

INSIDER VIEW

Republic of Peru

THURSDAY, NOVEMBER 29, 2001

Stability transforms economic hopes

HAVING WEATHERED RECENT GLOBAL ECONOMIC DIFFICULTIES BETTER THAN MANY OF ITS NEIGHBORS, PERU'S CHALLENGE NOW LIES IN ATTRACTING FOREIGN INVESTMENT TO ITS KEY INDUSTRIES

WHEN PRESIDENT ALEJANDRO TOLEDO took office this past July, many Peruvians felt their country was not just turning a page in the history books; it was writing the table of contents for a whole new volume. Peruvians saw the departure of Alberto Fujimori as more than just the end of a decade's rule that dwindled into misgovernance and corruption. It was one of history's rare second chances to wind up a system that has existed practically since the country became independent in 1821, "characterized by authoritarian rule that has left 54% of Peruvians living on less than two dollars per day," according to the President of the Council of Ministers, Roberto Dañino.

But no matter how glad they were to see the last of Fujimori (when the scandal-spattered president bolted to Japan and faxed back his resignation, lawmakers refused to accept it just so they could have the satisfaction of removing him from office), there is no denying him some credit for what was accomplished in the early years of his presidency: ending Peru's estrangement from the multilateral lending organizations, and dealing forcefully and successfully with rampant terrorism. After that came seven fat years, followed by two lean ones in 1998 and 1999, when the El Niño phenomenon played havoc with agriculture and the Asian crisis dried up some of Peru's main export markets.

In the six months since his inauguration, President Toledo does not claim to have turned the situation around. He says his

main priorities are "creating productive jobs, investing heavily in health, education and nutrition and rooting out corruption. We realize that in the globalized world in which we live, Peru has to compete for access to capital. Political, economic and legal stability are all of vital importance in engaging with the investment flows that can launch Peru's short-term recovery, and lead to a period of sustained growth. Our primary concern is attacking poverty, but we know we will never get anywhere by patronizing its victims. We want to teach people how to fish, rather than serve them a fish dinner." As Mr. Dañino adds, "the main mission of the government is the outright fight against poverty."

But what exactly has the government done by way of turning these good intentions into on-the-ground change? A typical example is that 50% of all revenue from privatization of state companies is set aside and used to build decent roads. As

Transport Minister Luis Chang says, "the other day I was talking to some farmers who told me they were being offered one sol, that is a third of a dollar, for a box of 15 papayas. Just transporting that to Lima or Callao would cost three times as much, and the fruit would half spoil before it got there. But if a highway existed to cut travel time from 36 hours to eight, it would become a viable business for everyone concerned, farmers, shippers and exporters."

In addition to the nitty-gritty issues, analysts say that President Toledo's agenda will have to tackle the big issues such as structural reforms, significant investment in research, development and human cap-



STAND AND DELIVER Alejandro Toledo, President of the Republic of Peru.

ital, and creating public institutions that are untainted by corruption and responsive to people's real needs.

Of course, all this requires major financing, and this will not be easy to come by now that the world economic downturn has cut growth expectations to 1% for the current year, as compared with last year's 3.1%. Deputy Minister for

Integration and International Trade Negotiations Alfredo Ferrero says that if the government gets it right, Peru can become competitive in productivity, cost-efficiency and with its know-how, particularly in the textile, mining and fishing industries, and niche products taking advantage of the country's more than 180 micro-climates.

FACTS & FIGURES

POPULATION
27,483,864
(July 2001 est.)

AREA
496,200 square miles.
Slightly smaller than
Alaska

CURRENCY
Peru Nuevos Soles
(PEN)

EXCHANGE
1 US\$ = 3.34 PEN

CAPITAL
Lima

GDP
\$123 billion (2000 est.)
purchasing power parity

RESOURCES
Natural resources
include: copper, silver,
gold, petroleum, timber,
fish, iron ore, coal, and
phosphate

INDUSTRIES
The country's industries
include: the mining of
metals, petroleum,
fishing, textiles, clothing,
food processing,
cement, auto assembly,
steel, shipbuilding,
metal fabrication

The president's priorities are to invest in health and education, and to fight corruption

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ATPA extension vital to Peruvian trade

CURRENTLY UP FOR REVIEW BY THE U.S. CONGRESS, THE ANDEAN TRADE PREFERENCE ACT (ATPA) ALLOWS OVER 6,000 PERUVIAN PRODUCTS TO ENTER THE U.S. AT ZERO TARIFFS

START A CONVERSATION about U.S.-Peruvian relations these days and before too long it is bound to turn into a discussion of ATPA, the Andean Trade Preference Act. The United States is the largest customer for Peru's exports (30%) and provides the Andean country with roughly the same percentage of its total imports. Since 1991, ATPA has allowed all but a handful of products from Peru, Bolivia, Colombia and Ecuador to enter the U.S. market on zero-tariff basis. This December, it must be renewed without change, renewed and rewritten, or scrapped altogether.

The Bush administration supports having ATPA extended and expanded to cover exports currently excluded under the act—principally garments and textiles. But approval is far from certain in Congress, where members are careful not to tread on the toes of agribusiness interests at home. Foreign Minister Diego García Sayán argues that, "all the Andean countries taken together could not produce more than 1.4% of overall U.S. textile imports, and much of that is in specific high-end, non-mainstream wool and cotton varieties. If those exports were to double, it would make a world of difference for us."

The Vice President and Minister of Industry, Tourism, Integration and International Trade Negotiations, Raúl Diez



RAÚL DIEZ CANSECO TERRY
Minister of Industry, Tourism, Integration and International Trade Negotiations

Canseco Terry, adds that the ATPA debate is particularly important in the light of the forthcoming introduction of the Free Trade Area of the Americas (FTAA). "The Bush administration is going to push to have FTAA ready by 2005, which means that Peru must prepare its whole economy in order to become an exporting country. So far, Peru has had a protected and closed economy and ATPA represents an important step to enable us to adjust to this new environment."

ATPA was created as an incentive for crop substitution, encouraging countries to eradicate the cultivation of the coca plant from which cocaine is made. Washington has praised Peruvian authorities for their success. As Deputy Minister for International Trade Alfredo Ferrero notes, "no cash crop anywhere in the world is as profitable to grow as the

coca bush." Opening up U.S. markets to goods has helped offer Peruvian farmers alternatives, and one out of every four asparagus eaten in the United States is grown in Peru.

According to Jaime A. García Díaz of the American Chamber of Commerce, U.S. investment in Peru, while substantial, is perhaps not everything it should be. "Even so, in asset terms, Americans are the main investors, with \$8 billion tied up in the country. A U.S. company got the last major privatization, Electroandes, paying a 90% premium over the minimum bid."

In addition to trade and investment, the United States has provided Peru with over \$1.3 billion food, and disaster relief aid since 1990, while USAID's food assistance has reached 1.7 million Peruvians. Other programs offer financing and technical know-how for improving public health facilities and implementing environmental safeguards in the mining industry.

Finally, most of the two million Peruvians who live outside their country of birth (around 10% of the population) are in the United States. "We see these people as Peruvians working in a different setting for their country's future," says Mr. García Sayán. "Many were business professionals who fled an insurgency that cost 25,000 lives and inflation running upwards of 7,000% back in the 1980s. We would like to encourage all of them to stay in touch, contribute their input on the direction the country should be taking, and maybe eventually consider bringing the experience they have acquired back home. We certainly could use it."

One out of every four asparagus eaten in the United States is grown in Peru



MAKING ITS MARK Coca-Cola has joined forces with Inca Kola in Peru.

Coca-Cola makes gains in Inca territory

THINGS GO better with Coke in Peru too. So well in fact that the U.S. company's division in Peru, Coca-Cola Peru, has a consumer market penetration in the South American country of 90%, which is no small feat considering that Peru is traditionally a nation of fresh fruit drinkers, or considering the competition it had to overcome to chalk up those figures.

For some 65 years, the big name in the Peruvian cola industry has been Inca Kola, a brand name with as much of a foothold on the Peruvian psyche as Coca-Cola has in the United States.

"In Peru there has always been a connection between Inca Kola and the happy times in a person's life, and that association has been passed on through generations," notes Rodolfo E. Salas, country manager for Coca-Cola Peru.

So after years of pitched marketing battles, executives

from the two companies shared a Coke and an Inca Kola and agreed in 1999 to join forces and get on with the business of selling soft drinks.

"The truth is that it was an arduous competition for years," Mr. Salas recalls. "The joint effort was the best alternative, because the process of eating each other up prevented both of us from expanding the category."

"This is a business that requires us to visit our clients two or three times a week," adds




RODOLFO E. SALAS
Country Manager for Coca-Cola Peru

Mr. Salas. "And this frequency means we need a large number of trucks and salespeople. Now we have been able to expand at a faster rate and improve our system of routes."

Mr. Salas takes pride in the fact that Coca-Cola Peru and the bottlers play an important social role in the country. Creating employment and raising funds for relief programs for the less fortunate, and for those who have suffered economic setbacks, are just a couple of examples, he explains.

"The secret is that Coca-Cola does not try to present itself as an American company that happens to be in Peru, but as a company of Peruvians that has its headquarters in the United States. And that's something that's especially important for us. We understand that we are neighbors in Peru, and so we have to take an active role whenever we can as part of our civic duty."






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Republic of Peru

3

Spanish presence revitalizes Peruvian telecoms

U.S. BUSINESSES eyeing opportunities in Peru would be advised to take a close look at Spain, which is currently the source of most of the foreign investment coming into Latin America.

The Spanish telecommunications giant Telefónica, for example, invested more than \$3.2 billion in Peru between 1994 and 2000. By the year 2003, the multinational plans to add another \$1 billion to that total.

The company's Peruvian subsidiary, Telefónica del Peru, has spearheaded the parent firm's huge expansion drive in the country since it won a public tender during Peru's privatization of the industry's two state-owned operators ENTEL and CPT in 1994.

Since then, Telefónica del Peru has added nearly a million fixed lines to the country's telephone network and has increased the number of mobile phone clients from 21,000 to 973,065. And, according to Telefónica del Peru Chairman of the Board Alfonso Bustamante y Bustamante, the company plans on being a leader in Peru for the long haul.

"Telefónica obtained a 20-year contract and every five years its progress on promised investments and goals for expanded services is revised. It already passed one revision of the contract, which also gives us exclusive rights as the country's long-distance and local operator for five years," Mr. Bustamante explains.

He also points out that the long haul means bringing Peru up to date as far as data transmission and telephone density are concerned, which currently runs about seven



ALFONSO BUSTAMANTE Y BUSTAMANTE
Chairman of the Board of Telefónica del Peru

lines for every 100 inhabitants while the average in similar countries ranges from 14 to 20 per 100 people.

"We have a clear advantage to tap into the huge opportunity that this presents," Mr. Bustamante points out. "We have access to state-of-the-art technology thanks to the size and strength of our parent company and its huge presence in the world (some 50 countries). So we can develop our own technologies and we have the resources to acquire others."

Telefónica del Peru has added a million fixed lines to the telephone network since 1994



TELEFÓNICA

INTERNATIONAL REACH
Thanks to the investment of Spanish operator Telefónica, Peruvian telecoms is catching up in terms of data transmission and telephone density.

Diversifying a growing economy

A KEY MEMBER OF THE ANDEAN COMMUNITY AND THE ATPA REGIONAL TRADE AGREEMENT, PERU NEEDS TO DIVERSIFY ITS EXPORT BASE TO IMMUNIZE THE ECONOMY FROM PRICE FLUCTUATIONS

PERU'S NEW government has taken a strongly pro-active stance regarding transnational economic integration, linking the nation first with its immediate neighbors, then on a regional and continental basis, and ultimately as part of a network that spans the entire hemisphere.

According to Deputy Minister for Integration and International Trade Negotiations Alfredo Ferrero, "it is impossible for any country to make progress and create employment unless there is trade. In that respect, Peru's potential has not yet been fully realized."

The negotiated settlement of a festering border dispute with Ecuador has helped reactivate the Andean Community trade group and allowed Peru's goods to access a 100 million-strong market in Bolivia, Colombia, Ecuador and Venezuela. Peru has also concluded an agreement with Chile that progressively reduces and will eventually eliminate tariffs on both countries' goods.

With its largest trade partner, the United States, the Andean Trade Preference Act, currently up for review by the U.S. congress, allows 6,200 Peruvian products to enter the U.S. at zero tariffs, but unfortunately does not cover key items such as



JORDI BLASSI

SHEAR STRENGTH Peru's leading position in sectors such as textiles, fish meal and gold will enable the country to take full advantage of the ATPA trade agreement, if passed by U.S. Congress.

textiles. Consolidating and strengthening all of these arrangements helps lay the groundwork and qualify Peru for a post at the starting gate if the Free Trade Area of the Americas gets off the ground in a few years' time. As Vice President Raúl Diez Canseco Terry has to acknowledge, "globalization is calling the tune, and we have to dance to it along with everyone else."

Nevertheless, the vice-president says, there is no getting around the fact Peru has never been much of an export-oriented country. On a per capita basis, its exports amount to barely \$240, while for Costa Rica they total \$1,800 and in Chile, which has roughly the same population as Peru, \$1,040. Mr. Ferrero's view is that trade involves much more than just commodities and manufactured goods. "It means services, investments, exports imports, transportation, tourism, agriculture, dumping, competition policy, intellectual property rights, market access, dispute

resolution, tariffs. And, as such, it is a key part in the configuration of the entire state."

As the country must rely on its output on primary products, its offer has to be diversified (53% of exports are minerals and oil) to immunize the economy from market distortions and price fluctuations.

"Fish meal, gold and commodities sell themselves. All one has to do is to see that they enjoy fair and equal market access. But there



ALFREDO FERRERO
Deputy Minister for Integration and International Trade Negotiations

are a number of products that Peru is well placed to develop for the external market. We need a fair deal from our partners, but we also need exportable goods to take advantage of it," Mr. Ferrero says while noting that Peru produces only 700 of the 6,200 product categories that are entitled under ATPA.

The private business community has been nodding its approval at the professionalism and seriousness of President Toledo's economic team. The policy guidelines that his administration has presented get a thumbs-up from CONFIEP, the National Federation of Private Industry, though its president, Julio Favre Caranaza, cautions that time will be needed for them to show results. "The worst that could happen is for people's pent-up frustrations to give rise to unrealistic expectations. But we definitely think that in 2002, the economy can grow 5-6% and by the following year, everything will be in place for a 7-8% steady growth."

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THE DEVELOPMENT OF PERU'S HUGE PROMISING MINING INDUSTRY CONTINUES APACE, WITH PRIVATE INVESTORS SET TO PLAY A FULL PART

MILLIONS OF YEARS ago the soaring peaks of the Andes thrust through the surface of the planet and brought with them the gold that was later to be cherished by the Incas as the tears of the gods. These and other mineral deposits today provide Peru with 45% of its export earnings and 20% of overall government revenues. Some 6.5% of the country's GDP comes straight out of the ground.

Peru is the world's second-ranked silver producer, third in zinc, tin and lead, fifth in copper and eighth in gold. On its own list of revenue sources, gold comes first, followed by zinc. But as the Minister for Mining and Energy Jaime Quijandria Salmón acknowledges, there are aspects of the mining industry that cannot be measured in money terms, such as generating employment in remote areas and its ability to attract key infrastructure, particularly transportation and communications networks.

"Unfortunately, being a primary commodity exporter, Peru is especially vulnerable to international price fluctuations. Mining, however, has several advantages, not least of which is its ability to generate foreign currency," says President Toledo. Still early into his administration, privatization plans are mainly focusing on the oil and natural gas sectors, although very large mining tenders have been awarded, such as the Pierina gold mine and the Antamina copper-zinc operations. U.S., Mexican, Australian, Canadian and Japanese firms have all taken up sizeable stakes in the industry.

The mining sector emerged remarkably unscathed from the recession of 1998-99, which saw the meltdown of Peru's Asian markets and commodity price turmoil. In 2000, mining grew by 7%—the strongest performance of any single sector of the economy. Interestingly, much of that upward

momentum came from gold. Though world prices were listless, gold output climbed sharply by 14.3% and 3.8%, thanks to the consolidation of large-scale mega-projects, before falling off in the first half of the current year. Other non-ferrous minerals also did extremely well and seven of the biggest companies posted revenues of over \$100 million. Investment flows are another indicator of the prevailing climate in the industry. The Compania Minera Antamina channeled \$100 million to build a new port and ore pipeline terminal at Huarmey, while the Anglo-American Group put up \$827 million for its open-pit copper project at Quellaveco. As Mr. Quijandria confirms, "there are leading U.S. companies operating in the

Peruvian market and we hope that they will expand their activities."

But at the end of the 1990s, even as output and revenues were soaring (and perhaps precisely because they were) the Fujimori administration took a series of moves that dismayed prospective investors and veteran operators alike by rewriting contracts and raising royalties.

The \$9 billion that had been channeled into the industry over the past decade began to trickle off, and \$300 million earmarked for exploration was put on hold. Says President Toledo, "I've told my minister to come up with a law that offers every incentive to encourage exploration for new petroleum and mineral deposits." Mr. Quijandria insists that legislation now in the works will contain ironclad guarantees "that will attract the \$1 billion we need to see pumped into the sector over the next five years."



COMPANIA MINAS BUENAVENTURA

A WEALTH OF RESOURCES As part of its process of economic liberalization, Peru is actively encouraging the participation of foreign investors in its hugely profitable mining industry.

U.S. taps into Peruvian riches

MINERA YANACOCHA, LOCATED IN NORTHERN PERU, IS CENTRAL AMERICA'S LARGEST GOLD MINING COMPLEX, WITH PROVEN RESERVES TOTALING SOME 37 MILLION OUNCES

GOLD MINING in Peru is centered in the rich Yanacocha gold district in the northern part of the country, and is the site of a complex of five gold mines and several major processing facil-

ities all operating under the name of Minera Yanacocha, a joint venture mining operation that marked the first foreign investment in Peruvian mining in more than 20 years. The two

main stakeholders of Latin America's largest gold producing mining complex are the U.S. company Newmont (51.35%) and Compania de Minas Buenaventura (43.65%).

Last year, before construction of Minera Yanacocha's fifth open mine pit was complete, production was a whopping 1.8 million ounces, and there is a lot more where that came from as proven

reserves are in the range of 37 million ounces.

"There's no question that we have great potential, but we need stable conditions in order to attract capital over the long term," notes Carlos Santa Cruz, general manager of Minera Yanacocha. "In our case, four years ago we were talking about a mine that had a potential life span of seven or eight years, now we're talking about as many as 20 years at the current rate of production, and even more if we continue exploring the area."

Mr. Santa Cruz says the main secrets to the mine's success are, of course, its huge deposits of gold, silver and other minerals that are ripe for mining, but also the smooth working relation-

ship between Newmont and Buenaventura, and the special care Minera Yanacocha takes concerning environmental issues.

"There has been a process of technology transfer that has worked exceptionally well since the beginning. The combination of Newmont's know-how and the local personnel has gelled so well that today we have a fundamentally sound operation," Mr. Santa Cruz says. "Wherever domestic capabilities fall short, we bring know-how in from wherever we have to. If Newport has the solution, it is provided to Yanacocha and in this way we have been advancing, and turning this company into one that is much more efficient."

The Buenaventura mining company holds titles to at least

Last year, Minera Yanacocha's production reached an impressive 1.8 million ounces



CARLOS SANTA CRUZ
General Manager of Minera Yanacocha



ALBERTO BENAVIDES QUINTANA
President of Buenaventura



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ten other mineral mines throughout the country, but the firm's president, Alberto Benavides Quintana, acknowledges that it was Buenaventura's discovery of the gold and silver deposits in Yanacocha, along with its partnership with Newmont, that signaled the rebirth of the Peruvian mining industry.

"It was believed that in Peru all the good deposits had already been discovered and that nothing new was going to be found. So when Newmont, in association with Buenaventura, discovered Yanacocha, it immediately sparked the interest of a host of new investors," Mr. Benavides recalls.

Buenaventura also has the added distinction of being one of only two Peruvian companies to be traded on both the Lima and New York stock exchanges. General manager Roque Benavides says corporate governance has brought many advantages to Buenaventura, above all showing that 50 years of technical and operational performance has its rewards.

"The difference in Buenaventura is that the company's growth has essentially been a product of its own exploration efforts and not through mergers and acquisitions," he stresses.

Breaking the tariff barrier

OFFICIALS CALCULATE THAT GETTING TEXTILES UNDER THE ATPA FENCE WOULD ALLOW PERU TO INCREASE COTTON CULTIVATION FROM 54,000 TO 250,000 HECTARES OVER FIVE YEARS

PERU'S TEXTILE INDUSTRY appears to have everything going in its favor, starting with 15 straight years of steep growth. Production of finished garments accounts for three-quarters of all output, and has been increasing by an average 22% annually to become the coun-

try's fourth-ranking source of export revenue, while contributing over half a billion dollars to its GDP.

Most of the sector's restructuring and expensive equipment upgrades were undertaken about a decade ago, so companies' debt burden is well within manageable

parameters. In addition to the products' high value-added component, around 80% of total output winds up in the United States. What, then, appears to be the problem?

Put the question to any one of the more than 380 firms operating in the sector and you will receive

exactly the same answer: it is about obtaining preferential access to the U.S. market so Peruvian textile products can compete on equal footing with Mexico's, which enter the United States duty-free under NAFTA.

As things stand at present, textiles with a made-in-Peru label are excluded from the ATPA preferential trade agreement and sub-



JUAN FRANCISCO RAFFO
Chairman of Textil San Cristóbal

ject to an average tariff of 20%, rising to 31% for Peru's star alpaca fiber. Yet these same goods account for a piddling 0.66% of total U.S. textile imports worth \$53 billion, says Peruvian Vice President Raúl Diez Canseco Terry, so it is hard to argue a case for this being unwelcome competition.

"The United States would scarcely notice the difference, but it would have a tremendous impact here, creating 120,000 new agricultural jobs and as many more in manufacturing, not to mention giving farmers an incentive to change over from growing the coca plant, from which cocaine is made, to cotton. All you need is a market for what you grow."

Officials calculate that getting textiles under the ATPA fence would



TEXTIL SAN CRISTOBAL plant in Chinchá, one of the most advanced textile factories in South America.

Continued on page 6



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WINDOWS OF OPPORTUNITY IN A WORLD OF TRADE

At the heart of the dynamic Latin American market and with ties to both Asia and North America, Peru is poised to become the region's most versatile exporter. Thanks to the efforts of the Vice Ministry of Integration and International Trade Negotiations, Peruvian products are finding their way into an ever-greater number of countries around the world.

Ministerio de Industria, Turismo, Integración y Negociaciones Comerciales Internacionales (MITINCI)

Continued from page 5

allow Peru to increase cotton cultivation from 54,000 to 250,000 hectares over a five-year period. At the present time, Peru buys around half the cotton it uses to make these textiles from the United States.

Relying to a large extent on its own materials has allowed the Peruvian sector to structure itself with a high degree of vertical integration, from fabric weaving to final assembly. Although some 50 Peruvian companies can boast annual sales of \$1 million or more, the government is actively encouraging smaller businesses to look abroad for opportunities by offering them training in international marketing techniques, quality control and other essentials.

What about prospects for Peruvian fabrics in the rest of the world? Of the 20% of output that does not get shipped to the United States, E.U. countries take 17%. Since 1990, Peruvian textiles have been exempt from import duties in Europe.

As chairman of Textil San Cristóbal, a company that has extensive dealings with major brands on both continents, Juan Francisco Raffo is in a position to give an assessment. "Our sales break down almost exactly the same as at the national level, so although the aggregate markets are roughly the same size, I would say there is a big difference in consumer spending patterns. Then there is the fact that other countries such as Portugal and Turkey, have been granted the same favorable treatment that we have, but they are closer at hand and can beat us on freight costs."



JUAN BAUTISTA ISOLA DE LA PEÑA
Managing Director of Textimax

PERU IS STREAMLINING ITS ALREADY COMPETITIVE TEXTILE SECTOR BY INVESTING HEAVILY IN HUMAN RESOURCES AND UP-TO-DATE TECHNOLOGY

PERU'S DYNAMIC textile industry is currently gearing up for what may be the sector's most important opportunity ever for massive growth. The upcoming congressional vote in the United States on whether to renew and expand the Andean Trade Preferences Act to include textile will not make or break the already thriving industry in Peru, but it would surely represent an important boost.

There are a handful of textile companies in Peru that stand to gain considerably with the expanded legislation. Topping the list, of course, are those that export extensively to the U.S. where Peruvian quality and dependability is well known among U.S. industry leaders.

The largest player in Peru's most important industry is Creditex, a fully integrated company that produces top quality finished products and fabric for export worldwide. Some 87% of its sales, however, are earmarked for the U.S. market despite restrictive import tariffs as high as 21%.

The secret to its success, says Creditex CEO Frederick Horny, is the quality of its cotton. "The difference is basically in the fiber with which we work, pima cotton. There is a very high demand for it world-

wide and especially in the U.S., where a huge marketing advantage for wholesalers and retailers is being able to say that their products are 'made with Peruvian pima soft light cotton'. There are not many companies in Peru that work with pima besides us."

Peru's Universal Textil has some 50 years' experience in the industry and is a leader in the use of synthetic materials that it mixes and matches into fabrics under its own registered brand names. It is one of the few formal and well-organized companies in the sector that successfully targets the domestic market.

But according to Universal Textil CEO George R. Schofield, "for the last 18 years we have been exporting to the United States on a regular basis. The possibility to grow in the domestic market is very low."

Juan Bautista Isola de la Peña, managing director of Textimax S.A. would be one of the first to agree. A whopping 99% of his 10-year-old company's products are exported to the United States. "It all goes to the U.S., and I'm convinced the U.S. is the natural market for Peru. The possibilities the American market can offer us are far superior to developing the Latin American or European market."

Textimax has a sewing capacity of around 650,000 pieces per month, and as a vertically integrated factory with complete control of the entire process, from yarn spinning to finished garment. It is able to give its clients—which include several top-of-the-line brands in the U.S.—just what they want in terms of quality, cost and delivery.

The Peruvian textile company with the catchy name of Topy Top began selling its own brand

throughout Latin America in 1995, and in 1997 began exporting prestigious brands under the contract manufacturer system, including The Gap, Old Navy, Zara, Puma, Reebok, Billabong and others, mainly to the U.S. and Europe.

"Nearly 70% of our production is for export," Topy Top president Manuel Flores explains. "Most is earmarked for the U.S. market, but for some of our clients, like Guess, DK and Zara, we also send to Europe and some goes out to Chile and Venezuela." Topy Top owns a modern industrial complex in the capital Lima that houses about 1,000 employees.

Textil San Cristóbal is counting on honing its competitive edge through investment (\$20 million



MANUEL FLORES
President of Topy Top



FREDERICK HORNY
CEO of Creditex

over the past four years into its Chicha and Lima plants) and innovation, organizing its 3,000-strong work force into autonomous task groups, using systems analysis techniques to rationalize production flows, and offering its employees incentives based on

teamwork rather than individual performances. "The country has two great advantages, unique natural fibers and a skilled work force," says Mr. Ruffo, whose firm last year posted annual sales of \$55 million, \$40 million of which was generated in the U.S.



POULTRY HOUSE of San Fernando, a leading group in the food business in Peru.

The cream of the crop

PERU POSSESSES SOME OF THE WORLD'S MOST LUCRATIVE CASH CROPS. A FAR-REACHING PROGRAM IS NOW AIMING TO REJUVENATE THE COUNTRY'S AGRICULTURAL AND FISHING INDUSTRIES

JUST LIKE Peru's large mining industry, the country's agriculture sector, which accounts for some 15% of GDP, has the potential for bringing home the gold. Indeed, President Alejandro Toledo's administration stresses that agribusiness holds the key to job creation and economic growth.

And since the industry has been lagging behind in recent years, there are plenty of opportunities for investors to cultivate. Both analysts and farmers agree that the country needs to get to work on identifying its strengths, attracting investment in new technology and pushing open the door to new markets if it wants agriculture to become an important player of the export sector.

"We only have so many hectares with which to work, and so we have set some pretty simple goals that focus on about seven traditional crops," explains Agriculture Minister Alvaro Quijandria Salmón. "We cannot go back to the old way of doing things, and if we don't find a way to make these crops more profitable, the agriculture sector will languish."

Thus, the current administration has embarked on a far-reaching program to attract investments and improve agro-industry technology.

"By spurring investment, we could triple production of non-traditional agro-industry products within five years and compete with countries like Chile, which has a strong export base," Mr. Quijandria predicts.

And that has been one of the secrets of the Avicola San Fernando poultry company, which last year invested \$7 million to purchase machinery and to boost production of prepared foods that also includes pork products. "We are preparing to become huge exporters," explains general manager Alberto N. Ikeda when asked about the multi-million dollar investment. "We already export to Colombia, Venezuela, Ecuador, Mexico, Central America and Japan, and a lot of the investment went into making our plants meet ISO standards."

The company sells directly to consumers in Peru at five of its own stores as well as other supermarket chains. It is also the exclusive supplier of chicken for KFC and Burger King in Peru.

Peru's huge fishing industry has done its fair share of propping up agribusiness exports at a rate of \$1.2 billion per year, or about 20% of the country's total exports. The fishing sector leader is without a

doubt Austral, with its fleet of some 50 vessels and manufacturing capabilities that make it a regional leader in the production of canned fish and high-tech fishmeal and oil.

"Peru is perhaps the richest fishing country in the world, with some 2,500 kilometers of Pacific coast that extends some 200 miles into open seas," notes Austral CEO Juan Rodolfo Wiesner, who adds that recent outbreaks of disease that have restricted meat consumption in the world, especially in Europe and parts of Asia, mean consumers are turning to animal protein from the ocean as a basic alternative.

"We believe that the fishing sector is going to have an even brighter future within the next few years," Mr. Wiesner says. "And we see a fundamental change evolving in the business side of the activity that we believe will spark interest and result in more foreign investment in the industry."



JUAN RODOLFO WIESNER CEO of Austral



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Peru

Republic of

7

Selling Peru's thousand year-old culture

INVESTMENT IS NEEDED TO MAKE ONE OF LATIN AMERICA'S MOST NATURALLY AND CULTURALLY DIVERSE COUNTRIES MORE TOURIST-FRIENDLY

THANKS MAINLY to the Incas and their knack for building to last, Peru has always been entitled to its pin on the world map of tourist destinations. In fact, visitor numbers had been growing steadily by over 20% annually since the terrorism problem was brought under control in the mid-1990s, and were approaching 600,000 in 2000 until political unrest led to cancellations (particularly by Japanese visitors), and slashed growth to half of what had been expected, to 8.3% for the year.

A simple recovery would bring Peru an estimated \$1 billion in revenue, just over 4% of overall GDP. But President Toledo says he intends to significantly increase the number of visitors by the time his term is up in 2006. He has set up a new ministerial-level entity, the National Tourism Council, and proposed to exempt foreign tourists from the 18% sales tax on their bills for food and lodging, and possibly internal transportation outlays as well.

Why the special emphasis on tourism? The government is aware that its components favor his larger

social goals as it brings in foreign currency, and creates direct and indirect employment at all skill levels. More importantly, tourism turns transportation infrastructure deficiencies into immediate priorities and exerts a powerful decentralizing force on the economy. In Peru, moving economic activity away from the big urban centers and into the hinterland is a big political issue, not least of all for the president, whose childhood was spent in the countryside.

President Toledo intends to significantly increase the number of visitors by 2006

"Tourism is a barometer of any given country's political and economic stability," says Vice-President Raul Diez Canseco, who also holds the Commerce, Tourism and Industry cabinet portfolio. Air links, especially from the United States, are still a major problem, though Lima airport was recently put under private management in a bid to get it modernized. Road links through so mountainous a country are major headaches.

Large-scale investment in infrastructure will therefore have to go hand-in-hand with promotion and diversification of the offer if the pres-

idential goal is to be met, notes the Deputy Minister for Tourism, Ramiro Salas Bravo. "You can have the prettiest spot in the whole world, but it won't do you a bit of good if there's no way of getting there." Mr. Salas believes Peru needs to emphasize the multiplicity of its attractions: wildlife, nature and ecotourism, the Amazonian rainforest, mountaineering and extreme adventure sports, an incredibly rich indigenous culture. Offer visitors a little bit of everything, and it could go a long way, in his view.

And, of course, you have Peru's archaeological heritage, which is more than just Cuzco and Machu Picchu. The ruins at Kuleap, deep in the northeastern jungle, are no less magnificent for being seldom seen. Mr. Salas comments: "think of Egypt and you think of the pyramids but the pyramids aren't Egypt. By the same token, there's much more to Peru. It's a series of cascading cultures and civilizations, from the Nazca and Paracas that pre-date the Incas, to their modern day Quechua-speaking descendants."

PromPeru is the agency tasked with promoting the country in order to attract investment in tourism, while carrying out market surveys that will help to orientate policy-making in both areas. Its secretary-general, Maria del Rocío Vesga, agrees with Mr. Salas. "All our research indicates Peru is perceived as a historical-cultural destination. Not for its beaches, not for ecotourism, not for adventure trekking or new-age mysticism. What makes us different from Mexico or Egypt is that here, the past is not past. We see our only real competition from Guatemala, where they have developed this idea very intelligently, we want to position Peru as another place where a vibrant and colorful 1,000-year-old culture is still very much a way of life."



MARIA DEL ROCÍO VESGA
Secretary-General of PromPeru



F. RAMIRO SALAS BRAVO
Deputy Minister for Tourism



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PERU'S IMPRESSIVE HOTEL INFRASTRUCTURE, ALONG WITH THE LEGENDARY HOSPITALITY OF ITS PEOPLE, HAVE ENABLED TOURISTS TO SHARE IN THE COUNTRY'S MANY TREASURES

ONE AREA of its tourism infrastructure that Peru can already be justly proud of is the Peruvian people's genuine hospitality. That pleasant characteristic, which never falters even

under the most difficult of conditions, is what makes a visitor's stay in one of the country's hotels a memorable experience.

"I have just arrived in Peru

faced with the task of opening up a hotel and casino in about a year, and assembling a team of 500 employees. My number one most pleasant surprise has been the people," says William Hulbert, general manager of JW Marriott Hotel and Stellaris Casino Lima. "I have found that whether it's from the outside government or from the internal business community, or from the people who are working in the hotel, it has been very easy to bring this business to Peru. The people have welcomed us and they've done so very enthusiastically."

The Marriott hotel network has about 2,000 sites worldwide, but of those, only 17 match the quality standard of the JW Marriott in Lima. "There

Continued on page 8



LUIS E. GÓMEZ
Director of Country Club Lima Hotel



FILIP BOYEN
General Manager of Orient-Express Hotels, Peru





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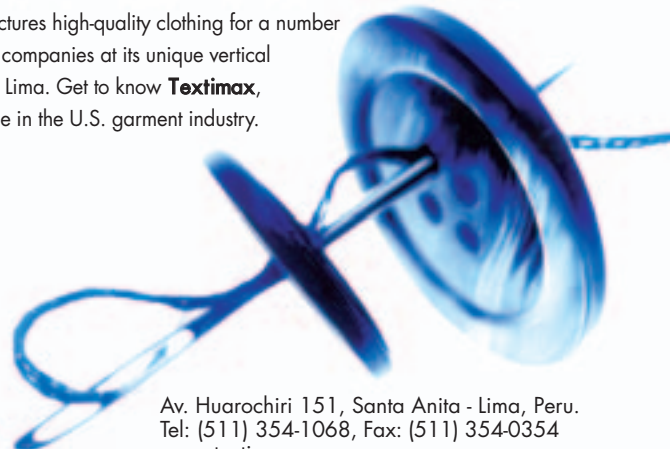
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Republic of Peru

International airline group aims high

FOR OBVIOUS reasons, getting tourists into Peru is one of the fundamental priorities of the current administration's plans to make the tourism sector a steady source of foreign earnings and jobs. Special importance has been placed on the newcomer LanPeru airlines, a subsidiary of LanChile that has been operating since 1999 with a handful of domestic flights, direct international routes to Miami and service sharing agreements with LanChile for flights to Los Angeles

LANPERU is a subsidiary of LanChile, member of the ONE WORLD ALLIANCE. LanPeru connects Peru with the world's most important cities.

and New York. The Lan group, however, has been operating in Peru for 73 years with annual sales topping \$400 million.

"Currently we have around 600 direct employees and are expanding our fleet and number of routes, which has allowed us to increase passenger traffic by 120,000, or 40% more than the previous year," says Sergio Purcell Robinson, CEO of LanPeru.

Internationally, Mr. Purcell says LanPeru is working on building up a South American regional hub that will eventually serve the United States. "We are already flying to Miami, Los

Angeles and New York. Now we are developing routes into the Caribbean region. In fact, we have opened offices in Mexico, Venezuela, Colombia, Ecuador and Europe."

He adds that special attention is being placed on Argentina, which is a natural market for Peru and one of the countries with the largest number of potential tourists for Peru. "Right now, there are only two flights a day between Lima and Buenos Aires, while there are 16 a day between Santiago and Buenos Aires. The difference is abysmal and so the tourist potential is huge."

The Lan group has been operating in Peru for 73 years and has annual sales of \$400 million



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is only one tier in Marriott that is at a higher level and that's Ritz Carlton, which Marriott owns," Mr. Hulbert explains.

The difference is in the quality and size of the rooms and upgraded decor features like marble, granite and carpeting imported from England. "But the most important thing of all is the level of service," Mr. Hulbert stresses. "Because at the end of the day, you can look at everything and have a hotel with good curtains and carpeting, but the service level is where the customers put their emphasis."

Service and attention to detail are also what sets the British-owned group Orient-Express apart. Its operations worldwide include luxury trains and cruises as well as hotels. In Peru, the Orient-Express Hotels Peru chain owns three top quality hotels: the Machu Picchu Sanctuary Lodge, located alongside the ancient Inca citadel of the same name; the Hotel Monasterio Cuzco, originally built as a monastery in 1592 in the heart of the Andes; and the Miraflores Park Plaza, which includes three presidential suites with their



WILLIAM A. HULBERT
General Manager of
JW Marriott Hotel and
Stellaris Casino Lima

own living and dining areas as well as a jacuzzi, sauna and plunge pool. The Lima location has also earned the Small Luxury Hotels of the World seal of quality.

For the more demanding tourists looking for tradition, quality and service, the newly renovated 74-year-old Country Club Lima Hotel fits the bill perfectly. This five-star classic is one of the few remaining luxury hotels in the capital Lima that does not belong to an interna-

tional chain, and therefore has a uniqueness that epitomizes Peruvian tastes.

And while demand for hotel rooms is growing, so is the number of hotels and that keeps prices down. Which is why Luis E. Gomez, CEO of Country Club Lima Hotel, says now is the time to try out the elegance of his establishment. "We are not a cheap hotel," he notes. "We are at the high end of the spectrum, and have a strong market of 'luxury' business travelers. But we believe that with this new government and its more open-minded outlook, there will be more and more businessmen interested in coming to Peru."

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