

B. IMPACT OF GLOBALIZATION – PERU

The section on Latin America shows mixed outcomes from globalization for the countries of the continent and many see them as disappointing. The country sections demonstrate that the differences in outcomes are mainly due to national policies.

In Peru social conditions actually improved significantly over the past twenty years.

The indicator of human development increased continually and people benefit of higher living standards. More and more people are counted among the middle income class, but poverty remains. The following pages will put some of these developments into context.

P. 1 Effects on Income Levels and Living Standards

GDP in Peru increased significantly during the last ten years, and the outlook remains positive.

REAL GDP GROWTH IN PERU

	91–2001	2001	2002	2003	2004	2005	2006	2007	2008*
GDP	+4.3	+0.6	+5.2	+3.9	+4.8	+6.7	+8.0	+7.1	+5.5
GDP p.c.	+2.6	-1.4	+3.6	+2.5	+3.3	+5.1			

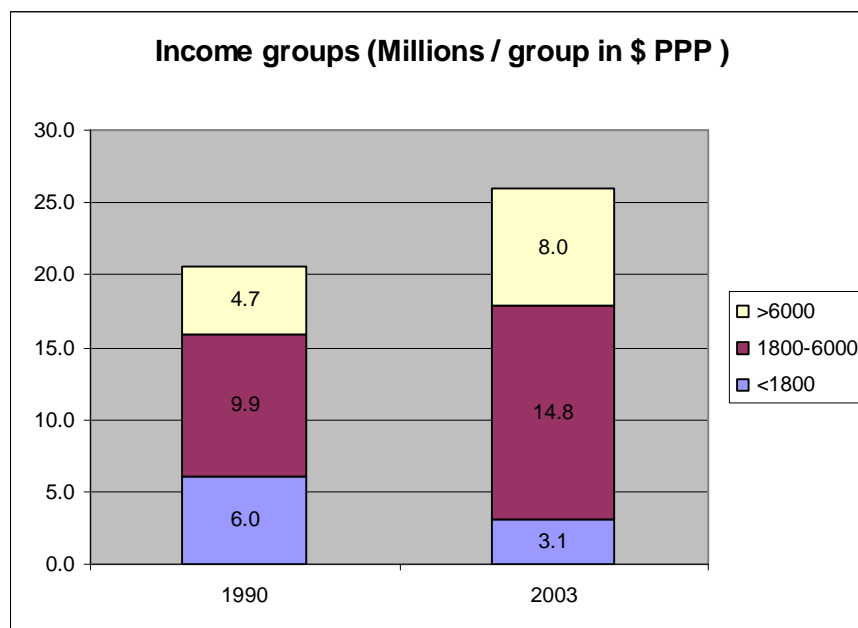
*Source: World Bank; IMF. *estimates*

As a result of the growth – and despite some minor deterioration of the Gini coefficient, the number of people living below PPPUS\$ 1,800 a day was massively reduced, between 1990 and 2003 8 million Peruvians entered an income level above this threshold.

PERCENTAGE SHARE OF INCOME PER QUINTILE OF POPULATION IN PERU

	1996	Δ	2003
Lowest 10%	1.9%	-0.6	1.3%
Lowest 20%	4.9%	-1.2	3.7%
II quintile	9.2%	-1.5	7.7%
III quintile	13.7%	-1.5	12.2%
IV quintile	21 %	-1.3	19.7%
Highest 20%	51.4 %	+5.3	56.7%
Highest 10%	35.4%	+5.5	40.9%

Source: WorldBank (world development indicators 2007).



Source: World Bank

Along with the prosperity, the Human Development Indicator as measured by UNDP shows a general improvement in three important Human Development dimensions (literacy rate, life expectancy and infant mortality).

The indicator improved from 0.69 to 0.75, placing Peru in the midfield of the countries included in the UNDP exercise, close to the average of Latin America.¹

HUMAN DEVELOPMENT INDEX TRENDS, 1985 – 2004

	1985	1990	1995	2000	2001	2002	2003	2004
World	--	--	0.772	--	0.722	0.729	0.741	0.741
DC*	--	--	0.586	--	0.655	0.663	0.694	0.679
Peru (82/151⁺)	0.691	0.704	0.730	0.747	0.752	0.752	0.762	0.767
LAC**	--	--	--	--	0.777	0.777	0.797	0.795

Source: Human Development Report 2006.

** Developing countries, ** Latin America and the Caribbean, + HDI Rank 2004*

¹ UNDP (2003), p. 237–238.

Peru improved its performance in three basic dimensions of the indicator.

SOCIAL STATISTICS FOR PERU, 1970 – 2000

	Literacy rate (percent)				Life expectancy (years)				Infant mortality (per 1000 live births)			
	1970	1980	1990	2000	1970	1980	1990	2000	1970	1980	1990	2000
Peru	72	80	86	90	54	60	66	69	108	81	54	32
LAC*	74	80	85	88	61	65	68	70	84	61	41	29
DC**	53	62	69	75	55	60	63	64	108	88	67	59

Source: World Bank. Taken from Williamson (2003), p. 3.

* Latin America and the Caribbean, ** Developing countries

To show how widespread human poverty is in a country, you can use the Human Poverty Index (HPI). While the HDI measures average achievement and the overall progress of a country in human development, the HPI-1 measures *deprivations* in the same three basic dimensions of human development captured in the HDI². The HPI-1 value is expressed as percentages and indicates the proportion of the population affected by the three key deprivations in their lives. Peru achieved an improvement also regarding the HPI-1. In the year 1997 Peru was placed on rank 28 with an HPI-1 value of 22.8 percent. Seven years later HPI-1 value was 11.6 percent and Peru ranked on place 25. This means that in 2004 every tenth Peruvian lived in poverty, 2.4 mio people less than in 1996.

² HPI-1 measures deprivations for *developing* countries, whereas HPI-2 captures also social exclusion and measures deprivations for selected OECD countries.

P. 2 Impact of globalization on Employment

In the majority of the Latin American countries the employment rate increased slightly or remained relatively flat until 1998. Since then it has fallen in several countries³. In the case of Peru total employment increased by 14 894 000 jobs in five years.

TOTAL EMPLOYMENT IN PERU (IN THOUSANDS / PERCENT OF URBAN POPULATION)

		1997	1998	1999	2001	2003	2005
Employment	Total*			7735.6	8182.1	3738**	3827**
Population	Total			25 230	26 400	--	28 000
Activity Rate	Total*	65.7%	66.8%	68.2%	68.8%	65%**	64%**
	Men*	78.0%	79.7%	79.4%	79.6%	75%**	75%**
	Women*	54.6%	55.5%	58.1%	59.0%	55.6%**	53.7%**
Employment– to–Population Ratio	Total			63.5%	60.6%	62.6%	63.6%
	Men			74.3%	71.7%	74.7%	75.3%
	Women			53.9%	50.8%	50.7%	52%
Employment f. Manufacturing and Services	Total			6790.9	6952.1	465.3**	529.6**

Sources: LABORSTA and ILO. Data for population from: World Bank.

* persons aged 15 years and over.

**Metropolitan Lima, excluding conscripts

³ Compare also to chapter 6, p. 73–74.

Looking at job creation in the single working sectors we can observe an increase in the agricultural sector and a decline in manufacturing. While in 1996 a share of 5.5 percent worked in agriculture and 14.8 percent in manufacturing, respectively, five years later the share of people working in manufacturing has declined to 12.5 percent. At the same time there is an increase of about 2.7 percent in agriculture, where in 2001 8.2 percent of the population earned its money⁴.

However, absolute values tell only half the story and have limited significance. Therefore we consult the employment-to-population ratio⁵ as a further indicator. It is the proportion of the civilian non institutional population that is employed⁶ and as an indicator it provides information on the ability of an economy to create jobs. Apart from a break-in in 2001, Peru improved its ability to create jobs year by year. The proportion of the population that is employed increased by seven percent in ten years. The share of employed women increased by more than ten percent, while the share of male employees grew by three percent.

⁴ LABORSTA, Tab. 2B, URL: <http://laborsta.ilo.org/> [18.07.2003].

⁵ ILO (2001a), KILM.

⁶ According to URL: <http://www.bls.gov/bls/glossary.htm#E> [16.07.2003].

P.3 The Costs of Institutional Constraints and the Benefit of Opening

FDI inflows were significantly above the 1996-2001 average between 2002 and 2006 showing Peru's increasing ability to attract foreign investment but also benefiting from a recent rise in FDI to South America.

The *Inward FDI Performance Index* benchmarks success in attracting FDI. It is the ratio of a country's share in global FDI flows to its share in global GDP. Countries with an index value of one receive FDI exactly in line with their relative economic size. Countries with an index value > 1 attract more FDI than may be expected on the basis of relative GDP. Countries with index values < 1 may suffer from instability, poor policy design and implementation or competitive weaknesses in their economies.⁷ In 1990 Peru was ranked 114 (of a total of 140 countries) with an index value of 0.2. Peru improved its score significantly. In 2000, with an index value close to one, more precisely of 0.8, Peru was almost balanced in terms of the FDI it received vis-à-vis its economic size.⁸ In 2005, with an index value of 1.55, the Peruvian economy ranked 72 and attracted a higher-than-expected share of World FDI.⁹

⁷ UNCTAD (2002a), p. 23.

⁸ UNCTAD (2002b), p. 26.

⁹ UNCTAD (2007)

Calculating FDI as percentage of GDP you get the following picture.

FDI INFLOWS AND FDI OUTFLOWS IN PERU

	FDI inflows (US\$ mio)	FDI inflows (% of GDP)	FDI outflows (US\$ mio)	FDI outflows (% of GDP)	Current GDP (US\$ mio)
1990–1995 (annual avg.)	1 004	--	4	--	--
1996–2001 (annual avg.)	1 106	--	74.5	--	--
1996	3 242	5.8%	-16	-0.03%	55 600
1998	1 842	3.2%	64	0.11%	57 000
2000	681	1.3%	92	0.17%	53 500
2002	2156	3.8%	60	0.18%	57000
2004	1599	2.3%	-215	-0.30%	69600
2005	2579	3.2%	60	0.07%	79300

Sources: UNCTAD, EIU

Inflows into and outflows from Latin America and the Caribbean rose in 2005 for the second consecutive year, thus recovering from a steady decline in FDI inflows between 1999 and 2003.

FDI into Latin America and the Caribbean declined between 1999-2001. In 2001 the region received 11 percent less than in 2000, which in turn was 13 percent lower than in 1999. As you can see in the chart this development does not entirely apply to Peru. Peru, too, received less FDI. But after the break-in a slight recovery can be stated for the year 2001 onwards. Concerning FDI outflows from Latin American countries, it has to be said that most of it remains within the region. In the years 2000 and 2001,

respectively, Peru was the eighth largest investor. Chile continued to be the largest investor.¹⁰

To evaluate a country's development in economic performance it is helpful to consult the data for its trade activities, too. Compared to 1991 Peru intensified its trade activities. Trade has increased significantly in recent years, following ambitious opening reforms and the signature of several free trade agreements (FTA with the U.S. is expected to boost Peruvian exports in 2006).

¹⁰ UNCTAD (2002c), p. 68.

TRADE IN PERU 1991 – 2004

	1991	1997	2000	2001	2004
Exports of goods and services (% of GDP)	9.87%	14.2%	16.0%	15.8%	20.9%
Imports of goods and services (% of GDP)	10.42%	18.6%	17.9%	17.3%	18.3%
Trade in goods as share of GDP (%)	--	28.9%	29.6%	29.1%	--
TOT (1995=100)	97	--	82	80	80

GROWTH IN EXPORTS OF GOODS AND SERVICES IN PERU

	81–91	1991–01	2000	2001	01–05	04–05
Exports (average annual growth)	-0.6%	+8.7%	+7.9%	+6.9%	+4.1%	+14.5%*

*Source: World Bank. * estimates*

This increase at the end of the 1990s is followed by a slight decline of trade's share of the GDP in the year 2001. However, according to preliminary estimates of the World Bank, the growth rate of exports of goods and services for 2004-2005 will reach a record 14.5% reflecting the country's new trade policy.

P. 4 Current and potential growth

Despite structural reforms Latin America has lived through a decade of slow growth. Actually, there is a gap between current and potential growth. Economic performance of most Latin American countries is worse under current conditions than it would be with stability and additional reforms. One possibility to measure how efficiently a country taps its potential is the Index of Economic Freedom (IEF). Economic freedom is defined as "the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself"¹¹. The key to prosperity is open markets and a fair and just system, that is sound institutions, particularly a strong rule of law¹².

One of the major findings of the index is a strong, positive correlation between economic freedom and income per capita. Property rights, regulations, and black market factors were found to have the highest significance in explaining the variation in per capita income across countries. This indicates that people invest, work, and consume where regulatory barriers are lowest and, most important, where property rights are well protected. Without the rule of law, societies have no mechanism to stop private abuses and public mismanagement¹³.

The IEF measures a total of ten different factors. For each factor, a country receives a score from 1 to 100 – where 100 is freest and 0 most repressed. Since 1996 Peru is categorized mostly free. It improved its score continually

¹¹ The Heritage Foundation (2000), p. 71.

¹² Eiras (2003), p. 1.

¹³ Roll/ Talbott (2002), in: Eiras (2003), p. 3.

till 2000, then a converse development took place. Today, Peru is almost on the same level as in 1998.

In 2003, Peru was classified *mostly unfree* or even *repressed* in "trade policy" and "government intervention in the economy", where it scores one point (a half point, respectively) worse than a year before. The scores in "property rights", "regulation" and "black market" are stable compared to 2002. That means that Peru still does not adequately protect private property, the country remains plagued by an inefficient bureaucracy, has low transparency and a highly active black market. When you look at previous years "monetary policy" is the only sector where you can constitute a clear improvement. All other factors remained stable or deteriorated during the last three years, after they had slightly improved at the end of the 1990s.

In 2007 Peru was classified "moderately free" in global economic freedom but it still ranked worse than at any other time. Peru scored below the world average in "property rights", "freedom from corruption" and "labour freedom". The country has not recovered from the strong index deterioration of 2002-2003. Compared to previous 1999-2000 levels, only business freedom and monetary freedom have shown significant improvement.

	1997	1999	2001	2003	2005	2007
IEF Rank	60	39	36	56	--	63
IEF average Scores	63.5	67.1	67.9	61.8	59	62.1
Business freedom	30	50	50	30	30	65.1
Trade Freedom	73.6	61.1	81.6	54.8	54.8	62.6
Fiscal Freedom	87	86.8	86.7	87.7	88.2	86.8
Freedom from government	92.7	90.8	92.1	88.2	79.7	92.2
Monetary Freedom	68.5	75.5	81.1	84.9	86.7	85.7
Investment Freedom	70	70	70	70	70	50
Financial Freedom	70	70	70	70	70	60
Property rights	50	70	50	30	30	40
Freedom from corruption	30	30	30	41	37	35
Labour Freedom					43.5	43.3

Source: Heritage Foundation

Considering the available data, there is evidence that Peru's critical scores are in the key issues to economic growth. At least in part, it's conceivable to blame these factors for the reverse economic development of Peru in the last years. Therefore it can be supposed that Peru could benefit more from liberalization and globalization with stability and additional reforms.

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ACRONYMS AND ABBREVIATIONS

bn	Billion (1 bn = 1000 millions)
ECLAC	UN Economic Commission for Latin America
EIU	Economists Intelligence Unit
et sqq	and the following
Δ	change
DC	Developing Country
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Index
HPI-1	Human Poverty Index for Developing Countries
ICSE	International Classification of Status in Employment
IEF	Index of Economic Freedom
ILO	International Labor Organization
LAC	Latin America and the Caribbean
KILM	Key Indicators of the Labour Market (of ILO)
mio	million(s)
p.c.	per capita
PPP	Purchasing Power Parity
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US\$	US Dollar
WBG	World Bank Group
WDR	World Development Report (of World Bank)

WIR World Investment Report (of UNCTAD)