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Market, capital and inequality: Lessons from the Peruvian experience as an emerging economy 2000-2011

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Abstract

Peru showed impressive indicators during 2000-2010 which made it to be considered as an emerging economy in Latin America. The GDP in the year 2000 was US$ 53,336mm while in 2010 increased up to US$ 176,604 mm. The stock of foreign direct investment started at US$ 13,019 mmin 2001 and by 2010 the FDI was about US$ 22,020 mm. The Gini Index changed from 0.485 in 2000 to 0.452 in 2010. However, this paper argues that the level of social unrest measured by the Ombudsman Office (47 conflicts in 2004 versus223 conflicts in 2010) shows that an unbreakable *modus operandi* in the public and private sector in Peru impedes a fine tuning between the economic and social dynamics in Peru. During the period 2000-2011 the net profit margin of the financial sector grew from 3.24% to 23.85 %; however, the real urban salaries indexdecreased from 108.30to 107.6 in the same period. Furthermore, multidimensional poverty headcount ratio dropped from 55.47% in 2007to 39.85% in 2011. Because of this, this paper shows how the lack of long term vision from both business and the white-collar public sector, in order to increase the productivity of factors and promote the redistribution of income, is making impossible to build up structural changes for a more egalitarian society. The gap between the richest and the poorest in Peru after a decade of positive macroeconomics indicators should be explained focusing on the pattern of wealth distribution.

Keywords:*Poverty, Inequality, Social Investment, Growth, Peru.*

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Introduction

During 2000 and 2011, Peru experienced significant economic progress. It has been considered like an emerging country in Latin America because of the good macroeconomic variables performance. For example, the GDP in the year 2000 was US$ 53,336 mm while in 2010 increased up to US$ 176,604mm. Also the foreign direct investment was almost doubled from 2000 to 2010.However, social indicators like poverty level and Gini Index had not changed in the same proportion. Furthermore, social unrest, as measured by the Ombudsman Office, shows that Peru is in a tense situation. This paper explores the idea that probably some unfinished reforms of the state and entrepreneurial sectors might explain the fact that the Peruvian economy is still not an egalitarian society. Thus, the gap between rich and poor in the middle of a buoyant economy is creating some irreconcilable differences among Peruvians.

This paper is organized in three sections. The first section shows the evolution of economic and social indicators between the years 2000 and 2011. Also, it presents unfinished reforms and future challenges of public and private sectors focused to face inequality. The second part describes the dynamics of the public sector by analyzing the effectiveness of government spending. We will focus upon tax revenues in the mining sector and its impact in the decentralized government levels. The third part analyzes the private sector by focusing in initiatives of social responsibility, export activities and foreign investment.

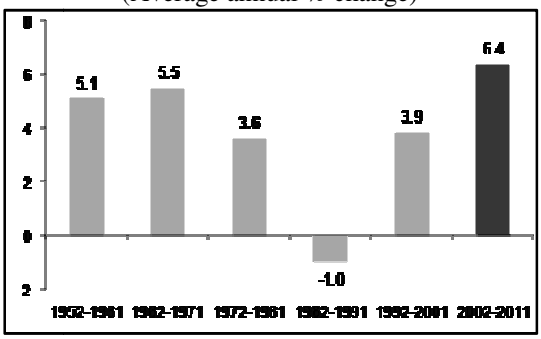
1. Peru 2000-2011: Economic Progress and Future Challenges[1]

The following section is divided in two parts. The first one presents the development of economic and social indicators of Peru for the years 2000 to 2011. Also, it compares Peruvian growth with some other Latin American and Asian countries in order to have a comparative view. The second part shows some unfinished reforms and future challenges for the public and private sectors to close social gaps and improve social investment.

1.1. A recent story of growth and stability

Between 2000 and 2011, Peru rocketed off from its long-lasting position as an unstable economy to a higher level of economic performance, where poverty was reduced, GDP grew constantly and investment is gearing up future development. Since the first half of the 1960's, the Peruvian economy was dragged from being one of the most promising developing countries, in terms of growth and social development, to a stagnated economy, which maintained an erratic path of growth for the next decades.[2] This can be observed in Figure 1, where real GDP percent change fell in the 1970's and 1980's. The traditional interpretation for Peru's past performance is that, in its position as a small open economy, it was sensible to external shock. However, the other explanation of this phenomenon lies in the weakness of political institutions and the erratic decision making in economic policy, primarily explained by an unstable policy orientation (i.e. free-market to protectionism or pro-keynesian to non-activist policies).[3]

Figure 1
Peru: Real GDP, 1952 - 2011
(Average annual % change)



Source: Castilla, L (2012), Presentation of the Ministry of Economy and Finance of Peru at the 2012 LACEA Conference, Lima.

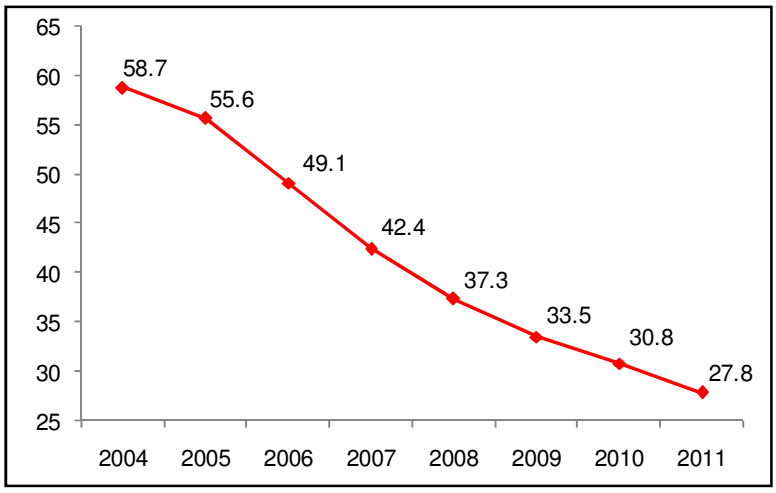
The Peruvian economy may have strayed for a long time, but during the last decade it channeled again to a sustainable growth pattern. In regards to important economic variables, most of them showed positive changes. Inflation percent change for the 2000's decade was the lowest of the past 50 years, at 2.5% annual average.[4] Peru is among the few emerging economies, together with India and China, which grew over 6% in the last decade.[5]The Government has been using budget surpluses to reduce public debt ratio from 46% of the GDP in the year 2000 to 19.8% in the second trimester of 2012.[6] As October 2012, Net International Reserves had grown from the beginning of the decade 7.6 times to US$ 62,161 Million.[7]

In terms of diminishing poverty, the population living below the poverty line dropped sharply from 58.7% in 2004 to 27.8% in 2011. Mendoza and Garcia[8] (2006) propose that economic growth in Peru, for the period 2001-2005, had an impact in reducing poverty through a rise in employment and through expansion in social expenditure from the government. In a similar way Aparicio, Jaramillo and San Roman[9] (2011), sustain that implementation of various types of infrastructure (telecommunications, electricity, water access and sewage) have had an impact in the reduction of probabilities of becoming poor in Peru. Altogether, the economic growth has been the principal actor in the story of declining poverty; therefore it is fundamental to clarify the sources of economic growth in Peru.

Figure 2

Peru: Poverty, 2004 - 2011

(% of population)



Source: Castilla, L (2012), Presentation of Ministry of Economy and Finance of Peru at the 2012 LACEA Conference, Lima.

The OECD produced in 2003 a major report named *The Sources of Economic Growth in OECD Countries.* The report analyzed aggregate data using cross-country regression analysis and concluded that investment in physical and human capital was important for growth; that sound macro policies yield higher growth,the overall size of government in the economy may hinder growth if it becomes too large and that exposure to international trade is an important determinant of output per working age person.[10]Since 2000 to 2011, Peru managed to increase gross investment levels up to 24.1 % of GDP in 2011, which was higher than in other important economies of the region. The government has maintained market friendly policies and a relatively small intervention level in the economy. Finally, it has increasingly opened its economy, which impacted positively upon growth. In regards to the last point, Aparicio, Aragón and Rodriguez[11] (2011) have determined that, for the period 1995-2010, shocks in the terms of trade explain 62% of economic growth, while shocks on the international interest rate explain only 34%.

Figure 4
LAC: Evolution of Total Exports, 2000 - 2011
(Index 2000=100)

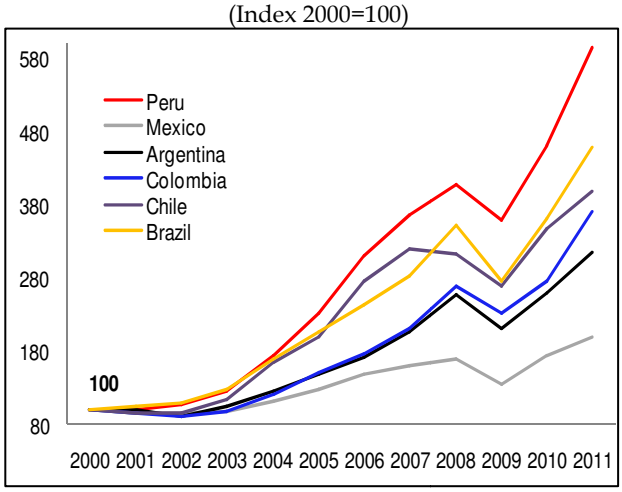
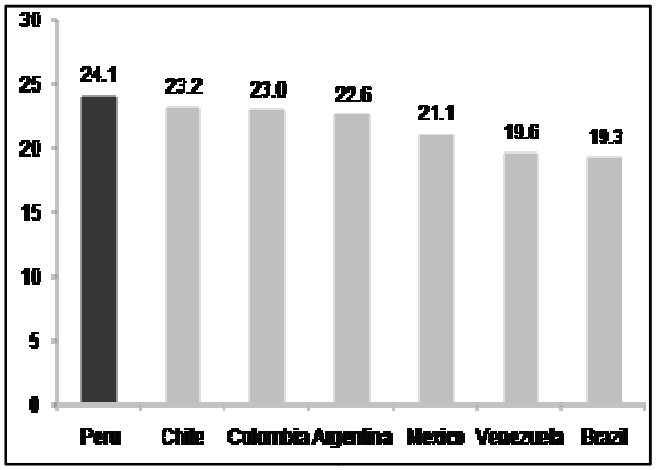


Figure 3
LAC: Gross Fixed Investment 2011
(% of GDP)



Source: Castilla, L (2012), Presentation of Ministry of Economyand Finance of Peru at the 2012 LACEA

One fundamental aspect to consider is the importance of natural resources as leverage for development. As mentioned before, shocks in the terms of trade impacted positively in exports, due mainly to changes in the prices of minerals. It is not surprising that the main investments during the last decade were directed to the mining sector, as can be seen in figure 5. Mining activity has a high level of integration with the rest of the economic activities in the country, which explains why the impact of variations in this activity in the economy is significant.[12] Particularly, output, employment and public revenue have been the variables most positively affected by metal extraction during this decade.

Figure 5
Peru: Private Investment by Sectors2012-2014
(US$ Million)

	2012	2013	2014	2012-2014
Mining	7,455	8,323	9,546	25,324
Hydrocarbons	2,250	2,756	1,710	6,716
Electricity	2,611	2,355	1,379	6,345
Manufacturing	1,122	816	632	2,570
Infrastructure	1,472	1,092	572	3,136
Other Sectors	3,601	2,751	1,212	7,564

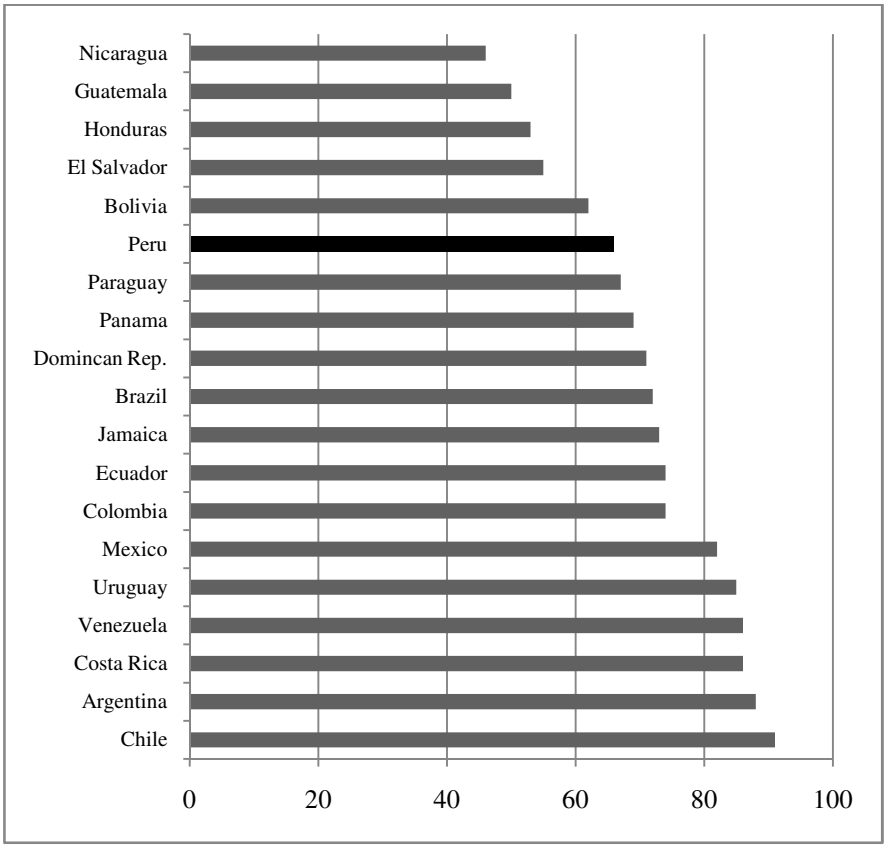
Source: Castilla, L (2012), Presentation of Ministry of Economy and Finance of Peru at the 2012 LACEA Conference, Lima.

Summing up, the Peruvian economy has shown large efforts for generating positive conditions for growth in the last decade. However, maintaining sound macroeconomic policies may be a necessary condition but is not sufficient by itself. There are still pending reforms, particularly at micro level, which are necessary to advance into a more socially inclusive growth path. Mainly these reforms must strengthen public institutions, provide infrastructure up to the levels required and demanded by the economy, and improve the quality of human capital to increase productivity.[13]In the next section we are going to observe some of the pending work in Peru, necessary to maintain growth and ensure reduction of inequality.

1.2. Unfinished reforms and future Challenges

The main weakness in Peruvian prospects for the future lies in the social component. Despite being one of the economies with higher growth during the last decade, as of 2008 Peru still possessed a low position in the region in regards of human opportunities (see figure 6). One of the factors that explain the lack of opportunities is the rural-urban gap. In terms of basic services, 35.8% of rural population in 2011 lacked electricity, 56.1% sanitation and 61.7% drinking water, while urban population lacked only 10.3%, 23% and 22.8% of these services respectively.[14] There is plenty of investment to do in these types of infrastructure to reduce gaps, increase living conditions and reduce inequality.

Figure 6
LAC: Human Opportunities Index,2008



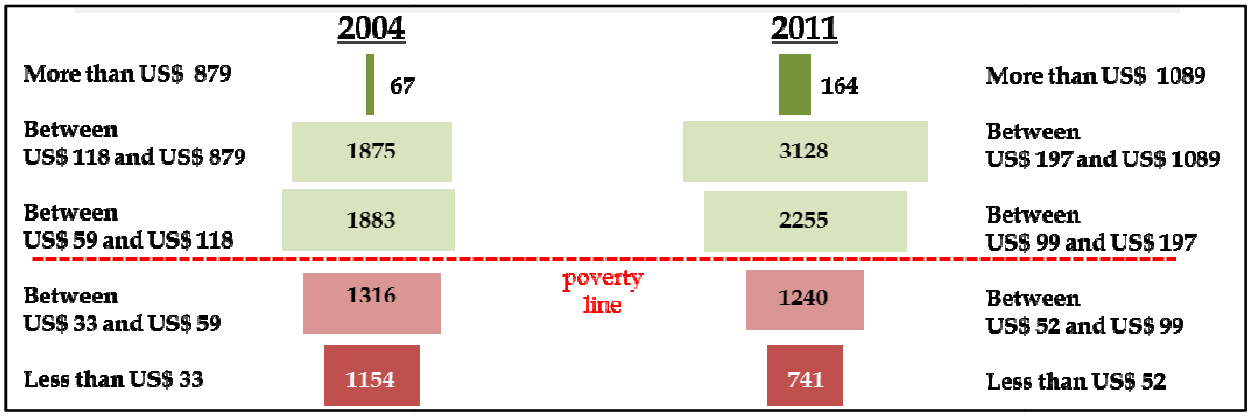
Source:R. Barros, F. Ferreira, J. Molinas y J. Saavedra. (2008*) El Índice de Oportunidades Humana : La Medición de la Desigualdad de Oportunidades en América Latina y el Caribe*. World Bank, Washington, DC.
Elaboration: Centro de Investigación de la Universidad del Pacífico

Another important aspect to consider is the deficient levels of education in Peru. In terms of logic-mathematic reasoning, in 2007 only 7.2% of second year primary students possessed an acceptable level; while in terms of literacy only 15.9% understood what they read.[15] Although in 2011 these statistics improved to 13.2% and 29.8% respectively, these values are still low and reflect how weak the quality of education in Peruvian schools is. The problem lies later in life, when the former students enter the labor market. The low quality of education is then associated with lower labor productivity. This

generates an informal sector in the economy, which absorbs an important proportion of labor but represent less than a tenth part of the national aggregate value.[16] Assessing this problematic, Chacaltana and Yamada (2009) found for the period 2000-2006 that few advances were made in terms of labor productivity and stable jobs in Peru.[17]

It cannot be denied that, in spite of the problems mentioned, the economy has grown considerably, generating higher output, more employment and more revenues to the private sector companies. All of this has impacted in the distribution of income in the country, reducing the proportion of the population living below the poverty line and generating a stronger middle income class (see figure 7). These are great achievements but the risk for a middle income trap still endures.

Figure 7
Peru: Monthly *per capita* household income, 2004 and 2011
(Thousands of Households)



Source: Castilla, L. (2012), Presentation of the Ministry of Economy and Finance of Peru at the 2012 LACEA Conference, Lima.

The middle income trap suggests that, at mid levels of income, economic growth and structural upgrading become more difficult[18]. This means that countries which graduate from low income level may have an arduous work to maintain growth and approach developed countries. Figure 8 shows some past experiences of emerging countries which maintained important GDP growth for a period of time and how it grew in the following 5 years. What is observed is that the change between these two rates of growth is negative in some cases, which exemplifies the case of a middle income trap. Also, the performance in Latin American countries is markedly different to Asian.

Figure 8
Growth Experience of Selected Emerging Economies
(Percentage points)

	PPP per capita of $10,000-15,000		Average real GDP growth in the following 5 years	Change (A-B)
	Year	Average real GDP growth		
Brazil	2008-11	3.8	-	-
Chile	2001-07	4.7	3.6	-1.1
Mexico	1999-11	2.3	-	-
Uruguay	2006-10	5.8	5.7	-0.1
Corea	1993-99	6.0	5.5	-0.5
Malaysia	2003-09	4.7	6.1	1.4
Singapore	1984-88	6.3	9.1	2.8
Taiwan ROC	1991-94	7.4	5.4	-2.0
Peru	**2011-2020**	**6.5**		

Source: Castilla, L. (2012) Presentation of the Ministry of Economy and Finance of Peru at the 2012 LACEA Conference, Lima.

While NIC's (the East Asian Newly Industrialized Countries) have been successful in reaching levels of convergence with high-income countries, the story is different in Latin America. These Asian countries experience suggests that escaping the income trap consists of a strategy of diversification into a greater number of products as well as movement into higher value-added products.[19] Latin America, however, has failed in achieving its escape, because its countries tend to be characterized by specialization in industries far from high value added industries. This may be the case of Peru, whose specialization lies in the mining sector. In any case, these challenges must be overcome to achieve a sustainable growth path to becoming a developed country.

2. Plentiful resources but weak management at the Public Sector

The following section is divided in three parts. In the first, the subject of discussion will be the increasing amount of available resources for the Peruvian Government and the persistent inefficiency at tax revenue and formalization of the economy. The next aspect to be analyzed will be the efficacy of government spending during the past decade. In this point we are going to consider the amount of resources actually used, the levels of public investment and the strength of public institutions to consider if the short-sightedness thesis applies to the public sector. Finally, we will focus upon the mining sector tax revenues, and its impact in the decentralized government levels.

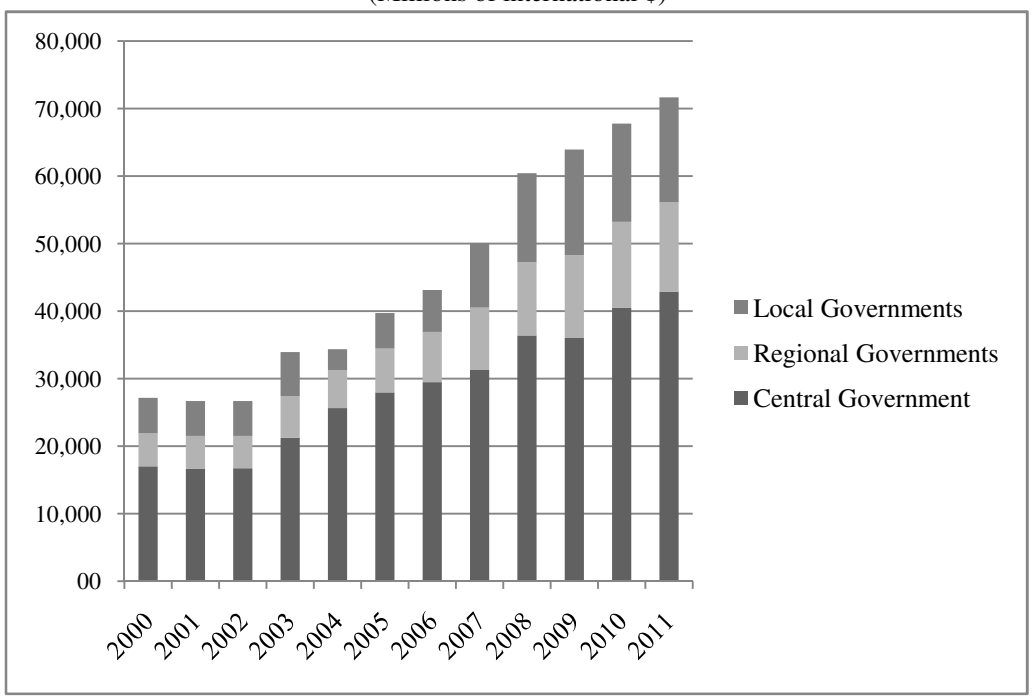
2.1. Available Resources

The positive dynamism of the Peruvian economy resulted in growth of output levels and consequently in the expansion of available resources for the Government. As the next figure shows, the Public budget grew steadily and considerably throughout the decade. The available resources in the year 2000 were almost a third of what was on hand to be spent in 2011. However, there is more to see behind the nice statistics.

Figure 9

Peru: Available Budget for Government Sectors, 2000 - 2011

(Millions of international $)



Source: Reports of Government Budget from 2000 to 2011. Ministry of Economy and Finance[20].
Elaboration: Centro de Investigación de la Universidad del Pacífico

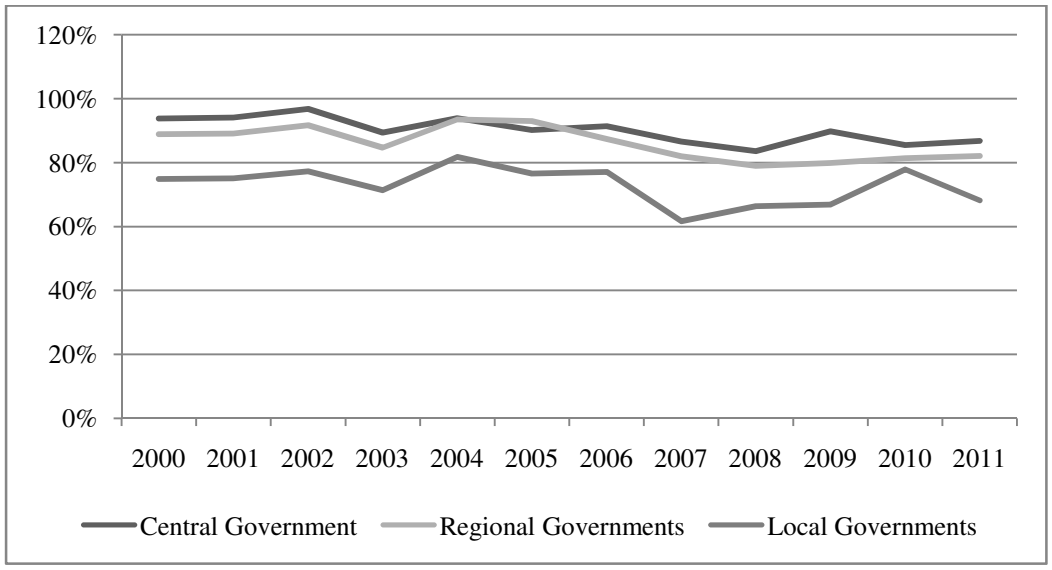
An important factor to be analyzed in regards of increasing budget resources is the efficiency of tax collection in Peru. Although public income from taxes has indeed grown, the proportion of these incomes related to the total output of the economy has remained between 12 and 15 percent.[21] Neighbor countries have maintained this proportion at higher levels, such as Brazil, Uruguay, Argentina or Chile (21.1, 17.9%, 23.2% and 15.9 respectively in 2004).[22] Another fact to consider is that the levels of tax evasion remain high. For 2008, the estimated amount of evasion on the consumption tax was of 3.68% of GDP or 246.9 billion international dollars.[23]

Moreover, Peru has a structural problem in terms of formality of the labor market. The informal sector of the economy congregated 71.3% of the labor force as of 2008. Although this has declined from being 76.8% in 2000, the percentage remains high, which is typical for a South-American country. The main potential causes proposed for the sustained levels of informality in the country are three: intensity of regulation (administrative, labor and taxes), the weakness in the Government capacities for monitoring, and a deficient education.[24] This aspects show that the public sector cannot collect as much tax revenue as it potentially could, due to poor collection, considerable levels of evasion and due to the obscure and informal nature of its economy.

2.2. Government Spending

A question that may arise from the last figure is how much of these resources were actually used? When observing the results we found out that the level of budget execution gets lower as we move to more decentralized levels of Government. The Central Government spends most of its resources, very close to the Regional Governments, but the Local Governments level has stayed in the margin of 60 to 80%. This is rather contradictory, because Local Governments are mainly in places where expenditure is much needed and the population suffers high levels of poverty but there are low extents of investment. So why is it that in the places where inequality must be reduced, the resources are arriving but they are not being used?

Figure 10
Peru: Percentage of Budget Spent, 2000 - 2011



Source: Reports of Government Budget from 2000 to 2011. Ministry of Economy and Finance[25].
Elaboration: Centro de Investigación de la Universidad del Pacífico

We can argue that the reason behind this could be the own nature of the decentralization process during the past decade. From the institution of Regional Governments in 2002, social frictions and conflicts that end in violence have increasingly appeared. The nature of this decentralization process is explained by Caballero in three main ideas: 1). Conflicts surrounding the distribution of regional budget, 2). Increasing social conflicts within regions and 3). Rise in levels of violence and deaths in these social conflicts.[26] The first of these aspects is important because there are not only conflicts between regions and the central government due to demands for more transference of resources, but also within and

between regions for the distribution of these resources. So, not only the region has to ask the government to make the restrictions on budget spending flexible, but it also has to worry about being undermined by other competing regions.

Another concept that arises from these problems is the thesis of the resource curse. Of course, it is not the case for Peru, mainly due to the fact that despite being abundant in natural resources it has indeed generated economic growth. However, we might consider the resource curse to add an explanation to the rising inequality and weakness of the government. For example, one hypothesis for the curse is that high natural resource abundance leads to rent-seeking and corruption, which may depress growth directly.[27]

Mehlum, Moene and Torvik[28] expand the concept and argue that the determinant for growth in a country with high amounts of resources is the quality of State institutions in that country. They distinguish between grabber friendly and producer friendly institutions. In the first case, rent-seeking and production are competing activities while in the second they are complementary. What is shown is that in countries with lower quality of institutions, natural resources push aggregate income down. It is also demonstrated in other studies that corruption increases inequality due to higher motivations for the rich to engage in corruption, more vulnerability of the poor facing extortion and a low level of accountability.[29]

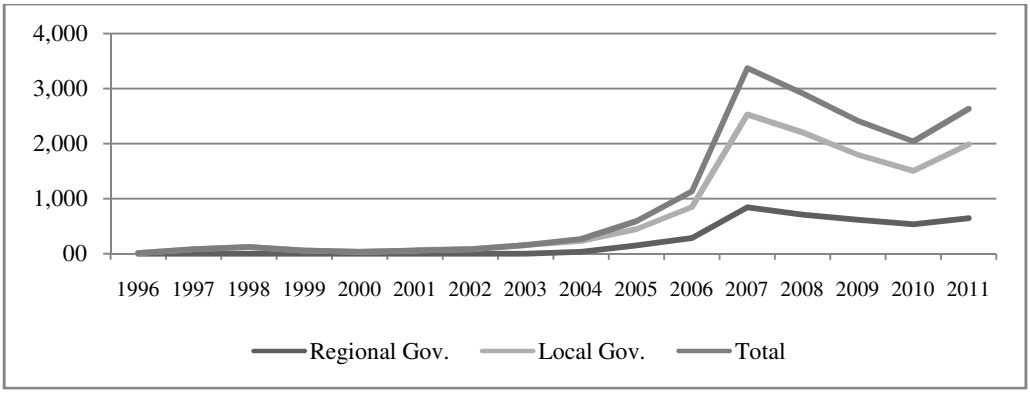
The Peruvian State is known to be inefficient, bureaucratic, and corrupt. The Worldwide governance indicator for Peru (it estimates different indicators related to governance, being 2.5 strong and -2.5 weak) show that from 1996 to 2011, the control of corruption estimate has remained around -0.2, rule of law at -0.6 and that government effectiveness has fallen from -0,5 to -0.15. This means that in 15 years, the governance quality has stayed almost the same, in spite of a decade of economic dynamism. The cause for the low quality of institutions in Peru may lay in the historical high instability of governments in the political spectrum (dictatorships-democracies, closed economy-open markets, etc.), which has stigmatized the ability of the country to sustain economic growth throughout time and maintain the rule of law.[30]

It is important to highlight that the public sector has shown, during the past decade, inefficacy in the assignation of resources and ineffectiveness in budget expenditure.[31] For example, there were enough resources available to shorten the breach of access to public services of the population living in poverty, but it underperformed from what could have been achieved.[32] As of 2008, the estimated infrastructure breach was approximately 30% of the GDP,[33] and it is a pending work for the economy of Peru and its sustainability in the next decade.

2.3. Transferences from mining activity to decentralized governments.

An important part of the resources available to regional and local governments for investment proceeds from transferences of mining activity tax revenue. Due to the increase in metal prices between 2000 and 2011, mining companies have accumulated extraordinary amounts of wealth that have contributed to higher incomes from taxing these activities. As the next figure shows, there is a rapid turning point in the middle of the decade for these transferences. This means that suddenly decentralized governments had more resources than ever.

Figure 11
Transferences of mining tax revenue to decentralized governments, 1996 - 2011
(In millions of international $)



Source:Integrated Financial Management System of the Ministry of Economy and Finance. Updated on December 4th, 2012.
Elaboration: Centro de Investigación de la Universidad del Pacífico

The nature of this transference is quite different from the general transfer of resources mainly because it is legally conditioned to be used in investment within the region. This means that the increase in the available amount of resources would necessary result in a better infrastructure, more projects and more technology available for the region. However, this is not the general rule for all regional governments, due mainly to the quality of the expenditure. This occurs because there are kinds of investment that will not necessarily generate development for the region, such as statues, stadiums, or other visible but inconsequential works. In addition to this, the management capabilities at the local government level are still low and must be strengthened in order to secure good utilization of resources.[34]

It is important to separate the permanent from the transitory nature in the increase of this transfer. On one hand, there is aboost in mining production due to the investments done in the decade of 1990, when the legal and normative context promoted the exploitation of mining.[35] This development in the sector is a shock of permanent character, mainly because these investments tend to have a long-term vision.

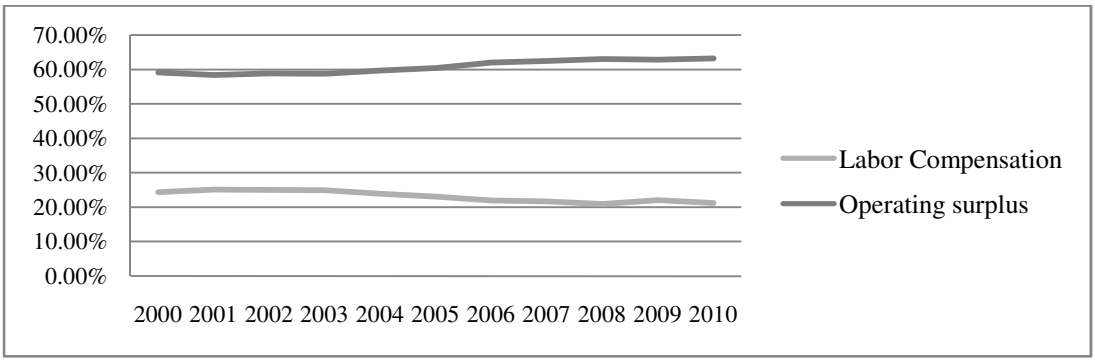
However, the other cause of the increase in the mining transfer is rather transitory: the demand of metals. From 2001 to 2006, prices from minerals grew rapidly; like copper (329%), zinc (310%), silver (161%), lead (144%), gold (123%), tin (108%) and iron (97%)[36]. These prices continued growing steadily throughout the decade, mainly due to increasing demand caused from rapid growth of emerging economies such as China and India. This part of the shock has a more transitory nature because there may be an adjustment in the demand side, such as a scenario in which China decelerates its growth pattern, or supply adjustmentsand, due to the high prices, more mining companies decide to produce more and drag the prices down. Both ways, this positive cycle of mineral prices will eventually diminish and the transfer of this activity to the government's revenue will fall too. Therefore, it is fundamental to make the correct investments in capital and infrastructure to ensure that the country continues to grow, even when the transitional shock in prices disappears.

3. The limitations of the Private Sector

Since the year 2005, the top 500 companies with the largest income in Peru have surpassed the patrimony return ratio of the top 500 companies in the United States and the top 500 companies in Latin America.[37] However, this economic growth is not contributing sufficiently towards reducing inequality. As observed in figure11, the gap between labor compensation and the operating surplus has widened in the past ten years. While labor compensation has shown a downward trend during the past decade, from 24.4% to 21.19%, the operating surplus has shown an upward trend, from 59.10% to 63.15%.[38]

The share of labor compensation in Peru is the lowest in the region,[39] Chile's labor compensation in 2010 was 35.8%, 14.61pp higher than Peru's.[40] Countries with the highest share of labor compensation, like Denmark and Japan, have figures that go over 50%.[41]

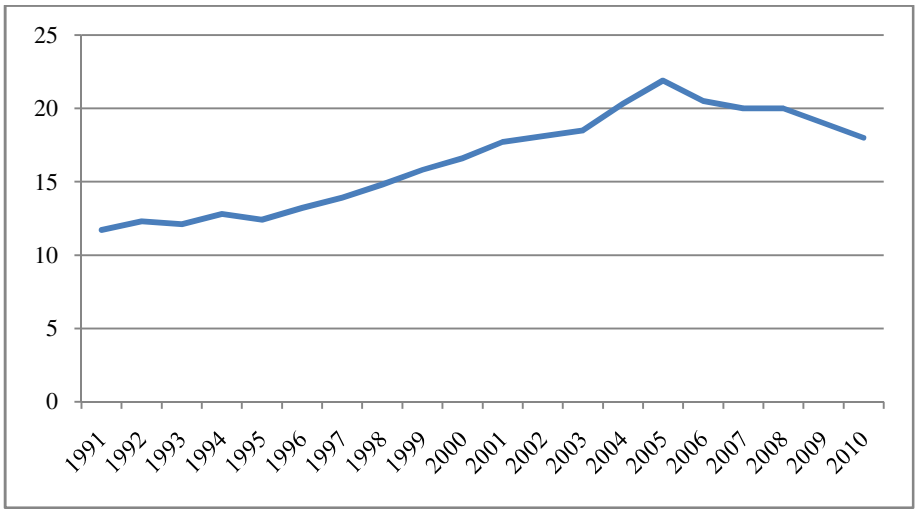
Figure 12
Peru: Share of labor compensation and operating surplus in GDP (%), 2000 -2010



Source: Economic information - National Institute of Statistics and Informatics. Available on: http://www.inei.gob.pe/web/aplicaciones/siemweb/index.asp?id=003. Updated on December 4th, 2012.
Elaboration: Centro de Investigación de la Universidad del Pacífico

Alarco finds a link between income concentration in the operating surplus and the high return rate in economic activity.[42]In Peru, certain market structure characteristics are preventing a more even distribution. According to the United Nations Conference on Trade and Development Report 2010, "the growth strategy relying in exports limits the increase of wages in order to maintain competitiveness".[43]As shown in figure13, Peru's exports determined 18% of the GDP by 2010. Therefore, Peru's export-led growth might be affecting its income distribution.

Figure 13
Peru: Exports as a % of GDP, 1991 - 2010



Source: Economic information - National Institute of Statistics and Informatics. Available on: http://www.inei.gob.pe/web/aplicaciones/siemweb/index.asp?id=003. Updated on December 4th, 2012.
Elaboration: Centro de Investigación de la Universidad del Pacífico

Another characteristic that determines income distribution is the presence of economic activities with a high contribution to the GDP that have a market structure that is closer to imperfect competition, like the mining and hydrocarbon industries. Particularly within this sector, higher return rates are linked with higher international prices and smaller real wages. Figure 14 shows the real income per worker in the mining industry. Alarco identifies a significant increase in the operating

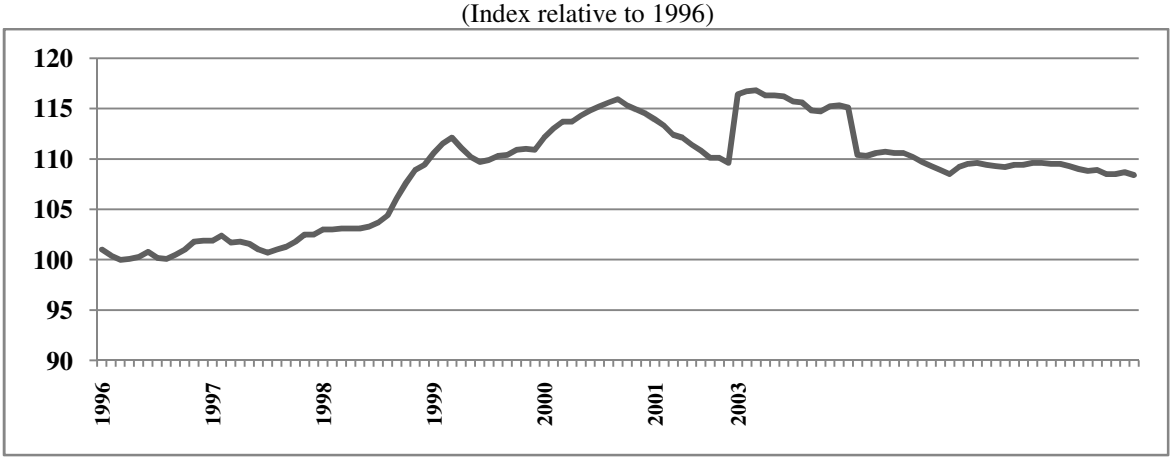
surplus of 4.29% between 2003 and 2008 related with the increased participation of the mining industry in the GDP as well as higher prices for that industry.[44]

Figure 14
Peru: Real income per worker in the mining industry, 2000 - 2011
(In international dollars)

Source: Statistical Annuary (From 2000 to 2011), Ministry of Labor and Employment Promotion. Available on: http://www.mintra.gob.pe/mostrarContenido.php?id=86&tip=87. Updated on December 4th, 2012
Elaboration: Centro de Investigación de la Universidad del Pacífico

The slow growth of real income in the past decade (as seen in Figure15 and 16) could be caused by a substantial shift and/or high elasticity in the labor supply curve.[45] Labor productivity also has a significant effect over income distribution. Peru has one of the lowest productivity rates among the high-middle income countries in Latin America.[46] Although in Peru the high levels of informality are linked with low productivity, this is not necessarily the root cause of the problem. Instead, low productivity could be the result of low levels of human capital.

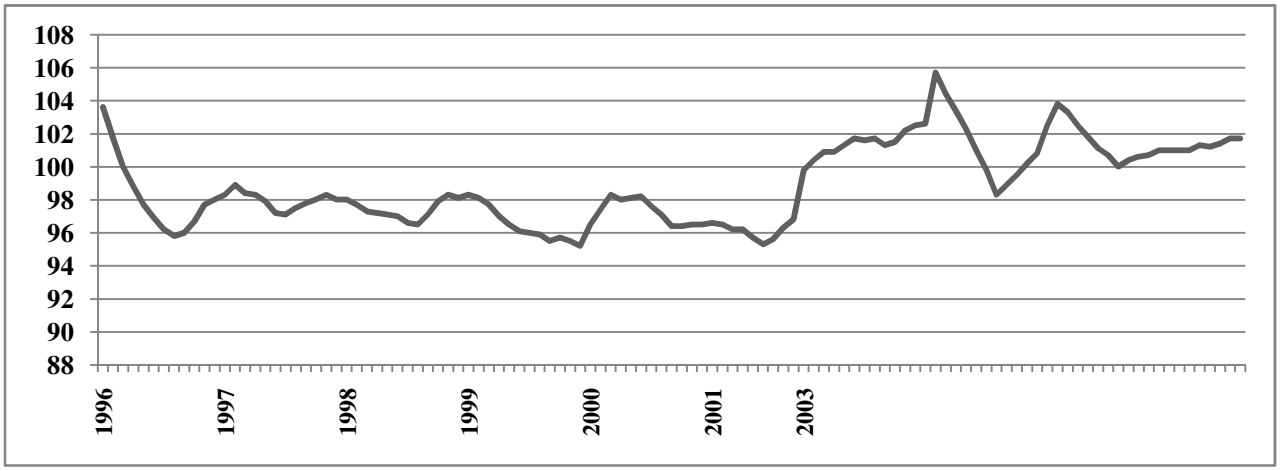
Figure 15
Peru: Real Salary in Urban Areas in the private sector, 1996 - 2007
(Index relative to 1996)



Source: Economic information - National Institute of Statistics and Informatics Available on: http://www.inei.gob.pe/web/aplicaciones/siemweb/index.asp?id=003. Updated on December 4th, 2012
Elaboration: Centro de Investigación de la Universidad del Pacífico

Figure 16

Peru: Real wages in Urban Areas in the private sector, 1996 - 2007
(Index relative to 1996)



Source: Economic information - National Institute of Statistics and Informatics. Available on: http://www.inei.gob.pe/web/aplicaciones/siemweb/index.asp?id=003. Updated on December 4th, 2012.
Elaboration: Centro de Investigación de la Universidad del Pacífico

Low levels of human capital are not only responsible for an unfair distribution between labor compensation and the operating surplus but also for income inequality within the labor force. The income inequality Giniindex in Peru was 0.52 in 2000 and 0.46 in 2010.[47] This small progress between year 2000 and 2011 has motivated several studies to research the persistency of income inequality in Peru and identify key determinants. Jaramillo and Saavedra[48] conclude that education and geographic location determine income distribution. Peru's geographic complexity is well-known, particularly the difference between the integrated, urban and modern coast and the fragmented, rural highlands. Nonetheless, what is interesting about Jaramillo & Saavedra's findings is that the classic division between natural regions does not explain income inequality. Instead, the political division by departments is the significant variable that accounts for it.

Similar findings are obtained by Montero and Vera. Their results estimate that opportunities represent around half (46%) of the inequality observed between 2004 and 2006. Additionally, this study found that the opportunities that most contribute to inequality are those related with education (particularly, the educational level of the head of the household and the quality of education received by the head of the household), followed by the characteristics of the region of origin.[49]

3.1. A sample of Social Responsibility in Peru

An assessment of social responsibility by Goñi & Marquinaconcluded that Peru is positioned in a reactive phase where agents limit themselves to act in accordance with the law.Though the types of projects developed are varied, this study finds that no institution has a purely philanthropic goal; instead, they aim at developing shared interests with their stakeholders.[50]The United Nations Development Program has a social responsibility program in the north of Peru called "Todos" and in their assessment of the region also reaches a similar conclusion: The report states that in general, the corporate sector does not value social responsibility due to its characteristic as a long term strategy.[51]

The report by Goñi and Marquina also ranks the different industries in Peru regarding their progress towards social responsibility. Their results indicate that the electric power industry and the telecommunication industry rank first, followed by the mining, petroleum and gas industries.[52]

The mining industry in coordination with the government has established a fund called: "Programa Minero de Solidaridad con el Pueblo". This private-owned fund has a high rate of effectiveness. 75.19% of its resources have already been implemented through different projects.[53]Figure 16 shows the allocation of this fund in international dollars.

Figure 17
"Programa Minero de Solidaridad con el Pueblo" (Mining Program of Solidarity with People):
Number, type and amount of projects

Local Fund						
Type	Projects	Pledged		Implemented		Effectiveness
	N°	Amount $*	%	Amount $*	%	%
Nutrition	87	71,285,571	8.86	58,584,364	9.49	82.18%
Education	412	104,392,194	12.87	86,870,183	14.07	83.22%
Health	222	72,246,643	8.98	65,739,889	10.65	90.99%
Infrastructure	392	361,136,444	44.87	227,676,678	36.87	63.04%
Development and Capacity Building	135	46,347,685	5.76	38,388,985	6.22	82.83%
Projects and production chains	316	106,382,649	13.22	98,998,778	16.03	93.06%
Others	54	43,039,735	5.35	41,262,217	6.68	95.87%
TOTAL	**1618**	**804,830,921**	**100.00**	**617,521,095**	**100.00**	

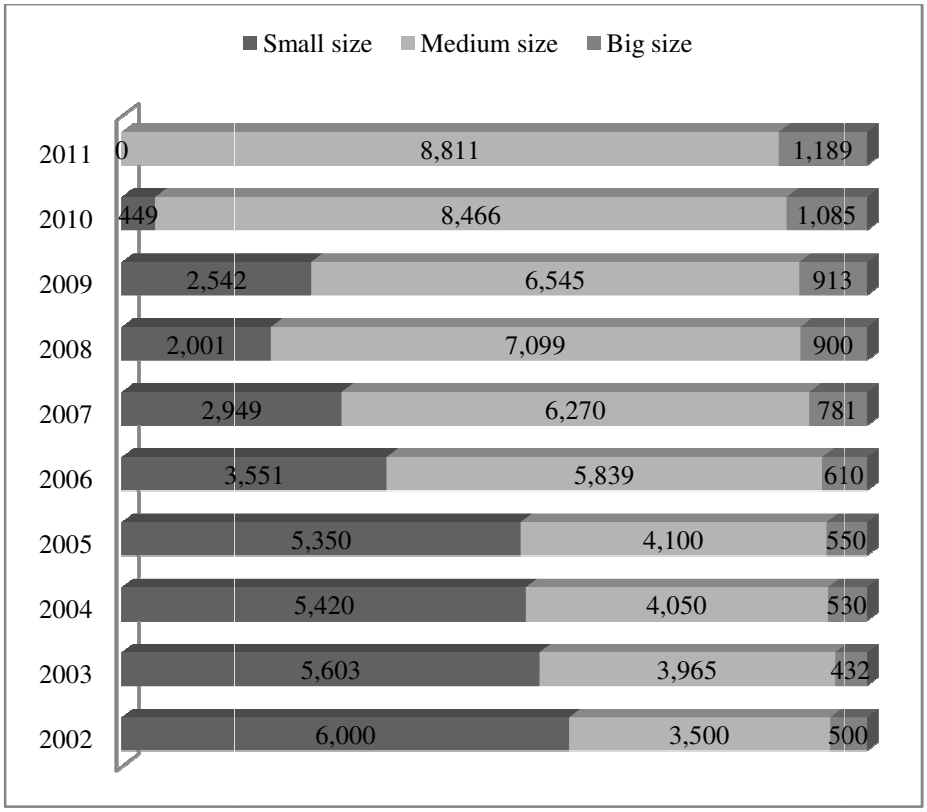
Regional Fund						
Type	Projects	Pledged		Implemented		Effectiveness
	N°	Amount $.	%	Amount $*	%	%
Nutrition	61	42,113,891	10.18	35,834,328	11.78	11.78
Education	281	97,957,721	23.68	69,271,375	22.77	22.77
Health	138	46,607,905	11.27	32,961,123	10.83	10.83
Infrastructure	227	152,954,796	36.98	113,655,605	37.36	37.36
Development and Capacity Building	97	29,904,886	7.23	16,861,713	5.54	5.54
Projects and production chains	186	39,744,008	9.61	32,739,467	10.76	10.76
Others	40	4,383,503	1.06	2,915,806	0.96	0.96
TOTAL	1030	**413,666,709**	**100.00**	**304,239,416**	**100.00**	

Source: Ministry of Energy and Mines. "Programa de Solidaridad con el Pueblo". Report N°. 40.
*In international dollars

3.2. Analysis by company size

The reports presented by "Peru: the Top 10, 000 companies" analyze the Peruvian economy and its tendencies by looking at the 10, 000 companies with the highest level of billings in the country. They break down their results by company size and by economic activity. "Peru: the Top 10, 000 companies" annually classifies companies by size according to their level of billings. Small companies are those that obtain revenue between $145,000 and a maximum of $2.2 million; medium-sized companies are those that obtain revenue between $2.2 million and $25.4 million and big companies are those that obtain revenue of more than $25.4 million.[54] The trend shown in figure 16 is clear: there has been a considerable reduction of small companies (up to zero in 2011), a steady growth of medium size companies and a moderate growth of large companies.

Figure 18
Peru: Top 10, 000 companies by size, 2002 -2011



Source: Cavanagh, Jonathan."Peru: The Top 10, 000 companies 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004 and 2003".

During the period of 2004-2008, medium size companies in Peru expanded 40.51%. That is their annual growth rate averaged 9.12% and therefore surpassed the 7.06% average attained by the Peruvian economy over the same period.[55] Since 2002, there has only been one period in which the growth of medium size companies was halted, the year 2009. In this year the number of medium size companies dropped from 7099 to 6545. This drop in linked with the 2008 economic crisis. The value of exports decreased from $4.7 million in 2008 to $3.5 million in 2009.[56] This directly affected the 20% of medium-sized companies in the 2008 ranking that sold products abroad.

Nevertheless, the number of big companies after the economic crisis remained steady. This was due to the global economic recovery in the second half of 2009. In particular big companies benefited from the recovery of mineral prices and a stable domestic consumption.[57]During the period of 2007-2011, big companies had an annual growth of 10.14%. They represent 12% of the Top 10, 000 in 2011, but concentrate 75.2% of the revenue of the entire ranking.[58]

One of the most interesting results of the reports "Peru: the Top 10, 000 companies" is that by the end of 2011, small companies were left outside the ranking. As explained in the 2012 report, "the reason for this is that the methodology used to define company size by billing level stipulates that small companies are those that obtain revenue between $145, 000 and a maximum of $2.2 mn)."[59] This shows that Peru's economic growth has been linked to the growth of medium size companies. Therefore, Peru's economic growth "is no longer temporary or rests on its investment portfolio as was the case at the end of the nineties, when the financial crisis that broke out in Southeast Asia caused it to fail."[60]

3.3. Analysis by economic activity

Commerce and manufacturing have historically encompassed the largest number of companies within the Top 10, 000.[61]Together, as shown in figure 18, they make for over 50% of the list since 2002. The sectors that have shown the greatest mobility and experienced the greatest increase intheir number of companies since 2002 are: real estate, construction and mining.

Figure 19

Peru: Top 10, 000 companies by economic activity, 2002-2011

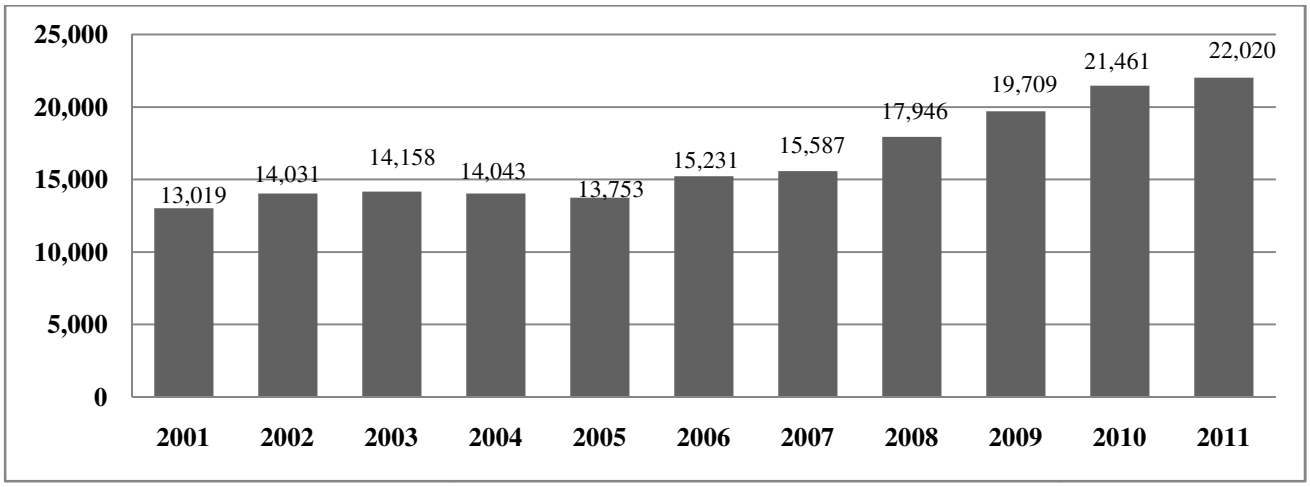
Economic activity	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commerce	4511	4684	4488	4471	4297	4231	4164	4097	3827	4031
Manufacturing	1571	1547	1622	1570	1614	1617	1559	1527	1449	1475
Real Estate	1169	1183	1155	1170	1240	1235	1250	1310	1309	1368
Transport, storage and communications	666	713	694	687	686	712	704	711	691	714
Construction	362	349	338	378	400	418	489	582	647	613
Other community social and personal services	303	320	318	314	355	322	314	339	327	339
Agriculture	328	181	321	331	325	339	320	311	290	319
Mining	198	203	204	231	262	272	266	263	299	308
Financial intermediation	184	178	178	161	163	171	172	181	174	165
Education	141	130	136	126	123	135	140	154	142	134
Fishing	193	174	181	197	184	166	130	142	126	131
Hotels and restaurants	144	139	139	136	119	125	115	130	104	121
Health and Social work	108	96	114	111	112	105	102	123	115	115
Electricity, gas and water supply	85	89	88	82	78	86	489	86	83	87
Public Administration	36	13	23	34	41	65	194	43	417	79
Extra-territorial organizations and bodies	1	1	1	1	1	1	0	1	0	1

Source: Cavanagh, Jonathan. "Peru: The Top 10, 000 companies 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004 and 2003".

3.4. Foreign Investment in Peru

As shown in figure 20, Foreign Direct Investment in Peru has grown consistently in the 2001-2011 period. "Peru: the Top 10, 000 companies" analyzes the 100 major winning companies (in terms of revenue). In 2011, 34 out of 100 largest winning companies were foreign. In the year 2000 this number was much larger, 69 out of the 100 greatest winners were foreign.[62] This would evidence the growth of Peruvian companies in the past decade. However, the 34 foreign companies accounted for 63.8% of the total amount of money earned by the 100 largest winners in 2011.[63]

Figure 20
Peru: Foreign Direct Investment in millions of dollars2001 -2011
(as capital contribution)

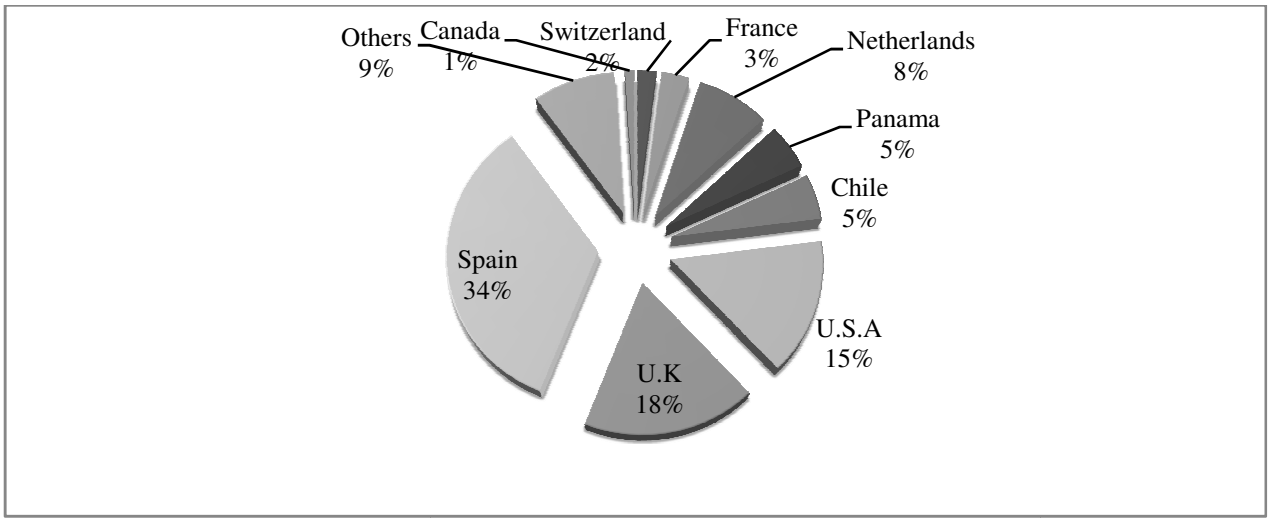


Source: Statistics of Foreign Investment - Proinversión. Available on: http://www.proinversion.gob.pe/0/0/modulos/JER/PlantillaStandardsinHijos.aspx?ARE=0&PFL=0&JER=1537. Updated on December 4th, 2012.
Elaboration: Centro de Investigación de la Universidad del Pacífico

Figure 21 and figure 22 show Peru's foreign direct investment by country in 2001 and in 2011, respectively. The United States, the United Kingdom and Spain are still the largest investors in Peru. The most notorious change in the foreign investment in the past decade is the contribution of neighboring countries like Chile, Colombia and Brazil, as well as fellow Latin American countries, like Mexico.

Figure 21

Peru: Foreign Direct investment by country, 2001



Source: Statistics of Foreign Investment - Proinversión. Available on: http://www.proinversion.gob.pe/0/0/modulos/JER/PlantillaStandardsinHijos.aspx?ARE=0&PFL=0&JER=1537. Updated on December 4th, 2012.
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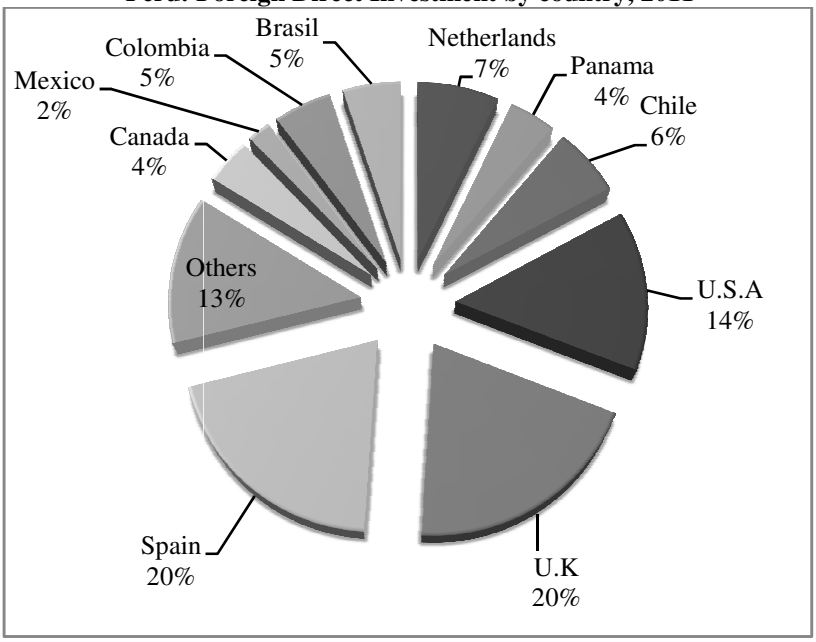
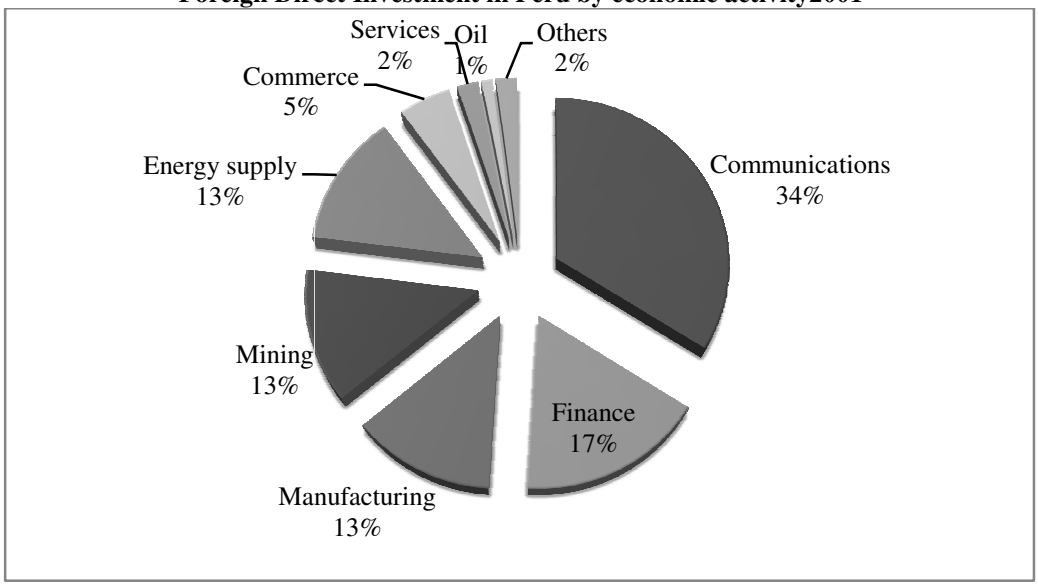
Figure 22
Peru: Foreign Direct Investment by country, 2011



Source: Statistics of Foreign Investment - Proinversión. Available on: http://www.proinversion.gob.pe/0/0/modulos/JER/PlantillaStandardsinHijos.aspx?ARE=0&PFL=0&JER=1537. Updated on December 4th, 2012.
Elaboration: Centro de Investigación de la Universidad del Pacífico

Figure 23and figure 24 show the Foreign Direct Investment in Peru by economic activity in 2001 and 2001. The mining industry has presented the highest growth rate, representing 13% of the foreign direct investment in 2001 and 24% of the foreign direct investment in 2011. Although there has been a foreign direct investment increase in mining, social conflicts in the mining regions in Peru are not allowing the investment in this sector to grow as much as it could. In the Canadian Fraser Institute Annual International Survey, Peru was ranked 14th in mining potential but 56th in policy potential. In the complete ranking, Peru is placed 50 out of 93 countries,while Chile, is ranked 5 out of 93. This is because Chile offers a more predictable legal context and lower potential for conflict.[64]

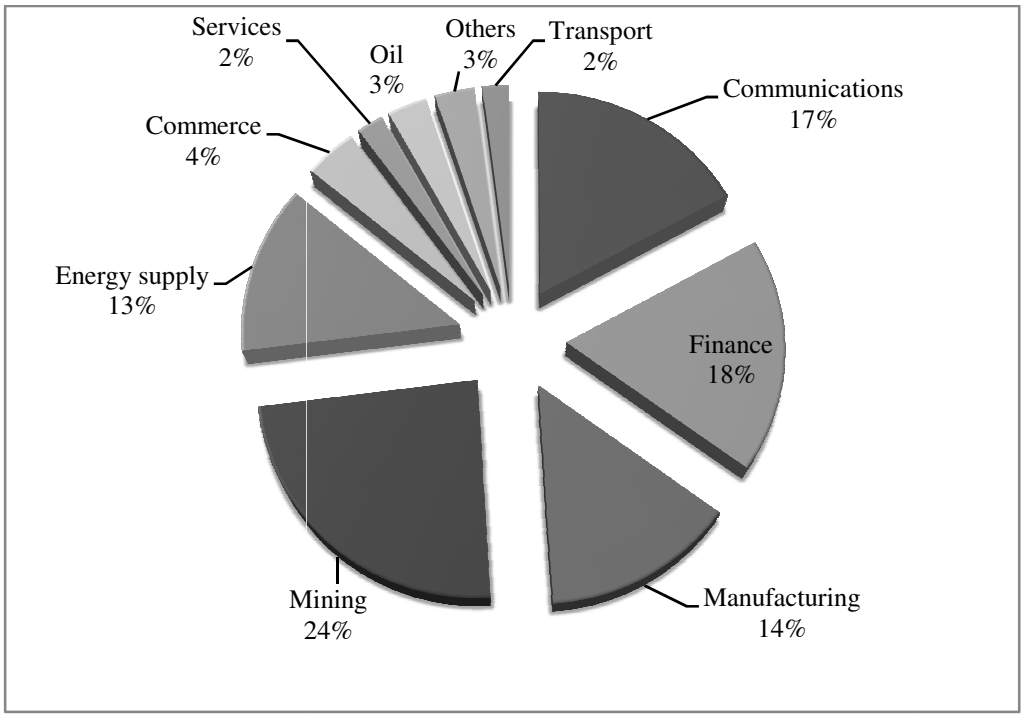
Figure 23
Foreign Direct Investment in Peru by economic activity2001



Source: Proinversión. http://www.proinversion.gob.pe/0/0/modulos/JER/PlantillaStandardsinHijos.aspx?ARE=0&PFL=0&JER=1537. Updated: December 4th, 2012
Elaboration: Centro de Investigación de la Universidad del Pacífico

Figure 24

Foreign Direct Investment in Peru by economic activity2011



Source: Proinversión. http://www.proinversion.gob.pe/0/0/modulos/JER/PlantillaStandardsinHijos.aspx?ARE=0&PFL=0&JER=1537. Updated: December 4th, 2012
Elaboration: Centro de Investigación de la Universidad del Pacífico

4. Conclusions

Since 2000 to 2011, the Peruvian economy showed goodconditions for growth. Even the GDP increased from US$ 53,336 mm to US$ 176,604 mm. The stock of foreign direct investment started at US$ 13,019 mm in 2001 and by 2010 was about US$ 22,020 mm. Thesemacroeconomic outcomes have been good in order to get good international marking by international organizations but they are not sufficient to improve social conditions. For example, in 2011 there are even 27.8% of people that are in poverty situation. About the gap in education, in 2011 only 13.2% of second year primary students possessed an acceptable level in math; while in terms of literacy aspects only 29.8% understood what they read. So there are a lot of pending reforms in health, education and also in infrastructure. This checklist is not a task only for the public sector; the private sector has to be part of the solution as well. If not, social unrest will grow and the coming back of violent political left-wing options might occur.

On the one side, the public sector has the most important part of the resources for social investment. The central government has US$42 908 mm, regional governments have US$ 13 212 mm and local governments have US$ 15 520 mm. About managing the expenditure, thecentral government spends most of its available resources, very close to the ratio of the regional governments, but the local governments' level has stayed in the margin of 60 to 80%. This is rather contradictory, because most local governments are located in places that show high poverty levels and more health and education gaps.

On the other side, the private sector is not contributing to improve inequality,either. For example, the gap between labor compensation and the operating surplus widened in the period of 2000 to 2011. While labor compensation showed a downward trend during 2000 to 2011, from 24.4% to 21.19%, the operating surplus showed an upward trend, from 59.10% to 63.15%.[65] There are three causes for this: the growth strategy supported in exports limits the increase of wages in order to maintain competitiveness; the high contribution to the GDP of the sector with higher international prices and smaller real wages like mining and the hydrocarbon industries; and low level of human capital with low productivity and bad educational quality.

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[65] *See Figure 12.*