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The Economic Policies Of The Fujimori Years: A Return To The Past?

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The paper analyses the economic policies of the Fujimori government in Peru, 1990-2000. It explores the extent to which such policies represented a return to Peru's historical dependence on the primary sector. In so far as it is a return to the past, are there lessons to be learnt from history?

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Various writers have drawn attention to the extent to which the Fujimori regime sought to return to Peru's traditional model of market-led growth based on exports of primary products.[2] This essay will reflect on how far this parallel captures the essence of the regime's model, and on what we can learn about its strengths and weaknesses by a comparison with past episodes of export-led growth.

In the first section, we describe briefly the characteristics of past periods of primary product export-led growth. In the second, we summarize the policy approach and institutional innovations of the Fujimori period. In the third, we consider the main differences with the past. We then review outcomes in sections 4-6 under the headings of growth, distribution and the environment. Section 7 gives our conclusions.

Past versions of export-led growth

In a previous study we established that the end of the "classic" period of export-led growth occurred in the 1960s (Thorp and Bertram 1978). Table 1 documents the two

Table 1

Peru: Growth rates GDP, GDP per capita

Periods	In percentages	
	GDP	GDP per capita
1900-29	4.5	3.1
1950-66	5.7	2.9

Source: Seminario, Bruno y Arlette Beltrán (1998).

great waves of growth in the twentieth century. It shows that historically, the primary export-based model served Peru well in terms of growth. The estimates of Seminario and Beltrán give a growth rate of the order of two per cent a year in per capita terms from the 1890s to the 1970s — about the average for Latin America over this period.[3] This good growth record was the result of two exogenous factors interacting with ocal conditions. The exogenous factors are the long periods of buoyant international demand for Peruvian goods and Peru´s rich diversity of natural resources. These

[2] Schuldt 1994, Seminario 1995, Gonzáles de Olarte 1998.

[3] The Latin American estimate is 1.9 per cent; it is based on seven countries only from 1900 to 1980 and is calculated from the statistical appendix of Thorp 1998 (authors Astorga and Fitzgerald). Seminario and Beltrán 1998, is the source of the Peruvian figures. Our estimate, in Thorp and Bertram 1978, was lower but still respectable at one per cent per annum.

combined with an important endogenous factor: the happy symbiotic relationship between foreign capital and Peruvian business groups which developed over time. This meant that foreign capital built infrastructure and provided both marketing expertise and access to the international market. A natural concomitant of the model was a low level of diversification, and indeed a weakening of diversification in the early years of the century, when the profitability of the export sector drew immigrant entrepreneurs away from efforts to produce for the local market and towards either export production or commerce.[4] But when the export motor was functioning well, this still allowed the impressive rates of growth shown in Table 1. And even when external demand crashed, Peru survived relatively well. The fact that profits and remittances fell as export revenues collapsed provided an automatic stabiliser, since outflows fell with inflows, while in the 1930s the relatively swift recovery of the cotton market brought an early return to economic growth.[5]

The model however was always weak in political economy terms, as a development model, as we now explain.[6] The export economy model had consistently allowed space to national groups to participate in the booming export sectors, sometimes in their own right, as with oil, and sometimes in symbiotic relationships with large foreign firms, as with Cerro de Pasco Copper Corporation and the capable Peruvian mining sector over several decades. This strong partnership allowed the foreigner to play roles which elsewhere national groups looked to the state to play — notably the building of infrastructure and the provision of professional marketing services.[7] Domestic elites also found rewarding opportunities in the export sector and lacked incentives to lobby for protection or other support to diversification.[8] The result over time was a political economy model which managed export bonanzas reasonably and provided a good environment for foreign capital, but did not acquire experience in building a diversified economic base, capable of resisting when the export motor faltered. Institutional developments reflected this, providing security for foreign capital and support to foreign trade, but little support to non-export sectors.

The model also coopted emerging social groups rather successfully. The coherent political forces sustained by the model were to the right of centre, and the shift of the Aprista party to a rather conservative position by the 1970s was the clearest expression of the coopting power of the model. As a result of both political and institutional characteristics, when the economy was challenged by the weakness of traditional exports to find a different route, as in 1945-8 or after 1969, the responses

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[4] Thorp and Bertram 1978, Chapter 6, Part 2.

[5] In chapter 2 of Thorp 1995, we contrast the adjustment process of Peru and Colombia to the Depression of 1929. Peru adjusted more easily though with high social cost, in part because it was able to compress public expenditure very rapidly in the short run.

[6] "Political economy" studies how economic policies and their results emerge from a particular balance of political forces, are executed with varying degrees of efficiency in the interests of a distinct group or several groups, and are refined by mechanisms of consultation or accountability.

[7] Colombia provides a sharp contrast: here from the 1920s onwards the need of the coffee sector for a strong supportive relationship with the state was at the heart of the growth of the Coffee Federation and the development of a collaborative relationship between state and private sector, which was to yield returns in sophisticated and finely-tuned policies over the years.

[8] Here the contrast is with Chile, where the foreign-owned copper sector dominated for decades and excluded local elites, who were therefore more interested in early industrial policies.

lacked coherence and sustainability.[9] The resulting "swings of the pendulum" since 1970 have been evocatively documented by González de Olarte.[10]

Further, the model also was hardly a success either in distributive or environmental terms, though both of these elements suffer from lack of documentation. The extreme inequality first documented by Webb (1977) for the post war period emerged from the land grants and trading patterns of the colony but was then cemented by an export growth pattern which found its strongest bases of growth in relatively capital intensive products, resulting in personal and intra-household inequality. Moreover, once rubber and wool had had their day, the model was also characterised by regional inequality, leaving aside the Selva and almost the entire Sierra apart from one or two mining enclaves.[11]

Even less is known about the environmental side, but what is known is not favourable: instances such as the smelters of Cerro de Pasco and Southern Peru Copper Corporation and the effect of their fumes on agriculture, and increasing salination in much of the irrigated coastal land.

The main policies and institutional reforms of the Fujimori period

The basic characteristics of policies and their chronology are well known. In 1990 a severe adjustment was undertaken, followed by numerous measures to liberalise and abolish instruments of intervention.[12] Various laws were passed in the first two years as the underpinning of the new "free" market. Labour and land markets were liberalised.[13] Privatisations were accelerated to generate fiscal revenue, to signal commitment to the market model, and to attract foreign capital. Regulating bodies began to be put in place. The liberalisation of trade, and the abolition of all incentives to non-traditional exports, were clear signs that the model was to be based initially in traditional exports, while 'pure' competitive pressures would generate new opportunities with time. Important laws implementing the new commitment to the primary sector included Decreto Ley 662, which gave incentives to foreign investment; Decreto Ley 674, which promoted privatisation; and Decreto Ley 818 (1996), which provided the framework for large-scale investments in natural resources.[14]

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[9] Thorp and Bertram 1978, chapter 10, part 2 and chapter 15.
[10] Gonzáles de Olarte in Cárdenas, Ocampo and Thorp 2000.
[11] Drinot 2000, and Echave 1994.
[12] Jiménez, Aguilar and Kapsoli 1999, and Rojas 1996 give a detailed description.
[13] For instance, the 1992 new labour laws gave the government free reign to break up strikes, insisted that strikes be approved by secret and notarized ballots of union members, and made unions active in essential public services ensure these services continued to run during any strike activity (*Andean Report* 30 July 1992). In 1991, laws were passed that relaxed rules on job stability – allowing employers to offer temporary contracts, minimal hours of employment and making dismissals easier (*Perú Económico*, Enero, Vol. XIV no. 1, 1991)

[14] As of early 2000, privatization receipts totaled $9.75bn and additional investment pledges were $7 bn as of 1999, according to Copri (*Andean Report* 2 March 1999).

This summary already indicates the extent to which institutional development was a part of the model. Fujimori's institutional reforms in support of his version of the model focused on the need for finance and for political control, to the neglect of the micro side. The reforms involved a massive body of legislation in the first few years. Reforms of specific organisations focused on revenue collection, with a deep and initially very well- managed reform of the tax administration system (SUNAT) as well as a reform of the customs agency (SUNAD)[15]. The reforms however were not backed by the necessary reforms of the judiciary or the tax system itself: it is important to administer tax collection better but if taxes are not well designed or at the required levels, and evasion is not appropriately and effectively sanctioned, the impact of better administration is limited. But at least tax revenue as a per cent of GDP rose from its disastrously low level in the first half of 1990 (4.9 per cent of GDP) to 13.4 per cent by 1995 - in part owing to the successful reduction of inflation, which we describe below.[16]

With time, the political strategy became increasingly one of control rather than creation of a political base, except in so far as patronage could do this. By mid-term, social spending policies were subsumed under a policy of patronage through the Ministry of the Presidency. Policies of control blended into corruption, as we now know, which made it impossible that reform of the judiciary should have featured. The creation of INDECOPI[17], the government's consumer protection agency, appears to have been more a response to external prompting and conventional wisdom than an integral element of institution building (though it went on to achieve good results). The other institutional surprise - the Office of the Ombudsman - was rather similar in its birth. It was made surprisingly vigorous by the appointment of Jorge Santisteban to lead it. A lawyer who had been working outside Peru for some years, he courageously created an organisation with teeth and integrity which did what it could to stem the tide of corruption and abuse of rights. In the later years of the regime, the key institutional success - SUNAT - was itself in some measure subverted for purposes of control, which as time went on required increasing elements of manipulation of information and pressure.[18]

Elements such as supply-side support to restructuring arising from tariff cuts were simply not part of a model which was seen as needing to be ultra-committed to the market to ensure continued flows of capital. All instruments of intervention and/or potential support were disbanded in the first few years of the model. The PYME sector (small and micro enterprises) is very important in Peru;[19] apart from government, the other kind of supply-side support, especially for this sector, can come

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[15] SUNAT: Superintendencia Nacional de Administración Tributaria. SUNAD: Superintendencia Nacional de Aduanas.

[16] Durand and Thorp in Crabtree 1999.

[17] El Instituto Nacional de la Defensa de la Competencia y Protección de la Propriedad Intelectual.

[18] Francisco Durand, interview, Lima June 2nd, 2001. INDECOPI was suffering a similar attack for similar reasons just as the Fujimori regime collapsed (interview, Armando Cáceres, Lima May 2001).

[19] In 1995, according to Pemtec (Pequena empresa, technologia y sociedad), 59 percent of labor force was employed by small and medium enterprise (5-19 employees) and this sector produced 31 percent of GDP (*Perú Económico*, Sept, vol. XIII, no. 9, 1990).

from the technical, managerial and other advice provided by civil society agents such as NGOs. The latter were hardly the regime's favourite category of social actor.[20]

In addition, the availability of credit has been a problem, especially in the rural sector. The abolition of the Banco Agrario, whatever its faults, has done nothing to improve the availability of credit to small rural producers. The present system depends on banks, big firms, a few NGOs and the rural and municipal savings banks. While the latter in particular have been able to make a contribution,[21] the system is totally inadequate.[22]

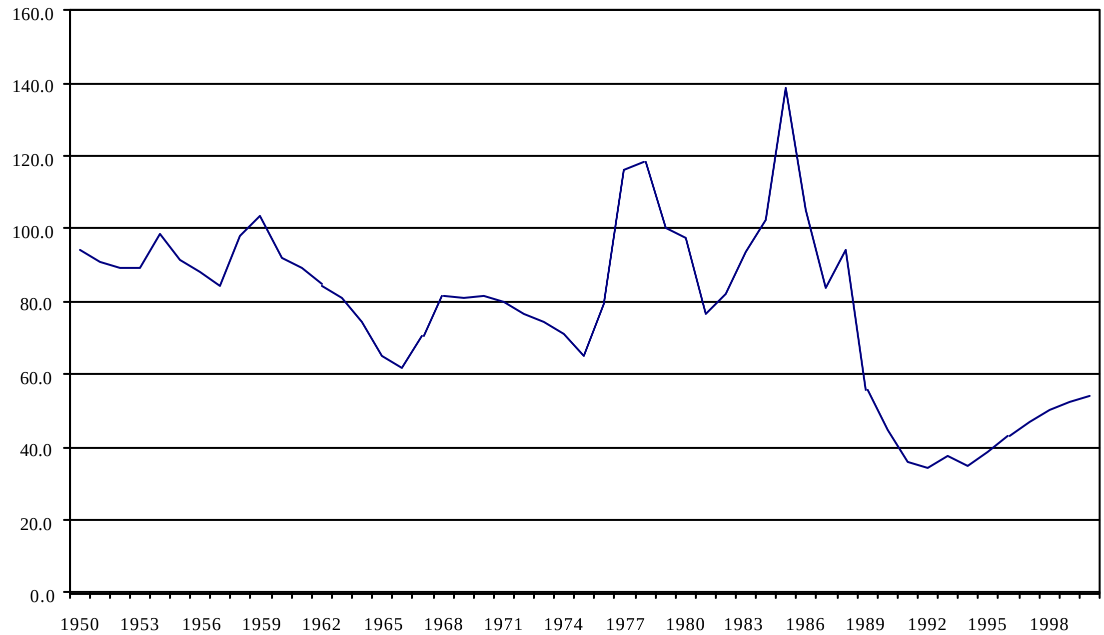
The model compared with the past

We see three major differences in the approach compared with the past. The first involves the source of dynamism. In the past, the primary export focus was

Figure 1

Index: 1979=100

Peru: real exchange rate, 1950-2000



Source: Banco Central de Reserva del Perú. *Memoria 1974*, anexo XVI, p.104; *Memoria 1980*, anexo XXVII, p.151; *Memoria 1989*, anexo XLVII, p.170; *Memoria 1994*, anexo XXXIX, p.173; *Memoria 1995*, anexo 48, p. 184; *Memoria 1999*, anexo 20, p.184. Banco Central de Reserva del Perú (2001) *Boletín Semanal*, N° 3, junio, cuadro 65, p.65.

[20] Non-governmental organizations had come under pressure from Sendero Luminoso until 1992. The government now in turn found them suspect and subjected them to new processes of registration and monitoring.

[21] The development of the municipal finance system for micro enterprises has been one of the most impressive success stories of the 1990s. Set up with strong technical support from German aid agencies, and closely monitored by these for the initial period, they have developed an excellent capacity to reach and support micro entrepreneurs, with impressively low rates of default. Some have been subject to political interference, but the record in general has been good.

[22] Figueroa 2001 substantiates this conclusion with reports in Chapter 8 on fieldwork interviewing credit agencies in three regions of Peru. These interviews confirmed that the rural *cajas* have not been as successful as the *cajas municipales*. The former were created with the specific inducement that the owners could lend to themselves, and this has led to significant abuse. (Interview with directors of the Caja Municipal of Arequipa.)

principally a response to exogenous market forces. In the 1990s, it reflected a policy decision, driven by balance of payments pressures. The decision coincided with the moment when foreign capital began to come back in a substantial manner to Latin America, above all short-term capital (Table 2). The inflow of money in the first five years of the model provided the fuel, sustaining the considerable overvaluation of the exchange rate which developed with the initial *ajuste* (Figure 1), which in turn depressed exports. Whereas the exogenous force in the traditional model implied by its nature balance of payments equilibrium, the lack of such a force in the recent episode opened the way for a version which lacked the traditional model's saving grace: an inbuilt provision for the external gap. The over-valuation meant that a substantial amount of the inflow of foreign capital went into non-export sectors. The result was extreme vulnerability in the balance of payments via a large trade imbalance.

The second major and related difference is that in the past the disincentive to other sectors was principally the natural result of the export bonanza, which as a pure market result led to the move of entrepreneurs and resources to the booming sector - the standard result of Dutch Disease. In the 1990s, *apertura* and the consequent increase in competitive pressure formed a deliberately sought strategy to repair the perceived damage of past protectionist policies. In the first boom of the century, reduced protection was a pure consequence of the profitability of primary export sectors. In the second boom, the government of Odría neglected industry and by removing the import controls that had been a major source of unrest certainly helped to give a disincentive to industry. But it was not a principal policy goal to open the industrial sector to competition.[23] In the 1990s, by contrast, *apertura* was the major instrument to modernise and shake up the economy, and indeed to take the strategy beyond the exporting of primary products. The maximum tariff was reduced in two steps in 1990-91 from 84 per cent to 25 per cent and the average tariff by March 1991 was 17 per cent. Rojas cites an effective rate of protection of 123 per cent in July 1990 and 41 per cent in December 1990.[24] The consequence was that increased competition was a central and major characteristic of the model. As we shall see, de-industrialisation was far more pronounced, given the lack of supply-side measures to support a response to competitive pressures.

A third difference worth noting is the possibility offered by the new popularity of privatisation policies and the scope this provided in an economy which had expanded state ownership significantly, above all under Velasco. This provided opportunities to attract foreign capital above and beyond that attracted to the export sector.[25]

But there are also similarities which are salutory to reflect on. Earlier versions of the export model built and reinforced mechanisms of exclusion that were reflected in growing inequality of personal and regional income distribution over time. The 1990s version did not reduce mechanisms of exclusion. Rather, by various of the measures it saw as central to its version, it aggravated them, specifically by the reductions in

[23] Thorp and Bertram 1978, Chapter 13, Section 2.
[24] Rojas 1996, p. 252, citing Central Bank figures; Jiménez, Aguilar and Kapsoli 1999, p. 30.
[25] Note that the largest share of foreign capital that came into Peru from 1990 to 1998 went to telecommunications (27 percent of foreign investment or $2060m). Finance received a sizeable 10.5 percent of the total ($791.6m). (Comisión Nacional de Inversiones y Technologías Extranjeras, cited in Perú: Inversiones y Programas, available at www.cideiber.com/infopaises/Peru/Peru-09-01.html).

formal sector employment, and by the weakening of unions and professional organisations. The 1990s version also, by its philosophy, did not implement sectoral policy and neglected supply-side micro support measures and the appropriate institutional developments.

An illustrative example of the difficulty of achieving results against a weak institutional background comes from the liberalisation of the market for milk and the reduction of tariffs on imports of powdered milk. Under García there was a single farm-gate price independent of location or quality. In practice, this provided a subsidy to remote small producers. This restriction was ended in 1990. Initially this actually favoured relatively small Sierra producers since the new grading of prices was by fat content, which was high for such producers. However as more sophisticated systems were introduced, paying for quality based on bacterial count, proximity and quantity, small remote producers such as those of the Sierra of Arequipa have found themselves in dire straits. The model has had its intended effect of forcing a change in mentality, but the appropriate support in terms of reliable market information, explanation of the importance of standards and so forth, has not been available. The alternative small niche markets such as oregano and paprika are volatile and fragile, and there are collective action problems. There exist no producer associations capable of resolving such problems.[26]

Such a lack of supply-side policies did not matter for growth historically, given the strong exogenous growth impulse, abundant resources to be drawn in, and the effectiveness of the partnership between foreign capital and national groups. The omission did of course matter seriously for the *quality* of growth. But today the omission matters in all senses : the second principal prong of the 1990s model, the use of competitive pressure, needs multifaceted and well-developed micro support. This is also the tool with which to modify the distributive impact of growth in a more favourable direction.

Growth under the new model

The immediate significant achievement of the 1990 *ajuste* was price stabilisation. Inflation fell from the hyperinflation levels of 1989-90 (7650 per cent in 1990) to 74 per cent by 1992 and 24 per cent by 1994. Thereafter it continued to decline, approaching price stability by the end of the decade. The second major achievement, significant for its effect on confidence and investment, was the 1992 capture of Guzmán and the arrest of a significant proportion of the leadership of Sendero Luminoso.

The growth which followed is shown in Figure 2. Income per capita recovered in the first years of the return to price stability, from its low in 1992, the lowest level since 1960, 32 years earlier.[27] But as Figure 2 shows, the growth of GDP was not enough to return income to its long-run path.

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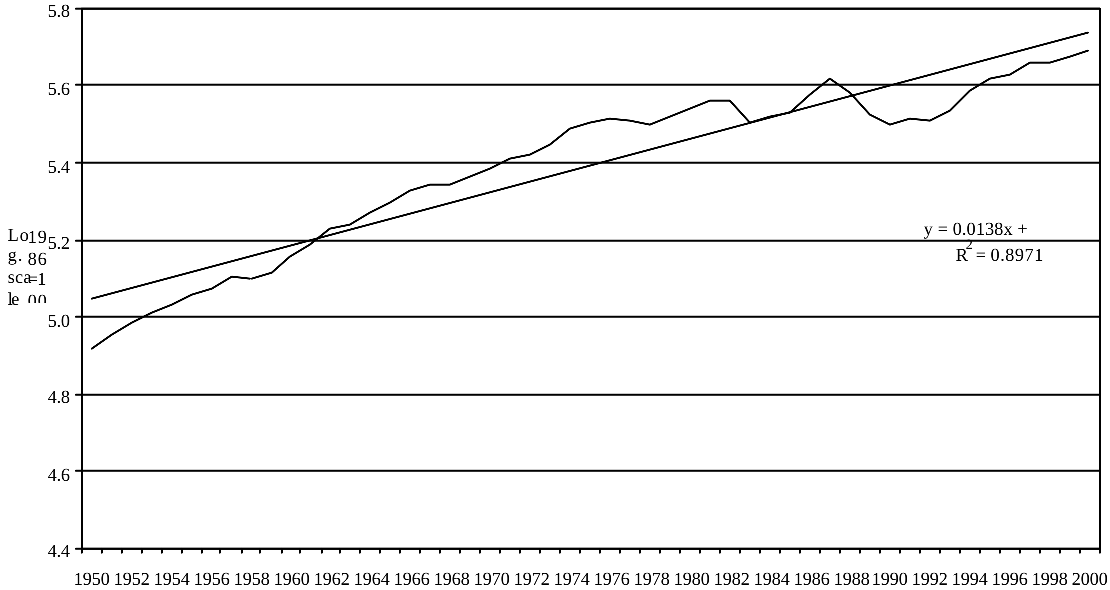
[26] An example comes from oregano production. For a quality product, the oregano needs to be sun-dried, then only the large leaves sent in. A small producer described how he put in the small ones as well, because people didn't notice and paid anyway. He had no perception of the long-run damage to markets this does. (Interview reported by Alipio Montes Urday, Arequipa June 2001)

[27] Data from Cuánto S.A. 2000, p. 711; Cuánto S.A. 1991, p. 362.

The difficulty of assessing the 1990s lies precisely in the depth of the economic

Figure 2

Peru: Behavior of GDP, 1950-



Source: Cuánto S.A. *Anuario Estadístico Perú en Números 1991*, p.362; Cuánto S.A. *Anuario Estadístico Perú en Números 2000*, p.711; Banco Central de Reserva del Perú (2001). *Boletín Semanal*, N° 23, junio, cuadro 73,

collapse at the end of the 1980s and in 1990-91 brought about by hyperinflation, increased terrorism and the new government's choice of a strongly recessive anti-inflationary shock. The gains brought by controlling both inflation and terrorism by 1992 are clear. For instance, investment rose from 20 per cent of GDP in 1990 to a peak of 31 per cent in 1997.[28] Yet the level of income per capita in 1997 had already been gained in 1971.

The initial recovery mechanism was the return of normality, with a reasonable expansion of exports (not of course a response to the new model yet) and modest growth resuming in consumption and investment in 1991-93. Imports rose rapidly with the liberalisation measures of 1990-91 and initial balance in the external accounts was secured by inflows of short-term capital and debt refinancing (Table 2).

Between 1994 and 1997, the economy entered into its export-led phase, responding to buoyant mineral prices and to privatisation initiatives with large investment projects and the beginning of the gold boom above all. As Table 2 shows, it was long-term capital which dominated and provided solvency, allowing reserves to rise strongly.

But mineral prices faltered even during 1997, as the South-east Asian crisis manifested itself, and short-term capital flows turned around. From 1998 short-term capital played a negative role as Table 2 shows. In addition, this century's severest El Nino, which struck in the second half of 1997, had a dramatic negative effect on

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[28] Cuanto (2000)

Peru's fisheries, agriculture, and mining production. The Russian crisis in August of 1998 further exacerbated the downturn, leading to a withdrawal of portfolio investment (of almost $350 million), a massive reduction of foreign lending (about $2.6 billion), higher interest rates on foreign lending to Peru, and a further weakening of domestic demand. GDP grew 1 per cent in 1998 and slowed thereafter.

It is clear therefore that the export boom did not succeed in making the economy more dynamic. The first reason is obviously its short duration. A further serious effect on future growth came from overvaluation, which reduced the likelihood of significant non-traditional export growth down the line.[29] For traditional export products, the sensitivity to the exchange rate is not very great, and more problematic was the weakness of prices which reappeared in 1997; in the following years foreign companies that had committed themselves to investments as a part of their agreement at the point of privatisation were arguing for the postponement of such projects.

A further hypothesis for the disappointing results which we might reasonably put forward concerns returned value. The latter comprises that part of export revenue "returned" to the local economy, and is made up of wages and salaries spent locally, local purchases of goods and services, taxation and local investment expenditure (usually mostly construction). Returned value is affected by the nature of technology, which determines the nature of inputs and equipment, the ability of the host economy to supply inputs and appropriate labour and services (from earth moving to laundry), and by the negotiating power and political will of national and local government to exact taxation and other forms of contribution to the local economy (from roads to scholarships).

A reasonable assumption would appear to be that with development a country should find itself with more capacity to increase returned value under the second and third points above. Unfortunately in mining the technological factor tends to pull in the opposite direction. Technology has taken a step up in scale and complexity with new methods of opencast mining and extraction on site.[30] Only the increasing prevalence of just-in-time management works in the opposite direction, generating a new interest in local suppliers of inputs to facilitate low inventories. This brings us to an additional factor, the supply capability of the local economy. There are two dimensions to this. The first affects principally distributive issues and will be discussed below in this context: the response capacity of the region where the enterprise is located vis à vis Lima or the Coast in general. The second is the national capacity as a whole. The sector in principal most likely to benefit from expansion of the export activity of the 1990s was light engineering. Unfortunately, this sector had already been pushed into crisis by the stagnation of mining in the 1980s. Some firms had rescued themselves by moving to supply the fishmeal industry.[31] The liberalisation of imports in the 1990s further increased pressure on this sector. The sector also continues to bear the brunt of the bias toward international suppliers inherent in the whole system of international

[29] In early 1991, businesses were complaining that the nuevo sol was overvalued by some 50 percent (*Andean Report* 18 April 1991). In mid-1994, they were claiming it was at least 30 percent overvalued (*Andean Report* 30 June 1994).

[30] Kuramoto 1999, p. 27.

[31] Interview with .Eduardo Carrero and Wilfredo Cáceres, FIMA S.A. This firm took the lead in innovating to be able to supply the fishmeal sector.

financing and feasibility studies. Most large projects require significant external

Table 3

Peru: Composition of exports, 1990 - 2000

Year	In percentages	
	Traditional	Non traditional
1990	68.1	29.8
1991	69.3	29.2
1992	70.0	26.4
1993	66.0	28.9
1994	68.9	26.4
1995	71.4	25.9
1996	71.4	27.0
1997	68.9	30.0
1998	64.4	34.2
1999	67.7	30.7
2000	68.5	29.1

Source: Banco Central de Reserva del Perú. *Memoria 1999*, anexo 24, p.188; anexo 27, p.191; Banco Central de Reserva del Perú (2001). *Boletín Semanal*, N° 23, junio, cuadro 78, p.78.

funding, which, if linked to official sources, typically brings with it requirements to purchase from the suppliers of the country providing the funding. The feasibility studies required effectively exclude local firms by the requirements set and by pre-existing relations with suppliers.[32] The output of the light engineering sector fell from 4 per cent of GDP at its peak in the 1980s to 1.4 per cent in the late 1990s. The import bill of the mining sector has amounted to 12 per cent of GDP; if only a small part of this could have been sourced locally it would have had significant linkage and multiplier effects.

As to the willingness of the government to extract taxes, the government saw it as necessary to make significant concessions to achieve the reinstating of the primary export model. Accordingly, it gave generous tax exemptions in the new regulations on foreign capital, enhanced with further specific exemptions as individual programmes of investment were negotiated.[33] Whether in fact it was necessary to go

[32] An interesting exception to the general failure is FIMA S.A. This Lima-based firm has become a significant supplier of inputs to the mining sector through its strategic alliances and diversification (Kuramoto 1999). However, its managers testify to the major impact of tied financing on their market. They estimate that Peru's Gran Minería buys locally only 10 per cent of what it could buy were it not for tied financing agreements. Interview with Eduardo Carrero and Wilfredo Cáceres, Lima June 26th 2001.

[33] For instance, in August 1993 one of three laws the government approved to attract investors into the oil industry made oil exports tax-free (*Andean Report* 2 September 1993). Mining companies making investments were promised tax stability for 20 years (*Andean Report* 7 September 1995). Tax-free

so far is beside the point: this kind of model sees this type of incentive as necessary. Correspondingly, little effort was made to negotiate benefits for the local areas. A project such as Yanacocha is now paying the price for this in bad community relations - an aspect we return to below under distribution.

The true situation in relation to returned value still has to be evaluated; however, we suggest its relatively low level could be part of the reason for the relatively slow growth, particularly in certain regions where mining activity has been located. This would suggest that the rate of export growth of 8.7 per cent a year in the 1990s probably reflected a growth rate of returned value several points lower, as low returned value activities increased their share in total exports.

The analysis of the likely behaviour of returned value under the new model already demonstrates the importance of the deliberate use of competition as a distinctive and different characteristic compared with the past. This becomes all the more important given that the demand side of the model was insecure. For the model to produce new non-traditional exports, it was desperately important that it should produce its intended effect on competitivity. However, the combination of overvaluation and liberalisation meant that the new market policies only succeeded in a very limited sense. The net result of the effect of the exchange rate on non-traditional exports was that they did not increase their share of exports (Table 3). Exports to the Andean region were particularly prejudiced (Fairlie 1997). Moreover, privatisation with inadequate regulation raised the costs of public utilities and thus industrial costs (Tavara 2000).

The positive dimension of market liberalisation is the much needed impact of increased competition on businesses too long cushioned in comfortable and inefficient practices. This has undoubtedly been positive in itself. However, unless the process is in turn supported by appropriate capacitation and the building of characteristics such as sensitivity to the importance of high standards, and unless there are appropriate ways of dealing with collective action problems in the new environment, the results can hardly be positive on a wide front. There also needs to be time; the new primary export model being vulnerable to a highly unstable international world, there was in fact too little time for a positive response. As we have seen, growth began in 1993, the first year of renewed confidence as terrorism was controlled, and tailed off by 1997. Although much necessary legislation was rushed through in the first two years, much was still being enacted in 1994-5.

One further reason why growth seriously faltered after a short time is that short-term management also became increasingly difficult, as a result of some of the same factors we have analysed here. First, the impact of *apertura* has been to increase the dependence of domestic investment on imported goods. It has also increased the tightness of the relationship and the size of the coefficient between production and imported inputs. To put this another way, the coefficients of Peru's input-output table, which were already relatively low, now became even smaller. This meant that any

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zones were set up in from 1989 onwards: companies that set up there were offered such incentives as exemptions from taxes for 15 years providing all output was exported, freedom from regulation and the ability to transfer dividends outside the country (*Perú Económico*, Julio, Vol. XVI, no. 7 1993).

reactivation of the economy had an increased direct and negative impact on the balance of payments via imports.[34]

Second, debt service accounted for 37 per cent of exports of goods and services in 1990 and still 21 per cent in 2000.[35] For a committed neo-liberal government, paying this was a high priority and a first claim on scarce fiscal resources, which limited fiscal policy. Third, dollarization grew, as a reaction to insecurity and a way of managing risk. But the heavy indebtedness in dollars which now developed was in part being serviced by income flows in soles. This seriously restricted the possibility of devaluing, which now began to be opposed by the banks as well as debtors,[36] and monetary policy was ineffective with such high levels of dollarization. High domestic interest rates were essential to maintain the inflows of short-term capital on which equilibrium increasingly depended. These three factors amounted to the complete emasculation of the conventional tools of short-term management.

Finally, the same compensating factors that had helped earlier now did not apply as widely - in addition to mining, foreign investment was coming into utilities, and here continued to remit profits independent of the short-term behaviour of exports. These limits on policy were not very evident while growth was in its recovery phase. But once growth faltered in 1997 and failed to recover thereafter, it became progressively more obvious that the economy was in a strait jacket with regard to reactivation.

Distribution and the model

Historically, the distributive effect of the export-led model always varied with the nature of the export product and its manner of exploitation. Although we lack the data to make firm statements, it is probable that distribution improved only during the 1930s, with labour-intensive cotton production leading the recovery and small-scale mining taking advantage of the absence of large foreign investors. The main periods of export-led expansion were led by large-scale mining, oil and capital-intensive sugar, with limited linkages and employment generation.

This was the historical base of the highly “excluding” model we find in existence by the 1990s. Figueroa analyses the model in terms of economic and political structures. Economically, factor markets – labour, land and capital – exclude the majority of the population and ration jobs. Politically, the excluded majority do not have access to the channels to demands their rights and in any case have to give priority to their own survival. If you are poor you cannot afford the costs of getting information and access. You may vote but on the basis of intuition, not information.[37]

During the 1990s, the economic model in place did not modify in a developmental direction any of the mechanisms of exclusion. Renewed primary product based growth from the mid-1990s has been led by large-scale mining and (unevenly) by modern agriculture on the Coast. Small and medium mining has not flourished;

[34] This is thoroughly documented by Jiménez, Aguilar and Kapsoli 1999.
[35] CEPAL 2000, p. 105.
[36] See Dancourt and Mendoza 1991.
[37] Figueroa 2001, Chapter 1 and Chapter 3, p. 77-80 on political exclusion.

indeed, small mining was effectively destroyed in the early years of Fujimori.[38] The direct creation of employment by the Gran Minería has been far less than in the past. Francke (2001) shows that the elasticity of poverty to the expansion of primary sectors is less than that of other sectors in the 1990s.

The measures to liberalise labour, land and product markets worked on the whole to increase unemployment and the lack of protection of the poor. An example of the adverse distributive effect of liberalisation is the case study of milk we cited above. It is clearly the poor farmers of the Sierra[39] and the *obreros* of the canning plant who bore the brunt of the liberalisation.[40]

What has affected the picture has been the use of social spending via FONCODES, el Fondo Nacional de Compensación y Desarrollo Social. This has been demonstrated to have responded to political criteria[41] and to have been deficient in quality and coherence of planning. Nevertheless, on balance, it probably provided a small compensation for the disequilibrating effect of the basic model.

The failure to provide employment has been more serious than in the past in terms of outcomes, given that Peru today is largely urban.[42] [43] Institutional developments either failed to touch the problem or made it worse. At the heart of this was the absence of sectoral policies and the weakness of the institutions that potentially might have supported the PYMEs or restructuring. SUNAT initially made brave efforts to get the rich to pay, but it was not supported by the necessary judicial reforms or political will. Further, its efforts to get the informal sector to pay taxes were regressive in impact.[44]

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[38] Carlos Loret de Mola, interview, Lima April 16, 2000; Juana Kuramoto, interview Lima June 20, 2001.

[39] An additional element was the move of Gloria's processing plant to Lima, which we deal with on p. 20 below. The *obreros* of the canning plant were also victims of liberalisation.

[40] Along similar lines, Escobal *et. al*. (2000) study the emergence of asparagus production in Chincha in response to liberalization and conclude that on balance, the employment and income effects tended to be negative for small farmers and firms.

[41] Schady (2000) shows FONCODES expenditures increased significantly before national elections and were directed to provinces where the marginal political effect of spending was likely to be largest.

[42] Schuldt 1994, Gonzáles de Olarte 2000.

[43] In 1994 employment was at just 64 percent of its 1979 level while the purchasing power of salaries was 40 percent of its 1987 value (*Andean Report* 30 June 1994).

[44] Iguíñiz 1998.

The repercussions on measures such as the gini coefficient are difficult to measure precisely, since the key instrument of measurement, household surveys, suffer from problems of changing coverage and inconsistency.[45] The outcome on balance, however, has been continued concentration of income and assets among a few groups. Figueroa illustrates this point using data made available by CONASEV, la Comisión Nacional Supervisora de Empresas y Valores.[46] Real wages and salaries fell dramatically in the formal sector (Table 4). We lack data on the impact of this in the informal sector, though we should expect effects working in opposite directions: a positive substitution effect as people switch demand to informal sector products and a negative multiplier effect from falling purchasing power.[47] Given the increase in the number of people thrown into the informal sector, the strong possibility exists that

Table 4

Evolución de las remuneraciones, 1986-2000

Year	Indices (1987=100)	
	Salaries	Wages
1980	102.0	122.5
1987	100.0	100.0
1990	32.2	36.1
1991	34.1	41.6
1992	35.1	40.1
1993	41.0	39.8
1994	49.3	46.0
1995	47.1	42.1
1996	47.6	40.1
1997	48.2	39.8
1998	50.4	39.0
1999	53.4	38.2
2000	55.7	38.5

Source: Banco Central de Reserva del Perú. *Boletín semanal* (2001), N° 23, junio, cuadro 63, p. 63; *Boletín semanal* (2000), N° 28, julio, cuadro 58, p. 58; *Boletín mensual* (1995), setiembre, cuadro 17, *Boletín* (1993), diciembre, cuadro 16, *Boletín semanal* (1992), N° 45, diciembre, cuadro 71, p. 71; *Boletín semanal* (1991), N° 48, diciembre, cuadro 79, *Nota semanal* (1991), N° 41, octubre,

income per capita of informal employees fell.[48]

[45] Figueroa 1998.
[46] Figueroa 2001, Chapter 2.
[47] This is nicely analysed for the 1980s by Dancourt in Jiménez 2000c.
[48] Neither national income accounts nor household income surveys in Peru really allow an estimate of what happened to informal incomes year by year. This means that income distribution data cannot be reliably extracted from either source.

Such a severe worsening of the economic position of the less well off was temporarily tolerable since as Rojas argues, inflation and terrorism moved to the top of people's wish-lists in the early 1990s, allowing employment and social issues to be temporarily displaced.[49]

A different distributional issue concerns space. It would appear plausible to expect that a return to a primary export model would have an equalising effect in regional terms, by favouring the regions where the export activity is located more than the centre. We have already provided elements of the analysis to indicate that the reality has been different.

In the first place, as explained above, we believe that returned value has been low, for macro reasons – the terms negotiated – and for micro reasons – the nature of the new technology combined with the impact of *apertura*. We must now consider the regional dimension of returned value which evidence suggests is concentrated in Lima and other large cities. Arequipa makes an interesting case study. The region contains a group of extremely large mining projects, both old and new. While the projects vary in their detail, in general they are creating few new jobs in the region and their local purchases are concentrated heavily in Lima. Further, purchases made in Arequipa may in fact be through a commercial house which is in fact importing the goods concerned. The mining companies need suppliers which meet high standards, tend not to be confident about local purchases, and may even opt for sending motors for repair to Lima rather than to a service agent on the spot.[50] Even the minerals themselves go directly to Matarani for export, or worse still direct to Callao. This is true of other industries as well: Escobal et al (2000) describe how large asparagus farmers and cooperatives of smaller producers tend to "leapfrog" the local supplier to buy inputs in Lima, where they have more choice, lower unit prices, product guarantees etc

What *apertura* has done at a quite profound level is to force firms to rationalise, as we have already commented. This has had a distinct regional dimension. In Arequipa, many firms were forced to close faced with the new challenge of competition - but some found the answer to restructuring to be a move to Lima. A classic example is the Gloria evaporated milk plant in Arequipa. For years, it had tolerated the "double transport cost" of bringing sheet metal from Lima and returning the tins filled. When faced both with domestic competition for the first time in many years[51] and with lower cost imports of powdered milk, the economic logic became overwhelming: in 1999, the plant was closed and a new plant opened in Lima, leaving *obreros* to find a new source of income.[52] This reflects the end of a cumulative process, as Lima became more and more Gloria's principal market in the 1990s and as the Lima dairy

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[49] Rojas 1996, p. 269.

[50] Interview, Alfredo Obregon Clavos, El Taller, a non-governmental organization working with the PYME sector in the southern region.

[51] Gloria did not advertise in the 1980s. It developed massive TV advertising during the 1990s.

[52] Preliminary interviews suggest that many of the white collar workers were either relocated by Gloria or could relocate themselves. It was the manual workers who had the harder time, with Arequipa possessing the highest rate of open unemployment into the country.

industry took off, benefiting from the abolition of a fixed price for all milk at the farm gate.[53]

Even stronger imbalances can be seen in regions without Arequipa's level of development. An evocative illustration of this is the case of the Yanacocha gold mine in Cajamarca, the largest in Latin America. The project was initiated in an unpromising manner in 1992, since the investors thought at that point that the mine's profitable life was some seven years, and they opted for a low profile and minimum investment in community relations. By the time further exploration was beginning to signal a very different story, bad relations and suspicions were already building up. Even once the company recognised the political value of local purchases, its efforts to encourage a local group to organise an earth-moving company (CONGECASA) ended in disaster. Local capacities for organisation, entrepreneurship and levels of experience were not adequate to take advantage of the situation, with the result that even food tends to be brought in from outside. The mine needs to purchase in bulk for economic reasons. It would have required a very systematic and coherent supportive development policy to produce an adequate supply response.[54]

A strong policy of decentralisation and capacitation over some years would be required to have a chance of producing such a change. Unfortunately the whole tenor of the model was to increase central control. This went deeper than the particular economic model, and has been thoroughly analysed as a product of the evolution of political and economic structures in Peru over many decades.[55] The result was that a primary product export model with potentially strong regional benefits had those effects almost totally negated by the lack of effective decentralised structures capable of supporting regional supply initiatives, and of demanding reasonable terms for the enterprises' local presence and often significant negative externalities.

This is made worse by the fact that the weakest link in the present regional structures are the CTARs (Consejo Transitorio de Administración Regional), yet these represent the only body that could in principle negotiate at the level of region with, say, the mining companies. The CTARs are tempporary non-elected bodies with almost no resources or powers.

The environment and community relations

The most problematic area connected to the environment and the relation of new export projects to local communities is mining. The way mining affects both elements has changed with technology. First, the new techniques have made it economical to process huge areas of terrain in open-cast mines, and have made it possible to exploit many deposits which were previously overlooked. The result is that mining companies have become incredibly hungry for land. Indeed, much of community land area in the country is now subject to mining claims. Second, while the new processes

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[53] Based on interviews with academics and practitioners in the NGO sector, Arequipa, June 2001.

[54] That this is not impossible can be seen from a Chilean case study. In Rancagua a group of small firms, supported by SERCOTEC, the national agency for technical support, formed an association, AEMET, "to (politely) attack CODELCO." They have succeeded, and the effort has transformed their way of working. Now they are finding other customers. (Angell, Lowden and Thorp 2001)

[55] González de Olarte 1982, 1992, 2000; Iguíñiz 1984; Cotler 1994.

are highly scientific and carefully monitored, they contain extreme dangers, such as the use of cyanide to "wash" the crushed rock to leach out the metal But in various directions, these new techniques leave room for doubt and uncertainty. For example, massive sediments of cleaned rock are left in the re-formed mountains, with uncertainty as to their stability in a situation of, say, severe rains with a bad El Niño. And the massive excavations necessary may risk disturbing precious subterranean water systems in ways that communities sense are not yet fully understood. Left-over cyanide and other toxins may turn into toxic gas and poison local water supplies. , Further, the mining companies make heavy use of contractors for associated services, some of which involve the transport of dangerous substances; some recent traffic accidents involving these companies have resulted in instances of contamination (for example mercury and petroleum in Cajamarca) This aspect is difficult to monitor and is a major point of vulnerability.

On the positive side, a significant difference with the past is that Peru has now an Environmental Law, first passed in 1990 and subsequently improved. The new law requires that when undertaking new projects, companies submit a plan showing how they will take care of environmental aspects. In principal, this plan is discussed at a public hearing. For existing projects, companies are required to produce a plan showing how they intend to bring the project into line with the law's requirements over a ten-year period. There are various problems with the legislation and with its execution; for example, the standards are below international best practice, and the hearings are held in Lima with (so far) inadequate opportunities for participation by those most affected. The evaluation of Environmental Impact Studies is in the hands of the Ministry of Mines and Energy, which only has to "consult" other ministries and bodies with strong interests and constituencies (such as the Ministry of Agriculture and INRENA, the Instituto de Recursos Naturales).[56] The aspect of relations with local communities does not play a large enough part in the requirements companies must satisfy. But at least the mere fact of a law is an achievement.

Another major difference is that today many organisations exist to monitor both environmental and community relations, internationally and within Peru. There is now a world organisation of communities affected by mining.

Too little time has passed and too little hard research exists as yet to give a clear and objective picture. Our preliminary field visits have suggested that weak local structures provide an unfavourable context for monitoring environmental effects. Accusations fly and it becomes difficult to reach an objective picture. Thus in Yanacocha, major concerns have arisen over recent incidents of contamination arising from traffic accidents, the worst being a huge mercury spill, and accusations of the pollution of water, soil and air are constantly levelled at the mine. Again we return to the theme of institutional weakness: arriving at a well-enforced, socially acceptable and credible resolution needs an effective municipal structure supported by central government, and in the region by NGOs or other civil society organisations with credibility and professional competence.[57]

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[56] Interview with GRADE's mining group, Lima, June 2001.

[57] The present local government in Cajamarca is launching a project for an independent laboratory, with impeccable credentials, to provide trustworthy information. This is a promising new venture which can only help (interviews with officials of the municipality in Cajamarca).

Parallel concerns emerge from other projects – for example the attempt to develop a mining project in Tambogrande, said to comprise the largest known gold deposit in the world. Here the issues of contamination are potentially grave, since the mine would be within the city itself; would generate sulphur-bearing dust with the possibility of acid rain affecting the valley of San Lorenzo, one of the richest agricultural valleys in the coast; and could disturb and possibly contaminate subterranean water systems connecting the different *cuencas*. The need for objective evaluation and careful negotiation and monitoring is today threatening to overwhelm limited local capacities.[58]

Conclusions

This essay has attempted a first reflection on the economic policies of the Fujimori years, taking as its starting point the characteristics of the model as a return to Peru's traditional dependence on primary product exports. Clearly, in a straightforward sense, this characterisation has been correct. As in most Latin American countries in the 1980s and 1990s, the effort to pay the debt forced a new effort to export, and in many cases the result has been a new focus on the region's traditional comparative advantage.

As we push the comparison to a deeper level, however, significant differences and similarities emerge in the context, the strategy and the results. A principal difference has been the virtual absence of a strong exogenous growth mechanism. The country benefited from no more than three to four years of "export-led" growth that was demand-led. Instead the mathematics of external balance were rescued as in many other countries by the coincidental return of short-term capital to the continent at the start of the 1990s and by the once-off revenue opportunity provided by privatisation. This has made for a far more fragile and less dynamic situation.

A second major difference is the centrality in the model of an aggressive opening up to competitive pressures. This was in theory to bring the supply-side improvement in productivity, which would produce growth even without a stable and continuous pull from the international economy. In particular this would happen with the attraction of international capital and technology through the power of a new commitment to openness and to the international rules of the game.

This brought us to *similarities* which are salutory to reflect on. The lack of appropriate support at the micro level – with capacity building, credit, information, facilitation of coordination, meant that the policies failed to produce their intended results. This absence compounded other aspects of the policies, such as their impact in the labour market, to generate also the continuation and aggravation of mechanisms of exclusion. Such policies were also absent in Peru's relatively brief periods of *inward*-looking growth. More interventionist policies tended to lack fine-tuning and a serious micro dimension. There is a profound consistency here, as we have argued: the principal problem with the political economy of the outward-led periods was that they did not lead to the development of an experienced and competent state which had

[58] The Frente de Defensa of Tambogrande is attempting to challenge the company, but recent conflicts and violence reveal the limits and threats of the process.

learnt by doing, with policies moderated and aided by good feedbacks with the private sector and civil society in general. This characteristic of the political economy of the past continued in the 1990s and in fact became more exaggerated, as middle-class groups, professional organisations and popular organisations in general were weakened rather than strengthened. As Gonzáles de Olarte has argued, this permitted the continuation of perversities in short-term policy management. The challenge for the next government is not "to find a different recipe" but to find a way to escape this long-run unhealthy political economy.

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