlled by the two Chilean shipping companies aforementioned (not including their participation in cargo transported by shipping alliances).

These shipping companies significantly contributed to neutralize Chile's greater physical distance with a lower economic distance resulting from the agglomeration of container cargo in the main ports of that country. With this in mind, they designed their maritime routes in a way that pulled-down, in a southbound direction towards the main Chilean container ports of San Antonio or Valparaiso, not only to 62% of Callao's export container cargo intended for northern trans-Pacific routes but also to 54% of the similar cargo intended for other routes via the Panama Canal –both export cargos thus forced to go south first in spite of ultimately destined to ports and markets up in northern locations. All this in sharp contrast with the handling of cargo by global shipping companies (such as Maersk, Mediterranean Shipping Co., Evergreen, and the like) that directly gave a northbound direction to 62% of Callao's container cargo aiming at routes via the Panama Canal [NATHAN, 2005], which really makes sense given the location –to the north of Callao- of the main trans-oceanic (East-West) maritime routes as well as of the largest destination markets for Peruvian exports.

The Peruvian situation in terms of air transport and connectivity is even worse[8]. However, given that the bulk of Peru's trade with Asia-Pacific and other major regions are transported by sea – as is that of South America as a whole, the facts analyzed above are very revealing of one of the main explanatory factors of the ranking changes among South American countries in their trade with Japan -as described in Section I. With further reason, if due account is taken of the possible impact on the maritime routes used for MERCOSUR trade with Japan of the existence of CONOSUR, the so

[8] According to data until 2008 analyzed by a relevant study [Kuoman and Yong, 2009], there were very few world class airlines that arrived to Peru and none from East Asia or Oceania, in a context where LAN not only controlled around 36% of international passenger flights serviced by the Lima Airport but also held practically a monopolistic control (90%) of passenger flights within the Peruvian domestic market.

named alliance between CSAV and the Argentinian shipping company MARUBA for transporting cargo between the Atlantic and Pacific coasts of South America. Thus, it seems clear that Chile's progress in terms of maritime transportation and port infrastructure, so coherent with its strategy to become a hub, contributed a great deal –along with the flaws and delays of its neighbors in these matters- to the strong gains in Chile's shares –and to the simultaneous strong falls in MERCOSUR and Peru shares- in trade flows with Japan, particularly from a South American export perspective. These new evidences reinforce earlier findings on trade diversion in detriment of Peru and other CAN member countries [Gonzalez-Vigil and Kuriyama, 2000].

Starting in the decade of the 2000s, Peru began to apply some important corrective measures regarding its problems of port and airport infrastructure and logistics, although there is still a great deal to be done on transport matters in order to reverse its serious connectivity problems –especially by air. At the same time, there has been significant progress since that last decade in the correction of other severe trade policy flaws. It is better to mention these corrective measures in the next section, because they are part of a new strategy that is producing many important results, one of them being precisely the negotiation of the FTA with Japan.

III. Growing role of FTAs in trade and foreign policies [9]

The widespread proliferation of FTAs, witnessed since the onset of the 21st Century, signals their increased role as strategic tools for advancing national and regional interests in a context of globalization. Countries all over the world are given to FTAs an enhanced role in their recent growth and trade strategies, as well as in the related adjustments to their respective foreign policies. Japan and Peru have both followed this path –though each one in its own way of course, thus paving the road towards their bilateral FTA.

Changes in Peru's international strategy

With the government of Alejandro Toledo (2001-2006) began a process of redefinition of Peru's strategy to address its permanent national security and foreign policy objectives. Of outmost importance in the new Peru's international strategy is the recognition of the

[9] Due to the contents of this section and the need to be concise in order to do not extend this paper excessively, the reader could get the erroneous impression that the Section III conveys official positions about the issues that are addressed in it, which is why it is now necessary to make explicit the disclaimer of rigor, consisting in that the opinions put forward in this paper are solely of its authors' responsibility.

central role that the relation with the U.S. plays as a top priority strategic partner. This has involved a process of strategic rapprochement between the two countries –which initial stages were marked by the visit to Peru of President Bush early in 2002- aimed at building a new Peru-U.S. bilateral agenda, a more balanced and modern agenda emphasizing constructive socio-economic issues from a capacity for development perspective –though without neglecting common interests in matters of security and the South American context, rather than the stressful issues that had polluted the bilateral agenda during the strategic mistrust times. With such purpose, a Peru-U.S. FTA was planned as a key tool for signaling the strategic rapprochement as well as for starting the process for the new bilateral agenda building-up. Such FTA was also conceived as the catalytic element for propelling another important ingredient of the new Peru's international strategy.

That other ingredient is a new trade strategy, coherent with superior national interests as opposed to that of the nineties, but at the same time without taking any steps back in terms of economic openness and trade liberalization as had been done by the trade policies of the seventies and eighties. The new trade strategy translated into the adoption of a tiered national tariffs structure which, at its lowest levels, reduced the cost of importing capital goods and inputs of better quality with the aim of promoting local production in general and particularly of competitive value-added products. It also translated into an important change of emphasis in liberalization modality, from the unilateral modality emphasized during the nineties that had resulted in the handing over of some strategic economic activities in exchange for nothing (such as were the cases of air and maritime transport, to mention only two examples related to issues already discussed in Section II), to a new emphasis in a liberalization based on the reciprocity achieved through the negotiation of trade agreements.

The latter has given a renewed importance to the potential benefits of obtaining advantageous access to expanded markets –provided by free trade zones (FTZs) formed through preferential trade agreements (PTAs), in terms of trade and investment diversification and the underlying productive transformation and modernization. The great novelty in the recent rediscovering of such significant potential contributions of PTAs –that had been acknowledged by the Peruvian trade policies since the sixties but then were foolishly minimized in the nineties, consists in that now the establishing of FTZs through PTAs is no longer done with other Latin American countries only but also with developed countries as well as with developing countries in other regions of the world. In fact, during the first decade of this century, Peru not only completed its

participation in the Andean FTZ and agreed to establish a FTZ with MERCOSUR, but also launched an intense process of negotiations of last-generation comprehensive PTAs (the so-called FTAs) with countries outside the region. These FTAs are powerful tools for investment and trade diversification as well as for improving the economy's competitiveness, because they involve not only advanced commitments of reciprocal liberalization and facilitation of trade and investment in goods and services, but also the concerted adoption of best practices in public policy and business affairs.

A wise first step in the new Peruvian trade strategy regarding trade agreements is to have begun with the U.S. the process of FTA negotiations with industrialized countries. The negotiation of the Peru-U.S. FTA –started in May of 2004 after initial consultations with the occasion of President Bush's visit mentioned earlier and formal preparations since the second quarter of 2003, provided the right signals of a firm political decision in favor of a strategic rapprochement between the countries and of the top priority accorded to the U.S. in Peru's brand new international strategy. This in turn facilitated the establishing of similar FTA negotiations with other economic powers, particularly with those in Asia, without becoming exposed –or at least becoming less exposed- to maneuvers for instigating strategic suspicions as the experienced in the nineties (which were mentioned in Section II).

The same was also facilitated through the strong signals of commitment to Trans-Pacific economic integration given by Peru when it initiated –in early 2003- the process that led to APEC Peru 2008, as well as when it joined the group of APEC economies supporting the initiative to negotiate a Free Trade Agreement of Asia-Pacific (FTAAP), which was welcomed as a good long- term prospect by APEC Leaders in November 2006. The next steps in the process of FTA negotiations were taken in the framework of an accurately formulated technical agenda [MINCETUR, 2005], which the second government of Alan Garcia (2006-2011) rightly endorsed and gave continuity to its implementation[10].

[10] It is however worth mentioning that the said Garcia's Administration was not as coherent as had been the one of Toledo in terms of giving to FTAs the first priority as trade liberalization modality. In fact, while on the one hand it promoted FTA negotiations, on the other it enacted nineties-like unilateral measures on tariffs and non-tariff issues fostered by particular groups linked to interests from countries afraid of losing market shares and/or policy influence vis-à-vis the economic powers in Peru's agenda for FTA negotiations. Those unilateral gifts put at risk some FTA negotiations –and/or circumvented their results based on reciprocity, by granting similar treatment to other countries without extracting equivalent concessions from them. An example was the unilateral reduction of tariffs implemented at the end of 2007, which included products of Mexico's priority export interest at the very moment that this country and Peru were negotiating the conversion into a modern FTA of their old trade agreement of partial scope. Such gift made Mexico less urged to accept Peru's priority export requests and therefore paralyzed for several years that bilateral negotiation. Another example was the unilateral extension to all trade partners of the national treatment in

As a result, to date Peru has in force bilateral FTAs of last generation with many of the larger APEC economies such as –in chronological order- the U.S., Canada, Singapore, China, Korea (South) and Japan, and has committed with Thailand the conversion of an existing trade agreement into an FTA[11] (Table 6). In addition, Peru is now negotiating a high-standard plurilateral FTA –the Trans-Pacific Partnership Agreement (TPP), together with eight APEC economies (Australia, Brunei, Chile, Malaysia, New Zealand, Singapore, the U.S. and Vietnam). This provisional number of nine negotiating parties will likely increase in the near future, because other APEC members have already stated formally their interest in joining the TPP negotiations –Japan, among them.

Table 6 Peru's FTAs

Status	Partner	Signed	In effect
In effect	United States	Apr 2006	Feb 2009
	Chile	Aug 2006	Mar 2009
	Singapore	May 2008	Aug 2009
	Canada	May 2008	Aug 2009
	China	Apr 2009	Mar 2010
	EFTA	Jul 2010	Jul 2011
	Swissland	Jul 2010	Jul 2011
	Korea	Mar 2011	Aug 2011
	Thailand	2003 - 2010	Dec 2011
	Mexico	Apr 2011	Feb 2012
	Japan	May 2011	Mar 2012
Signed	Norway	Jul 2010	
	Ireland	Jul 2010	
	Panama	May 2011	
	Costa Rica	May 2011	
	Guatemala	Dec 2011	
Finished negotiation	European Union	Feb 2010	
In negotiation	El Salvador		
	Honduras		
	TPP (Trans-Pacific Partnership)		

Source: Ministerio de Ceomercio Exterior y Turismo (Peru) web page (http://www.acuerdoscomerciales.gob.pe/).

government procurement agreed with the US –on reciprocal terms- in the respective bilateral FTA. Ironically, such in-exchange-for-nothing extension was leaked as part of an avalanche of legal decrees enacted in early 2008 with the pretext of implementing the US-Peru FTA.

[11] To the list of Peru's FTAs with developed economies and/or non-Latin American developing economies, it must be added, regarding Europe, that to date Peru has already signed a FTA with EFTA countries and has also completed successfully the negotiation of a FTA with the EU.

Japan's FTA strategy and Latin America

Japan had a slow start in bilateral FTA negotiations. The multilateral trade negotiation through GATT and WTO was the main focus of Japanese government for over decades. However, by the end of the 1990s, it became clear that WTO negotiations were not making much progress. At that moment, Japan received FTA proposals from Mexico and Korea in 1998 and from Singapore in 1999. Since then, Japan is trying to catch up with other countries in its region (Table 7).

Table 7 Japan's FTAs

Status	Partner	Signed	In effect
In effect	Singapore	Jan 2002	Nov 2002
	Mexico	Sep 2004	Apr 2005
	Malaysia	Dec 2005	Jul 2006
	Chile	Mar 2007	Sep 2007
	Thailand	Apr 2007	Nov 2007
	Indonesia	Aug 2007	Jul 2008
	Brunei	Jun 2007	Jul 2008
	ASEAN	Apr 2008	Dec 2008
	Philippines	Sep 2006	Dec 2008
	Swissland	Feb 2009	Sep 2009
	Vietnam	Dec 2008	Oct 2009
	India	Feb 2011	Aug 2011
	Peru	May 2011	Mar 2012
In negociation	Korea		
	Gulf Cooperation Council		
	Australia		

Source: Ministry of Economy and Industry (Japan) web page (http://www.meti.go.jp/policy/trade_policy/epa/index.html).

Once Japan started to actively pursue FTA negotiations, it placed priority on East Asia (MFA 2004). East Asia here conceptualized as including (besides of Japan, of course) China and South Korea as well as ASEAN countries. There are a few reasons for this basic priority. First, FTAs with East Asian countries could bring relatively large marginal benefits to Japan. Among Japan's major trading partners, namely East Asia, United States and Europe, East Asian countries are developing economies having relatively high tariff rates at that time. Japanese government expected that FTAs with these countries could result into significant tariff reduction favoring their exports.

Second, FTAs with individual East Asian economies could lead to a regional FTA that would bring political and economic stability to that region. North America and Europe

already have regional free-trade areas such as NAFTA and EU. Similar regional economic institutions would be beneficial for Japan because East Asia is not only one of its major trading partners, but also many Japanese companies have their manufacturing bases in the region. In addition, if Japan succeeded to take an initiative in creating a regional FTA, it could maintain its political leverage.

Third, East Asia has been the center of economic growth for the last half century. The high growth and export performance of Japan in the 1960s and 1970s was followed by the so-called four tigers (Hong Kong, Singapore, South Korea and Taiwan) and then by some original ASEAN member countries other than Singapore. Later, China became the second largest economy in the world, and some countries that recently joined ASEAN are also taking off. Japan can benefit from this continued growth in the region through FTAs with East Asian countries.

Due to these reasons, Japan's Ministry of Foreign Affairs targeted to South Korea and ASEAN as the partners with whom its FTA negotiations process should begin (MFA 2004), by dealing with each of them separately in a first stage yet with the view of expanding the process towards an East Asian regional FTA. However, these negotiations did not progress as Japan desired (Urata 2006).

Singapore was the first country to sign an FTA with Japan in 2002. Because it is a small economy with practically no agricultural sector, there was little conflict of interest over an FTA between the two countries.

Regarding the negotiation with South Korea, which started in December 2003, it soon came to a deadlock in 2004. From Korean viewpoints, Japan was very unwilling to liberalize its agricultural market. Additionally, the Korean manufacturing sector feared an increase of imports from Japan (Okuda 200). Later on, the relationship between the two countries deteriorated because of boarder disputes, and the negotiation has not been restored yet.

As for the negotiation with ASEAN as a group, Japan failed to take the initiative. In fact, both China and South Korea went ahead of Japan on the matter. China signed its FTA with ASEAN in 2004 while South Korea did so in 2005. Japan first signed bilateral FTAs with each of the original ASEAN-6 countries, and it was not until 2008 that finally signed an FTA with ASEAN as a group.

In contrast to the comparatively slow path of FTA negotiations in East Asia, Japan was successful in terms of reaching bilateral agreements with two Latin American countries: Mexico in 2004 and Chile in 2007. The motivation for these FTAs is different from that concerning East Asian countries.

Both Mexico and Chile had been very aggressive in FTA negotiations. In their respective markets, Japanese products had price disadvantage over the products from other countries with which Mexico and Chile had signed FTA agreements. Especially, automobile and electronics manufacturers were facing strong competition with their rivals from the United States, Europe and South Korea. These manufacturers pushed the Japanese government to start FTA negotiations with Mexico and Chile so that they could compete in fair ground with their rivals. A similar motivation also pushed the Japanese government to negotiate the FTA with Peru.

IV. Japan-Peru FTA negotiations: the process and main results

The conduct of the negotiation of a comprehensive Japan-Peru FTA was made possible by the effective effort displayed, since the beginning of the second government of Alan Garcia, in order to rescue this bilateral relation from its lethargy during Toledo's government and –even more so- to propel it to higher levels than in the past. With this purpose, an advanced bilateral investment treaty (BIT) was successfully negotiated and it was signed during the official visit of the then Prime Minister Taro Aso scheduled back-to-back with the XVI APEC Leaders Summit (Lima, November 2008). This bilateral visit also allowed for the leaders of the two countries to give a green light to a formal joint process of consultations and preparation of preliminary studies on the possible negotiation of a bilateral FTA. This process took place with an active participation of the business sector and arrived at favorable conclusions in a relatively short time, so by April 2009 the leaders of both countries launched the agreed FTA negotiations.

The first phase of the negotiations had a fast pace and was very fruitful. The first four negotiating rounds happened between May and October 2009 and produced significant progress in the majority of the numerous issues under negotiation[12]. A relatively slow

[12] These comprehensive FTA negotiations included the following 17 trade matters: market access to trade, in goods and related trade remedies; rules of origin; customs procedures and trade facilitation; sanitary and phytosanitary measures; technical standards and conformity procedures; cross-border trade in services; telecommunications; temporary mobility of people for business purposes; public procurement; intellectual property rights; competition

paced phase followed because the negotiations became concentrated on sensitive issues, which in this case were basically related to market access in terms of tariffs elimination or reduction, sanitary and phytosanitary measures (SPM), and technical barriers to trade (TBT). Regarding the last two, it is well known that Japan's SPM and TBT are quite strict and on these matters it is reluctant to accept commitments going beyond those in force at the WTO level. Regarding the former, for Peru it was of great importance to obtain that its exports of food products –from agricultural and/or fishing origin- enter into the Japanese market with a tariff treatment either advantageous or at least equivalent vis-à-vis competitors, while Japan used to exclude most of this type of products from the FTAs that it negotiates. All of which shows clearly how difficult were the negotiations on such issues.

However, there was room for exchanging mutually beneficial concessions. This possibility emerged from the top priority accorded by Japan to obtain that its exports of automotive products have access to the Peruvian market in advantageous –or at least equivalent- conditions to those that Peru had already granted to similar products from the US (through the respective bilateral FTA in force since February 1st, 2009), and/or to those that Peru would likely grant to similar products from the EU (through the respective FTA, which negotiation was completed in March 1st, 2010) and from (South) Korea as a result of the respective bilateral FTA that was being negotiated in parallel (which is already in force since August 1, 2011).

But the possibility of constructively exchanging Peru's foods export priorities for Japan's automotive export priorities was about to disappear when, during the last months of 2009, certain interest groups in Peru fostered the enacting of another unilateral elimination or reduction of tariffs including automotive products. Had this attempt succeeded, it would have been even more prejudicial than the unilateral reduction of tariffs implemented at the end of 2007 (see footnote 10 above), since it would have sabotaged Peru's bilateral FTA negotiations by then ongoing not only with Japan but also with other important partners –such as the EU and South Korea, similarly interested in obtaining favorable access to the Peru's market for their automotive products and similarly reluctant to give favorable access into their markets to Peruvian food products.

Fortunately, such a destructive attempt did not prosper this time, which allowed for the

policy; business climate improvement; cooperation (and trade capacity-building); disputes settlement; institutional and horizontal matters.

conduct of the fifth round of Japan-Peru FTA negotiations (February 2010), where most issues were successfully completed and, with regards to the most sensitive ones related to market access, it was agreed to carry out successive exchanges of improved offers during the months ahead until arriving to mutually beneficial concessions.

After seven rounds, both countries finally concluded their negotiations in November 2010 and signed the resulting bilateral FTA in May 2011.

This agreement will eliminate import tariffs for 99% of products bilaterally traded within ten years. Among the products of Peru's interest, almost all of the mining sector will achieve immediate free access to the Japanese market. In the agricultural sector, Japan's import tariffs will be eliminated immediately for fresh asparagus, wood and articles of wood. Tariff rates for other products -such as purple corn, giant corn and jumbo flying squid, will be lowered as well. It is worth mentioning that Japan excluded 749 tariff items of sensitive products from the tariffs negotiation. This number of excluded items is much smaller compared with those in Japan's FTA agreements with Mexico (1,300 items) and Chile (1,200 times) [COMEXPERU 2011].

Among the products of Japan's interest, Peru's tariff rate for automobile will be eliminated within four to nine years. The tariffs for auto-parts will be eliminated in maximum of ten years. With regards to electronics, tariffs for television sets and blue-ray disc recorder will be eliminated immediately, while those for lithium-ion and lead-acid batteries will be eliminated in nine years. In addition, some Japanese agricultural products obtained better access to the Peruvian market. The tariff for sake will be eliminated immediately while those for persimmon, pears and apples will be eliminated in five, seven and fifteen years respectively.

After the FTA was signed in May 2011, it was expected to go into effect before the end of 2011. However, because of the Tohoku earthquake and disasters caused by the subsequent tsunami and nuclear plant accidents, the ratification process in Japan's Diet was finally concluded in December 2011. This paved the way for its entering into effect since March 1, 2012.

Final Remarks

The title of this paper could have included the phrase “So that history does not repeat itself.” Today, Peru is in a much better position than twenty years ago in order to take

due advantage of its FTA with Japan as well as of the FTAs it has already signed with several other economic powers. Nevertheless, Peruvians should not take this for granted because, even though it is true that Peru has corrected and overcome some of the main negative factors of the past, it is also true that in some cases there have been inconsistencies and in others the most important corrections are still to come.

Therefore, there is a need for Peru to persevere and not to let the guard down, for there were interests in play that frustrated earlier opportunities for trade and investment with Japan that now could also try, in the face of even more promising opportunities for Peru not only with Japan but also with the U.S., China, South Korea, Canada, the E.U and EFTA –to mention only some of the better opportunities at hand, to frustrate them or, if this is no longer possible, at least to minimize their beneficial effects for Peru and its position in the Pacific South American.

From a Japanese perspective, the FTA with Peru comes on top of Japan's previously established FTAs with Mexico and with Chile in the effort for becoming less disadvantaged vis-à-vis its main competitors in terms of preferential market access as well as of investment and business facilitation measures granted by Latin American countries. It was very important for Japanese automobile and electronics industry to secure fair market access against their competitors in the U.S., EU and South Korea.

It is likely that the leveling of the competition field motivation may push Japan to seek similar negotiations with Colombia and Costa Rica in a non distant future, taking into consideration the former's FTAs with the U.S. and with South Korea as well as the latter's with the U.S. and with China. By the same token, it seems likely that the said motivation would not be an equally pressing factor in Japan's economic relationships with other important South American partners such as Brazil and Argentina, insofar as they keep themselves out of FTAs with Japan's main competitors.

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