



# Doing Business in Peru

Peru is well-known for its history and natural beauty. It is home to one of the seven world wonders, Machu Picchu, as well as one of the most breathtaking mountain ranges in the world. As a result of both its archeological and natural marvels, Peru attracts over 3 million tourists a year. But make no mistake, Peru can't be defined merely by its natural beauty. It is also one of the fastest growing economies on the continent. Atradius ranked Peru as the most promising developing market in Latin America, and has placed it in the top eight worldwide. Peru's economy has steadily grown over the last 10 years, a trend which is expected to continue. Furthermore, the stability of the country's market-oriented and investment-friendly policies are conducive to business, for both nationals and foreigners.

Peru is 31 times larger than the Netherlands, but its population is only around twice as large, at 31.7 million people. Although the Dutch economy is more developed, Peru has experienced a much higher and stable growth rate. PPP adjusted, the Dutch economy (0,75 % of world GDP) is twice as big as Peru's. Of the Latin American countries Peru ranks 7th. Its economy, just like the Dutch one, is service based. Exports however are natural resource based, mostly mining and agricultural products. Peru's imports from the Netherlands are mainly machinery and manufactured goods. In Peru, the bulk of the economic activity is conducted in the Metropolitan Region of Lima, which accounts for 45.5% of GDP, while about 32% of the population lives in this area. Economic activities outside this region are mainly mining, tourism and agriculture.

Even though Peru and the Netherlands are not each other's most important trade partners, it's a different story with agricultural products. The Netherlands is the second largest importer of Peruvian agricultural goods in the world, valuing about \$876 million per year, trailing only the USA. Trade between both countries has grown since 2012. Regarding investment, the Netherlands is the 5th largest investor in Peru, with 6.33% of accumulated FDI stock as of 2015 according to Proinversión.

Peru has experienced a decade of blistering economic growth, averaging 5.9%. It is expected that growth will remain good the coming years. However, corruption scandals and a large natural disaster in the north of the country have caused a temporary setback in growth numbers of 2017. Poverty rates are steadily falling in Peru, decreasing from about 40% of the population living in poverty a decade ago to just 20% last year. This trend is expected to continue.

As a result of the stable economic policies the consumer market in Peru is growing. Disposable income levels are rising, especially in Lima, while the dependency rate has dropped, giving the government more fiscal space, as a large part of the population is able to participate in the labor market and is not as reliant on government subsidies. Furthermore, a young demographic means more people in the labor force, leading to a higher GDP and increased economic opportunities.

## Priority sectors

### Agro/Food

Because of its multitude of climate zones and differences in altitude Peru possesses the characteristics to produce a wide range of agricultural products. In the past 20 years Peru has become a leading country in gastronomy. This development goes hand in

hand with the cultivation of superfoods and the 'discovery' of new superfoods. It is expected that this development will steadily continue because of an increasing global demand for sustainable food products, paired with agricultural production increases in Peru. This development offers great opportunities for small producers to offer niche products or products with an 'origin'. 2017 saw \$876 million in agricultural products being exported, with agricultural imports worth \$66 million. Here is an opportunity to integrate more small producers in market-conformity into the economy and modernization/sustainability, as well as the opportunity for the export of more sophisticated Dutch technology and knowledge in the agriculture sector.

The government of President Pedro Pablo Kuczynski has identified the agricultural sector as a priority and has set the following goals for their mandate: Increasing agricultural competitiveness, integrating small scale farmers into the market and increasing sustainable farming. Besides horticulture Peru is also a major player in the fishing industry. 9% Of all fish in the world are caught in Peruvian waters. Here relatively little value is added as the majority of it is processed into fishmeal. In addition there is fish farming which, however, is still relatively modest in size but seems to have great potential. Peru also has a sizeable and capital extensive poultry sector. This sector might also offer interesting Dutch business opportunities; especially with regard to more sustainable breeding, control of diseases, optimal nutrition composition, manure problems, machinery and logistics.

Important agricultural products: asparagus, avocado, banana, beef, berries, cacao, coffee, corn, cotton, dairy, fish, grapes, mandarins, mango, nuts, pomegranate, peppers, potato, poultry, quinoa, rice, sugar, wheat, wool.

## Water

Peru has always been vulnerable to both floods and droughts; particularly the natural phenomena El Niño and La Niña have far-reaching consequences for Peru. Even in non-extreme weather years, Peru has to deal with different flood and drought problems, which lead to economic losses for both the country as well as the population. According to research by the Peruvian ANA (National Water Authority), every dollar spent on flood prevention could save on average 13 dollars of reconstruction costs. In this respect Peru almost doubles the UN average. Due to the low electoral visibility of many preventative measures, however, initiatives often fail to materialize.

In the beginning of 2017, the local phenomenon El Niño Costero hit Peru and caused large-scale floods and mud streams all along the coast and multiple inland departments. The damage is estimated at 10 billion dollars. The Peruvian government has

created the Reconstruction with Changes Authority (*Autoridad para la reconstrucción con Cambios*) to guide the reconstruction projects, as well as to prevent such future disasters. The reconstruction authority has an initial budget of 25,655 billion soles (7,8 billion USD), and has expressed its interest in contracting the Dutch. Considering the Dutch expertise in water management and its long history in successfully dealing with different water issues, Peru offers different business opportunities in integrated water resource management, flood prevention and sustainable cities. The relationship between the Netherlands and Peru is excellent considering the water sector, thanks to various visits of Dutch Water Ambassador Henk Ovink, who remains in direct contact with the Peruvian president and the reconstruction authority, and because of the membership of both countries of the High Level Panel on Water.



President Kuczynski, has identified water and sanitation as a top priority. The aim is to have the entire Peruvian population connected on the drinking-water distribution network and the sewage in 2021. He indicated to reserve 0.5 and 0.8% of GDP in the coming years between, which amounts to \$625 - 780 million.

This is part of a larger integrated plan including afforestation, water reservoirs, water treatment and sewage for 4 million households, as stated in the government plan amounting to USD 10 billion budgeted for the period 2016-2025. A total of 1250 sanitation projects have been identified. With regard to the water quality of the River Rimac the government plans to invest \$200 million while Peru is also planning public investments at the same amount for water quality of the Lake Titicaca.

## Energy

Peru's economic success story has made its energy sector one of the fastest growing and dynamic in the region. Total Primary Energy Supply (TPES) has grown from 408 Petaboules (PJ) in 1990, to 1030 PJ in 2015. This is in part due to the electrification rate increasing from just 60% in 1990, to over 93% today. If current projections are accurate, peak energy demand is set to almost triple from the current maximum of 6492 MW (2016) to some 15822 MW in 2030. In order to keep up with demand, the Peruvian government has invested heavily in its electricity grid (SEN), and will continue doing so in the years to come.

Peru's national energy plan highlights some exciting opportunities for the energy sector. Fossil fuels have had the largest share of TPES historically, with oil at 48.2% (2015) and natural gas at 30.3%, biofuels supply 11% and hydro 7.2%, while renewables currently stand at 0.4%. The story changes when looking at electricity generation. Hydro and natural gas are responsible for 45.8% and 46.5% respectively. Renewables currently account for 4.9% of the electricity mix, with the remaining 2.9% coming from coal & diesel. Geothermal power has so far been under explored and utilized. While Peru currently produces excess electricity, investments must continue in order to keep up with demand due to growth in industry and the extractive sector. To this end the government is looking to increase electricity generation, and at the same time boost the share of renewables (including hydro) to 60% by 2025. Gas will remain an important contributor, but will see its percentage share fall as more renewable projects come online. Solar, wind, and geothermal energy have great potential in Peru due to favorable conditions. Solar in particular has some of the highest kwh/m<sup>2</sup> potential in the world. Peru is forming a long term vision for energy, and renewables will undoubtedly play a major role.

## Logistics

Peru's largest port is Callao, which facilitates the transport of 90% of all containers entering and leaving Peru. It is estimated that some \$160 billion will have to be invested in infrastructure if Peru wants to maintain its current economic growth numbers. US\$ 2 billion will be required in the port sector alone as Callao, currently South America's third port, gains importance. Privatization and modernization of ports has been going on since 1999, when concessions for the port of Matarani were sold to Grupo Romero. A national tender to the tune of \$200+ million is currently underway to modernize the port of Salaverry. Ilo and Chimbote ports are next in line to be privatized. Opportunities are springing up in the port sector. A larger inflow of people has also increased the need for the expansion of Peru's aviation infrastructure. Lima's Jorge Chavez airport recently got the green light for a \$1.5 Billion expansion. Cusco, a premier tourist destination, will begin construction on a new airport in the fall of 2018, set to finish in 2021. Peru's transport sector is taking flight.

Urban and city planning is an equally hot topic. With a young population that has more means than ever before, car ownership has skyrocketed, leading to logistical challenges in Peruvian cities. This is especially true in Lima. Peru is a very centralized country, with almost a third of the population living in the capital. Connectivity between other cities is poor. This puts an extra strain on the already over-stressed logistics situation in Lima. Politicians have identified the problem and are working towards a solution, although a consensus on the methods by which the transport

problem might be solved hasn't been reached. Several grassroots movements promoting sustainable transport are springing up across the country, working together with municipalities to promote the usage of bicycles and public transport. Lima's first metro line was finished in 2014, with another under construction, and talks for metro lines 3, 4, 5, and 6 underway.



## Do's and don'ts in Peru:

### Habits

- Take your time to build personal relationships in business.
- Research hierarchical structures between business relations. Especially for the older generation, doing business with someone of a lower level is uncommon.
- Take your time for and realize the importance of business lunches.
- Appreciate and acknowledge the Peruvian pride in their gastronomy.

### Social interaction

- Be careful with "Dutch directness", as Peruvians value diplomatic and polite behavior over directness. Because of this, Peruvians might respond with a yes while they actually mean no.
- Be aware that not all Peruvians speak English, even though they might initially claim they do. Speaking Spanish is a necessity.
- Be patient. Peruvians can be unpunctual, both in personal meetings and in business deadlines.

### Business

- Provide solid and complete business proposals, which offer insight in risks and consequences.
- Be flexible with deadlines, provide the deadline well in advance and do not be surprised if they are not met. Seek legal advice with respect to contracts.
- Peruvians make extensive use of business cards. Have them with you to make easier connections with business partners. Use bilingual business cards.

Official name	Republic of Peru
Government type	Representative democratic republic
Population	31,773,839 (2016 est.)
Area	1.285.216 km <sup>2</sup>
Time difference	-6 hours (UTC-5)
Currency	So1 (PEN)
GDP growth rate	2.5% (2017 est.) ; 5.9% (last decade)
GDP per capita	\$6049 US (2016, Current US\$)
Trade volume	Exports: \$42.47 billion (2017 est.), Imports: \$38.8 billion (2017 est.)
Inflation	1,25% per year (2017)
Income level	Upper middle income level (World Bank, 2017)
Global Competitiveness Index	72 (out of 137)
Ease of Doing Business	58 (out of 190)
Global Corruption Index	96 (out of 180)
Main trading partners	Import: China, US, Switzerland. Export: China, US, Brazil (2016)
Major exports	Metals (Copper, Gold, others), Petroleum & Derivatives, Natural Gas, Food and Animal products
Major imports	Petroleum & Derivatives, Machinery, Electronics, Chemicals, Plastics
Netherlands FDI in Perú	€660 million (2015)
Dutch-Peru trade	Exportsto NL: \$1081million, Importsfrom NL: \$272million, TradeBalance: \$+809million (2017)

## How can we support your business?

### Services

The Embassy of the Kingdom of the Netherlands in Peru is always willing to assist Dutch companies and organizations that are considering to open business in Peru. The following services can be offered:

- Provide information about:
  - Available business support instruments
  - Developments in Peru
  - Market opportunities in Peru
  - Policies, rules and regulations in Peru
  - Practicalities in Peru
  - Relevant locally active entities
- Matchmaking between Dutch and Peruvian parties
- Organizing or supporting trade missions to Peru

In order to receive any more information, help or contact, do not hesitate to contact [lim-ea@minbuza.nl](mailto:lim-ea@minbuza.nl).

### Business support instruments

- [SIB](#)
- [DHI](#)
- [PIB](#)
- [DGGF](#)
- [PvW- WWSD](#)
- [FDW/FDOV](#)
- [DRIVE](#)
- [EnDev](#)
- PSDAPPS

### Relevant links and contacts

- <https://www.nederlandwereldwijd.nl/landen/peru>
- <https://www.paisesbajosmundial.nl/paises/peru/>
- <https://www.rvo.nl/subsidies-regelingen>
- <https://www.promperu.gob.pe/>
- <https://adexperu.org.pe/>
- <http://www.sunat.gob.pe/index.html>

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