

Economical and political overview of peru

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Overview

Peru is located in western South America and is the third largest country in the continent after Brazil and Argentina. The countries bordering Peru are Ecuador and Colombia to the north, Bolivia and Brazil to the east and Chile to the south. According to the latest United Nations estimate, the current population of Peru is 32.9 million, with roughly 80% of the population living in urban areas. Making up approximately 0.43% of the total world population, Peru ranks number 42 on the list of countries by population.

Spanish is the official language in the country, spoken by approximately 84% of the Peruvian population. Quechua and Aymara also have official status. Quechua, the language of the Inca empire, is the second most common language in the country, spoken by about 13% of the population, mainly in the central and southern highland regions of Peru. Aymara is less popular and thus spoken by about 1.7% of the population, with most of the Aymara speakers living near the southern border with Bolivia and around Lake Titicaca.

Peru is most famous for Machu Picchu, a 550-year-old Inca site located in a remarkable setting between two Andean peaks, sitting on 7972 feet above sea level. Machu Picchu's excellent maintenance, the quality of the construction, and the spectacular mountain vista it occupies has made it one of the most well-known archaeological sites in the world today. It was designated a UNESCO World Heritage site and was chosen as one of the New Seven Wonders of the Modern World in 2007. Due to this popularity, Machu Picchu is amongst the most visited destinations in the world which has

played a fundamental role in the development of Peru's economy. In fact, tourism in Peru is the third largest sector in the country, after fishing and mining.

Economy

At the end of the 1980s, Peru was experiencing a disastrous economic crisis. Life for the Peruvian people was unbearable during that period due to the unmanageable financial debt and the hyper-inflation. A series of natural disasters (powerful earthquakes and storms devastated the infrastructure and agriculture) and other international events (price for the major Peruvian exports dropped as Europe, Australia and the United States started subsidizing their agricultural industries) contributed to the disastrous situation. These conditions forced Peru to borrow from the International Monetary Fund (IMF) in order to stabilize the economy. However, there are certain rules that need be followed as part of borrowing from the IMF. For example, Peru was required to implement an austerity plan, slash spending and open the economy to trade. Additionally, since borrowing money from the IMF is known as a last resort, countries that select such an option are typically labeled as “too risky” for investors. These restrictions further contributed to killing off the already broken economy and many Peruvians ended up losing jobs as a result of privatizations.

Fast forward into the 1990s, under the rule Alberto Fujimori, the country managed to mitigate the inflation that took place after the debt crisis as a result of pursuing sharp fiscal consolidation policies and formal reforms. However, it was in the early 2000s when political and economic stability finally took place in Peru.

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Gross Domestic Product and Unemployment Rate

Nowadays, Peru's economy ranks 45th in the world and the World Bank places Peru in the "upper middle income" bracket with a gross domestic product (GDP) of \$211.39 billion in 2017. The GDP value of Peru accounts for 0.34% of the world economy. The GDP in Peru averaged \$53.59 billion from 1960 to 2017, with an all-time high of \$211.39 billion reached in 2017 and an all-time low of \$2.57 billion recorded in 1960. According to the World Bank, Peru was one of the fastest-growing countries in Latin America between 2002 and 2013 with an average GDP growth rate of 6.1% per annum. Accordingly, during this time period, the robust employment and income growth sharply reduces the country's poverty rate. The poverty rate (% of the population living on \$5.50 or less a day) dropped from 52.2% in 2005 to 26.1% in 2013. This is roughly the equivalent to 6.4 million people escaping poverty during that time. The most current unemployment rate in the country according to the National Institute of Statistics and Information (INEI) is 7.30%. The unemployment rate in Peru averaged at 7.84% during the period 2001-2019, reaching a record high of 13% in January 2005 and an all-time low of 5.60% in December 2012.

Income Distribution

The economic growth and greater investments in infrastructure and public services in Peru have made other advancements possible. Among other improvements in the country, data showed that metrics such as income distribution have also improved during the last years.

According to the World Bank, Peru's 2017 Gini Index (used to measure income distribution equality) was 43.3. In context, a number closer to zero

would indicate perfect equality. While this figure has improved over the last years, it is still above the average for developed countries. For example, this number is closer to 30 for the US and the EU.

Industries

Peru's economy reflects its diverse geography – the dry coastal section, the high sierra of the Andes Mountains, and the dense jungle of the Amazon. Suitably, a large number of key mineral resources is found in these diverse areas while the coastal waters provide outstanding fishing grounds. Thus, the main industries driving Peru's economy are mining, fishing, tourism and manufacturing. Mining Peru is a global leader in the production of gold, copper, lead, and zinc and the metals and minerals are exported by the country in large quantities, accounting for roughly 55% of the country's total exports. Mining takes place within the Andes, which is the most mineral-dense area in Peru. There are currently over 200 operating mines in the country with plenty more waiting to be developed. The success of Peru's mining sector comes not only from the region's wealth of natural resources, but also from the appealing legal and tax systems devised to support the industry. China is currently the largest international investor in mining in Peru, followed by the U. S.,

Canada and Australia

Despite Peru's strong economic growth, dependence on minerals and metals exports makes the economy vulnerable to fluctuations in world commodity prices.

Fishing

The fishing industry in Peru, mainly focused on the export of fish meal used in poultry food, is amongst the largest in the world, providing 10% of the world's fish consumption. Commercial deep-sea fishing off of the coast of Peru is a major business as Peruvian waters normally burst with all kinds of marketable fish. In fact, more than 50 species are caught commercially at over 40 fishing ports on the Peruvian coast.

However, El Nino provides a significant challenge for the industry leading to major fishing supply fluctuations. As such, in the years when the country experiences El Nino, the fishing industry supplies only about 1% to the Peruvian economy. This happens because the warm ocean current shifts the typically cool Pacific waters, thus killing the microorganisms on which other marine life depends.

Tourism

Tourism to Peru has more than tripled since the year 2000 which is largely contributing to the economic growth of this South American country. While Machu Picchu has been the main reason why people visit, the expansion of other cultural sites throughout the country, along with the improvement made in the infrastructure as well as standards for tourism in Peru, has helped ensure a constant rise in foreign arrivals.

The most popular types of tourism in Peru are cultural, gastronomic, and adventure tourism, while ecotourism is considered the sector responsible for growth of tourism in Peru.

Visitors from other countries in South America account for 57.4% of international visitors to Peru. With Mexico, Central America and the Caribbean, the total reaches 60%. The U. S., Canada and Europe makes up just over 35% and Asia is responsible for only 4% of the total visitors.

Manufacturing

Due to its historical reliance on raw material exports, Peru has never developed a robust manufacturing sector. Currently, the sector represents 20% of GDP and is tied to mining, fishing, agriculture, and textiles.

Manufacturing was largely developed for the purpose of processing a part of the raw materials in order to gain a value-added advantage. The most promising sector is textiles which is responsible for exporting clothes to Europe and the U. S.

Trade Relations

Peru is well integrated in the world economy and contributes to a wide range of international and local forums, including the United Nations, the World Trade Organization, the Asia-Pacific Economic Cooperation, the International Monetary Fund, the World Bank, the Union of South American States, the Forum for East Asia-Latin America Cooperation, the Andean Community of States, the Community of Latin American and Caribbean States, and the Pacific Alliance. Additionally, Peru has Free Trade Agreements with the United States, Canada, the European Union, China and other countries. In 2009, the United States and Peru signed the United States-Peru Trade Promotion Agreement (PTPA) which boosted the incentives for social and economic collaboration between the two countries. The benefits on the PTPA include removing tariffs and barriers to U. S. services, affording a safe, <https://assignbuster.com/economical-and-political-overview-of-peru/>

predictable legal environment for investors, and reinforcing the protection of intellectual property, workers, and the environment. As a result of the signed PTPA, the total trade between Peru and the U. S. has risen from \$9 billion in 2009 to nearly \$16 billion in 2017. During the same period, Peruvian exports to the U. S. increased by 75%, while U. S. exports to Peru increased by 73%. According to the Office of the U. S. Trade Representative, the PTPA created new opportunities for the U. S. in the area of agricultural export to Peru since “ more than two-thirds of current U. S. farm exports became duty-free immediately after the Agreement went into effect”. In 2017 Peru was U. S.’s 31st largest export partner and the leading U. S. agricultural trades to Peru were wheat, corn, and rice. The top imported categories into the U. S. from Peru in 2017 were precious metal and stone (gold). According to the Department of Commerce, U. S. exports to Peru supported the creation of jobs in Peru- approximately 62, 000 jobs were created in 2015 with 38, 000 supported by goods exports and 25, 000 supported by services exports.

In 2018, Peru shipped roughly \$47. 2 billion worth of goods around the globe. That dollar figure represents approximately 0. 3% of the total global exports. Roughly half of Peru’s exports were delivered to Asian countries with about 28% of the goods arriving in China, Peru’s largest trading partner. Another 19% of the bulk was transported to Europe while almost 20% worth of goods arrived in North America with 17% in the U. S., Peru’s second largest trading partner. Fellow Latin American countries (excluding Mexico but Including the Caribbean) purchased 13%. Less significant fractions of the total Peruvian sales were exported to Africa and Oceania. Over 85% of all Peruvian exports in 2018 were delivered to its largest 15 trade partners: China, the U. S, India,

South Korea, Japan, Switzerland, Spain, Brazil, Netherlands, Chile, Germany, Canada, Ecuador, Colombia and the U. K.

Political Situation

Peru is a presidential republic with a multiparty system and a democratic government. The current government system was created in 1993 by the Constitution of Peru. It follows the belief of separation of powers of its three branches: the executive, legislature, and the judiciary. The Peruvian government is elected, and voting is obligatory for citizens between 18 and 70. For administrative reasons, the country is separated into 25 regions, which are further separated into departments, provinces, and districts.

The president is the highest representative of the executive branch and he/she is elected every five years and may not be reelected immediately. The executive branch is made up of the president and two elected vice presidents. The president appoints a council of ministers that is headed by the prime minister. Peru's current president is Martin Vizcarra (independent), who assumed office in March 2018 after President Pedro Pablo Kuczynski resigned over corruption allegations. Purportedly, the former president Kuczynski has accepted illegal payments from Odebrecht, a large Brazilian construction company that was found guilty of a colossal bribery scandal. Over the last years, while Peru's economy has been experiencing impressive economic growth, its political scene has been shaken by numerous corruption scandals and investigations against former presidents and other prominent political figures. Notwithstanding the notable decline in poverty levels in the country, wide inequalities in income and access to basic services persist. Corruption continues to be widespread at all levels of

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government, and international criminal organizations have expanded “beyond narcotics trafficking and into trafficking of illegally mined gold, timber, counterfeit currency, and wildlife”.

The recent corruption scandals, which involve many of the country’s main political figures, has luckily not troubled Peru’s economy, and protecting it is President Martin Vizcarra’s main objective. Since government corruption is an enormous problem for Peru that directly impacts foreign investors’ confidence, Vizcarra’s priorities center around enforcing rules that promote transparency in the public and private sectors. Some examples include, bolstering protection for whistle-blowers and requiring public officials to disclose visitors’ records.

Business Environment

A main goal of the Peruvian government since 1990s has been to cultivate a political and economic environment that encourages privately owned businesses to emerge and thrive in the country. This was accomplished by creating a solid fiscal and monetary policy on the economic front, and reducing civil unrest on the political front.

According to a report done by the United Nations Conference on Trade and Development (UNCTAD), the change in economic policy in Peru was supplemented by the necessary redefinition of the role played by the State: “The 1993 constitution strongly encouraged private initiatives — from a large range of State-controlled business holdings cutting across all sectors, the Government has now divested itself of most of its productive ventures. All government holdings in the fisheries and financial sectors, more than two

thirds of those in mining, oil and telecommunications and, to a large extent, electricity generation and distribution have been privatized. The construction and management of roads, ports, railroads and airports is also in the process of being granted in concessions to private investors.”

To boost investments in the country, the Peruvian government has introduced several important reforms that tackle the main obstructions to greater investment, robust tax collection, and lower financing costs. Particularly, the government introduced a new institutional framework for public and private infrastructure investment to reduce red tape. Also, digital processes aimed at minimizing the time spent on administrative procedures were implemented. Further, a new tax rule that promotes the use of electronic payments and reduces compliance costs was announced.

According to Doing Business 2019 Report (a World Bank annual publication), Peru stands out in the “ starting a business” and “ dealing with construction permits” domains. Also, according to the same report, Peru ranks 64th in the areas of regulation affecting small and medium-sized businesses in the country, with its best performance in the area of “ getting credit” (32nd) and “ registering property” (45th).

Due to its attractive business environment, Peru has been able to attract plenty of foreign direct investments (FDI) in recent years. In fact, Peru is the 4th largest recipient of FDI in Latin America after Columbia, Brazil, and Chile. According to the country’s Central Bank (BCR) and UNCTAD, in 2017 the FDI inflow totaled \$6. 7 billion with most of it coming from Spain (the largest

investor), the rest came from the EU, the U. S. and GB. Other large investors include Chile, Brazil and the Netherlands.

The major companies in the country are Alicorp (consumer goods), Buenaventura (mining), Cridicorp (banking), Lindley (preparation and bottling of soft drinks), Edegel (electric power generation), Luz del Sur (electric power distribution), Engie (electric power generation and distribution), Petroperu (petroleum), Saga Falabella (retail), Minera Barrick Misquichilca (mining), Minsur (mining), Ferreyros (machinery and equipment) and Cementos Pacasmayo (building materials).

Resources

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