

The paradox between good economic performance and social unrest in Peru: 2000-2015

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Abstract

During 2000-2015, Peru achieved an average annual growth rate of GDP - higher than the average of Latin America (2.85%) - of 5.3% (World Bank, 2017). This generated an increase in the average monthly salary of US\$ 505.6 PPP in 2004 to US\$ 851.4 PPP in 2015 (INEI, 2016).

This improvement of growth and real income resulted in a reduction of both the monetary poverty (42.4% in 2007 to 27.8% in 2011), (INEI, 2012, p. 26), as well as the multidimensional poverty index (55.47% in 2007 to 37% in 2011), (Vásquez, 2012). Moreover, the Gini index changed from 0.525 in 2001 to 0.439 in 2014 (ECLAC, 2017). However, some labour indicators showed that in 2015, only 50.8% of the Occupied EAP had an adequate employment and 45.7% was underemployed (INEI, 2016). In turn, the number of conflicts increased from 47 in 2004 to 211 in 2015, according to the Peru Ombudsman Office (Defensoría del Pueblo, 2015).

The aim of this paper is to identify the determinants of the paradox of a country that grows in macroeconomic terms under social unrest. The Peruvian economy generated positive conditions for growth from 2000 through 2015. However, there was not a fair distribution of economic outcomes across the 25 regions within Peru (CIES & BID, 2012). By the year 2015, the poorest regions showed rates of monetary poverty incidence between 44.7% to 51.7%. On the contrary, one single region had the lowest rate of poverty (3.22%) (INEI, 2016, p. 62). On the other hand, the relative position of the HDI country was one of the lowest among the rest of Latin America and Caribbean. Regarding social unrest, around the 2000s the country experienced several conflicts and the population did not trust the government. Since 2008, the number of social conflicts increased considerably and originated violent demonstrations. These conflicts, the origins of which were mainly socio-environmental, were the channel through which the population showed social discontent and also made an impact on governance indicators. This level of conflict emerged from the existing inequalities in the country. The conflicts emerged in local places where the population was poor, disorganized and inadequately represented, but with an unexpected high capacity of protest (López Lancho, 2015, pp. 6-7). To conclude, it can be showed the existence of a paradox that relates high economic growth with a high level of social conflicts developed in the country.

Keywords: Peru, economic growth, economic performance, social unrest, poverty, inequality

JEL Codes: H7: State and local government; intergovernmental policies, O15: Human development, O17: Institutional arrangements, N1: Growth, N3: Welfare, Income & Wealth

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Table of Contents

1. Introduction	3
2. Peru 2000-2015: Economic and social situation	3
2.1. Principal macroeconomic indicators	4
2.1.1. Peruvian economic situation	4
2.1.2. Employment	6
2.2. Social Indicators in Peru.	8
2.2.1. Poverty.....	8
2.2.2. Inequality	10
2.2.3. Human Development Indicators.....	11
2.3. Social conflicts: a consequence of social unrest	12
3. Concluding remarks	16
Bibliography.....	17

List of Figures

Figure 1. Peru 2000-2015: GDP growth (annual %) and GDP, PPP (billions of current international \$)	4
Figure 2. Peru 2000-2015. Export and import value index (2000=100).....	6
Figure 3. Unemployment, underemployment and decent work in Peru 2004-2015.....	7
Figure 4. Deprivation of multidimensional poverty, Peru 2011-2012 (% of population).....	10
Figure 5. Income Distribution by deciles of the population, by Geographic area, Peru: 2001-2014 (% of total income)	11
Figure 6. Composition of active social conflicts, Peru December: 2015.....	13
Figure 8. Annual GDP growth (%) Monetary Poverty (%) and number of social conflicts in Peru in the period from 2006 to 2015	15

List of Tables

Table 1. Number of injured and deceased persons in social conflicts. Peru 2006-2015	13
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1. Introduction

During 2000-2015, Peru experienced a significant economic progress. It was considered as an emerging country in Latin America due to the good results of macroeconomic indicators. For example, the GDP in 2000 was US\$ 134.8 billion PPP, while in 2015 increased to US\$ 393.1 billion PPP (World Bank, 2017). In addition, the foreign direct investment nearly doubled from 2000 to 2015 (Cavanagh, 2016).

However, the social indicators such as the level of poverty – from 42.4% in 2007 to 27.8% in 2011 (INEI, 2016, p. 60) - and the Gini index – from 0.525 in 2001 to 0.439 in 2014 (ECLAC, 2017)- did not change in the same proportion. The social conflicts, measured by the Peruvian Ombudsman Office, showed that Peru was in a permanent social unrest (Defensoría del Pueblo, 2015). This paper explores the idea that unfinished institutional reforms of the government and business sectors could explain the fact that the Peruvian economy was still a slightly unequal society. Thus, the gap between rich and poor people in the midst of a buoyant economy created or accentuated some irreconcilable differences between Peruvians.

This work is organized into three sections. First, it will be analyzed the macroeconomic performance of Peru during the period of 2000-2015. Second, it will be studied the progress in social indicators. Finally, the social conflicts will be approached based on The Ombudsman Office Data. The concluding remarks try to highlight the reason of how the paradox between good economic performance and social unrest in Peru evolved during the period 2000-2015.

2. Peru 2000-2015: Economic and social situation

During 2000-2015, the Peruvian economy showed a positive evolution of its macroeconomic indicators. Nonetheless, despite these advances, the fight against poverty and social inequality, which provoked high levels of social discontent and ended up in social conflicts, was still a great challenge. Therefore, it is pertinent to ask if the economic advances increased the social satisfaction or if it caused more dissatisfaction among who probable were left out the economic booming.

This section is divided into three parts. The first part presents the development of Peru's macroeconomic indicators for the period 2000-2015. The second part shows the social results in relation to the levels of poverty and inequality. Finally, the third part presents a synthesis of the social conflicts that have occurred in this country.

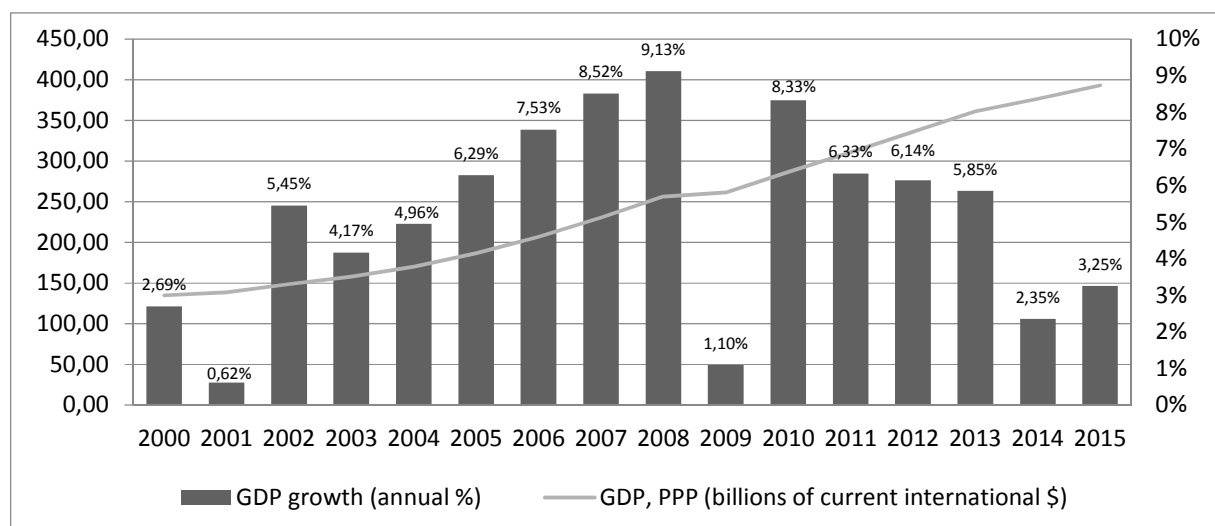
2.1. Principal macroeconomic indicators

2.1.1. Peruvian economic situation

Since mid 1960s, the Peruvian economy was stagnant (Carranza, Fernández-Baca, & Morón, 2004, p. 4) due to weak political institutions and erratic economic policy decisions, mainly explained by an unstable political orientation (Morón & Sanborn, 2007, p. 33). However, from 1990, Peru achieved a high level of economic performance where monetary poverty declined from 58.7% in 2004 to 21.8% in 2015 (INEI, 2016, p. 60), GDP grew steadily by 5.3% in the period 2000- 2015² (World Bank, 2017) and private investment increased from 14.8% of GDP in 2000 to 19.3% of GDP in 2015 (BCRP, 2017), laying down the strong foundations for a modern development.

As compared to Latin America, Peru had a high performance as a result of “a favorable external environment, prudent macroeconomic policies and structural reforms in different areas” (World Bank, 2017) during the period 2000-2015, as shown Figure 1. Additionally, government social programs and public investment in infrastructure were relevant in Peruvian development (World Bank, 2016, p. 2). Nonetheless, international financial crisis caused by the collapse of Lehman Brothers Investment Bank in 2009 (BCRP, 2010, p. 49) and a slowdown in emerging economies in 2014 (BCRP, 2015, p. 41) represented significant downfalls in the annual growth rate.

Figure 1. Peru 2000-2015: GDP growth (annual %) and GDP, PPP (billions of current international \$)



Source: Compiled by *Centro de Investigación de la Universidad del Pacífico* based on (World Bank, 2017)

² The author worked with data from the World Bank and calculated the average of growth rate.

The labour - intensive sector improved significantly during the period. For example, participation of construction and wholesale & retail trade in total value-added of GDP increased from 5.47% and 18.52% in 2000 to 7.28% and 16.85% in 2015, respectively. On the other hand, agriculture sector decreased its participation from 8.86% in 2000 to 7.76% in 2015 (ECLAC, 2017).

As a result of this optimal growth, average monthly income (salary) in Peru urban and rural areas increased from US\$ 598.13 PPP and US\$ 231.16 PPP in 2004 to US\$ 954.37 PPP y US\$ 436.17 PPP in 2015 (INEI, 2016, p. 543), respectively³. Although salaries in both areas increased, the salary of the rural area grew in a greater proportion than that of the urban area in the period 2008-2015 (rural, 6.5% and urban 5.1%) (INEI, 2016, p. 564). This happened due to a rapid growth of income in manufacturing and construction activities (10.6% and 7.1%, respectively) in the rural area (INEI, 2016, p. 564). Nevertheless, it remained lower because its main activity, agriculture and livestock, generated less income than the national average (by 2015, US\$ 381.56 PPP and US\$ 536.65 PPP, respectively) (INEI, 2016, p. 564). This activity represented 74.99% of all wage workers in rural area in 2015; while wholesale & retail trade was the main activity in urban area because it represented 21.9% of all wage workers being the one of greater participation (INEI, 2016, p. 281).

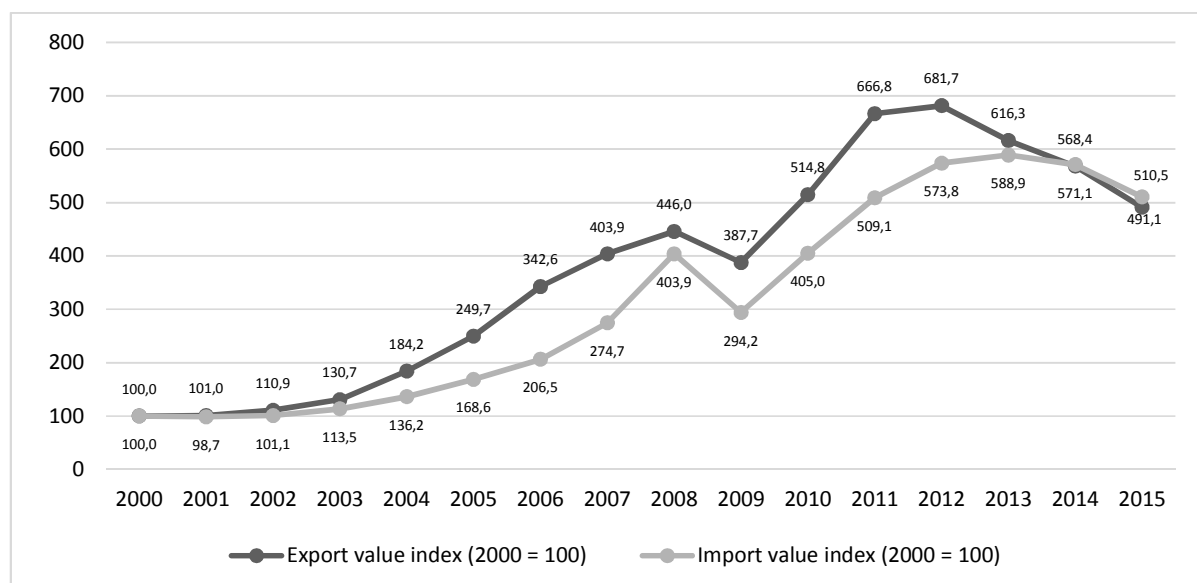
In terms on monetary policy, the Central Bank of Peru adopted an inflation targeting regime (from 2002 to 2006, 2.5%; since 2007, 2% as targets) with a tolerance band of one percentage point (Vega, 2008, p. 2). The purpose of this reduction was to show a public commitment with price stability (Vega, 2008, p. 2). In parallel, FX Reserves increased from US\$ 22,521.81 million PPP in 2000 to US\$ 136,797.28 million PPP in 2015: this meant 7.5 times of increase of its original value (BCRP, 2017)⁴. In conclusion, the Peruvian State demonstrated sensible monetary policy, which gave stability to the country against any external shocks.

The government adopted market-friendly policies and a low level of state intervention, which had a positive impact on the country's growth. This was due to the enforcement of various Free Trade Agreements (FTA), so since 2003, there was an accelerated growth of exports and imports, as shown in Figure 2. Special attention should be paid to the period between 2009 and 2014 because of the decline in international commodity prices (BCRP, 2010, p. 49) and the import prices (BCRP, 2015, p. 41). It should be noted that Peru is very sensitive to the international market environment because for the period 1995-2010, terms of trade shocks accounted for 62% of economic growth, while shocks on the international interest rate accounted for only 34% (Aparicio, Aragón, & Rodríguez, 2011, p. 1).

³ Converted to US\$ PPP with PPP conversion factor, GDP (LCU per international \$) given by the World Bank.

⁴ Converted to US\$ PPP with PPP conversion factor, GDP (LCU per international \$) given by the World Bank.

Figure 2. Peru 2000-2015. Export and import value index (2000=100)



Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on (World Bank, 2017)

A key issue of Peru’s development is that is based of intensive use of natural resources. Mining activity and the rest of the economic activities in the country were linked. This linkage explained why the impact of the variations of this activity on the economy has been relevant (IPE, 2012, p. 56). In particular, GDP, employment and public revenue have been the most positively indicators related by the extraction of metals during the first decade of this millennium. However, in 2014, the decline in export prices had a major impact on mining investment (20% of total private investment), which resulted in a persistent drop in the growth of private investment (MEF, 2014, pp. 4-5).

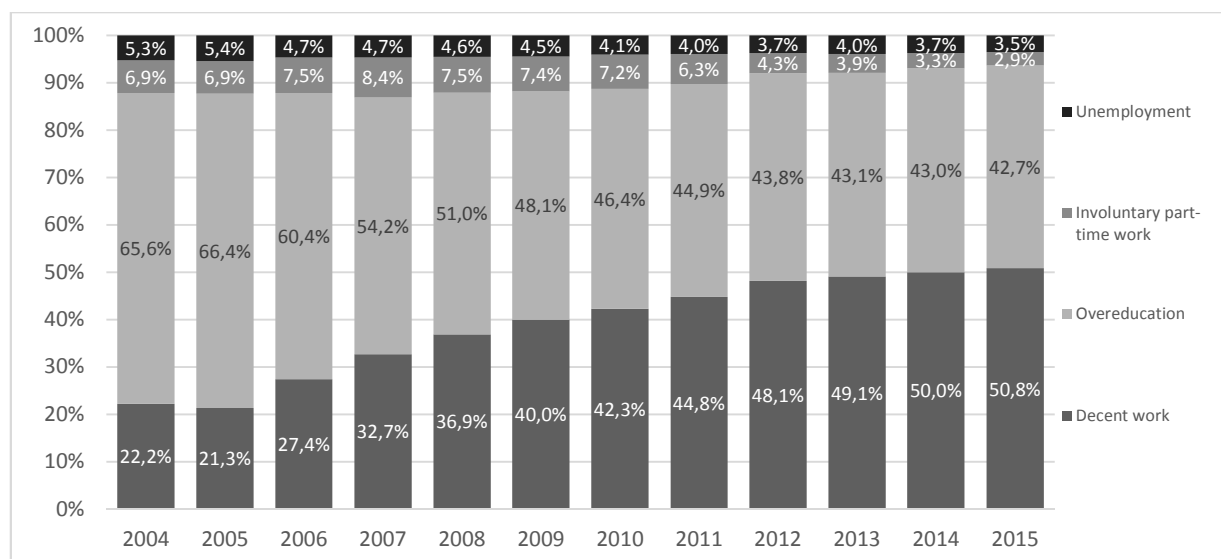
Considering the positive macroeconomic results during the period 2000-2015, is important to recognize whether they turned into improvements in the social welfare of Peruvian population as well. The analysis of the labour market would help to understand in which way the economic booming translated itself into a better level quality of life among the people. This paper will focus on the ILO concept of “decent work”, that is, whether there have been improvements in development, security and social protection opportunities for the working class.

2.1.2. Employment

The labour market responded positively to Peruvian economic growth (Jaramillo & Sparrow, 2014, p. 7). As a result, there was a reduction of unemployment from 5.3% in 2004 to 3.5% in 2015 (INEI, 2016, p. 327), which was lower than the average in Latin America and the Caribbean (7.4%) (ECLAC, 2017). Moreover, underemployment declined mainly because underemployed workers changed jobs into decent work, taking

into consideration that the proportion of underemployed part-time workers remained practically constant in the period 2004-2015, as shown in the Figure 3.

Figure 3. Unemployment, underemployment and decent work in Peru 2004-2015



Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on (INEI, 2016)

Despite the improvement in these labour indicators, the creation of more jobs under decent working conditions continued to be a considerable problem in the period 2000-2015. This labour issue can partly be explained by the limited educational development of the labour force, which is the result of a poor quality education in elementary level. For example, in Mathematics, in 2007 only 7.2% of second-year primary school students got an acceptable level in a national performance evaluation, while in reading only 15.9% understood what they read (MINEDU, 2008, pp. 21,45). This situation, by 2015 statistics improved by 26.6% in Mathematics and 49.8% in reading, respectively (MINEDU, 2016, pp. 10,23). Nevertheless, these statistics are still low in relation to the OECD countries standards and showed the weakness of the quality of public education in Peruvian schools. Thus, according to the OECD PISA Education Report of 2015, 46.7% of Peruvian primary school students showed a poor performance in the three evaluated subject areas (sciences, reading and mathematics). This poor performance was higher than the OECD average (13%) (OECD, 2016).

The problem arose when students graduated from high school and tried to get into the labour market. The low quality of basic education caused low labour productivity. This nurtured an informal sector that, according to Pastor, provoked an inefficient allocation of resources (productivity could have been higher if only the formal sector had existed), caused negative externalities in the growth of the country and faced high transaction costs in the period 2000-2008 (Pastor, 2010, p. 114).

The problem escalated by finding that although the participation of the informal sector in GDP is only 19.2%, 55.9% of the Occupied EAP had an informal job in that sector (INEI, 2016, pp. 57-58). Two aspects were extremely worrying, according to Poquioma: 94% of jobs created by micro-enterprises (from 2 to 5 workers) were informal in 2007 and 86% of them did not declare their respective taxes to the IRS in 2006 (Poquioma, 2008, pp. 12-13).

Why was this situation happening? Loayza suggested that the poor public services and excessive regulations for the private sector were the cause of informality in the country (Loayza, 2007, p. 60). In addition, Pastor (2010) argued that the weak supervision of the State, the low educational level and difficulties in the development of capacities were critical as well for fostering informal activities (Pastor, 2010, p. 121).

In summary, the Peruvian economy showed great efforts to generate positive conditions for growth in the period 2000-2015. However, keeping adequate macroeconomic policies may be a necessary but not sufficient condition to guarantee the satisfaction of the Peruvian population about its quality of life.

2.2. Social Indicators in Peru.

Even though Peru had a great economic development, was a parallel improvement of social indicators such as poverty and inequality equally evident? To begin to answer this question, it is important to recognize that both public and private sector tried to resolve or alleviate the problems of poverty and underdevelopment in different way and magnitudes.

On the one hand, the biggest companies of the country were forced to provide resources for investing in social welfare of their close communities. The so-called Social Responsibility of the firms was implemented because of local pressure or mandatory regulations coming from the state like the Mining Canon (Franco, 2007, p. 31). On the other hand, the government implemented social policies in order to reduce and contribute to the alleviation of poverty and inequality. However, the effectiveness of the 2000-2015 social policies was limited (Yamada & Castro, 2006, p. 10).

This section illustrates the social performance of Peru during the period 2000-2015. First, it compares the level of monetary poverty in contrast to the multidimensional poverty. Second, it analyzes the social inequality through human development indicators. Thus, it would be possible to have an social profile of the economic consequences of implementing a market-economy model in an emerging country like Peru.

2.2.1. Poverty

Over the reference period, the monetary poverty reduced in Peru. The population living below the poverty line drastically decreased from 58.7% in 2004 to 21.8% in 2015 (INEI, 2016, p. 60). Meanwhile, the rate of extreme poverty reduced from 16.4% to 4.1% in the

same period (INEI, 2016). Despite this fact, there was a urban-rural gap due to rural poverty decreased from 69.8% to 45.2% and urban poverty decreased from 37.1% to 14.5% during the same period of analysis (INEI, 2016, p. 61)

Mendoza & García, argue the decrease of poverty was the consequence of an increase in employment and the growing government spending (Mendoza & García, 2006). Likewise, Aparicio *et al.* pointed out that the investment in infrastructure projects (telecommunications, electric power, access to drinking water and sewage systems) helped to reduce the poverty rate (Aparicio, Jaramillo, & San Román, 2010, pp. 39-42).

Therefore, the actions taken by the government had a positive effect to reduce monetary poverty. These decisions were inspired, in some way, by the 2000 Millennium Development Goals (MDG). Specifically, Goal1A: reduce extreme poverty by half by 2015. Nevertheless, by 2007 this goal had been already accomplished, in other words 8 years ahead of schedule (INEI, 2017, p. 22).

Even so, monetary poverty leaves out some other dimensions –apart from economic conditions– that are significant (INEI, 2011). As a result, INEI calculated the poverty ratio from a multidimensional approach based on five unsatisfied basic needs criteria: high level of economic dependency, children’s schooling, poor housing, lack of sanitation services and households overcrowding. Under this criterion, the last two indicators had the highest rate of growth in 2004. Moreover, 20% of population lived in housing without sanitation services while 14% lived in overcrowded houses. Several years later of strong public investment, these two last indicators showed significant improvement by 2015 in contrast of the rest of unsatisfied basic needs ratios (INEI, 2016, p. 85).

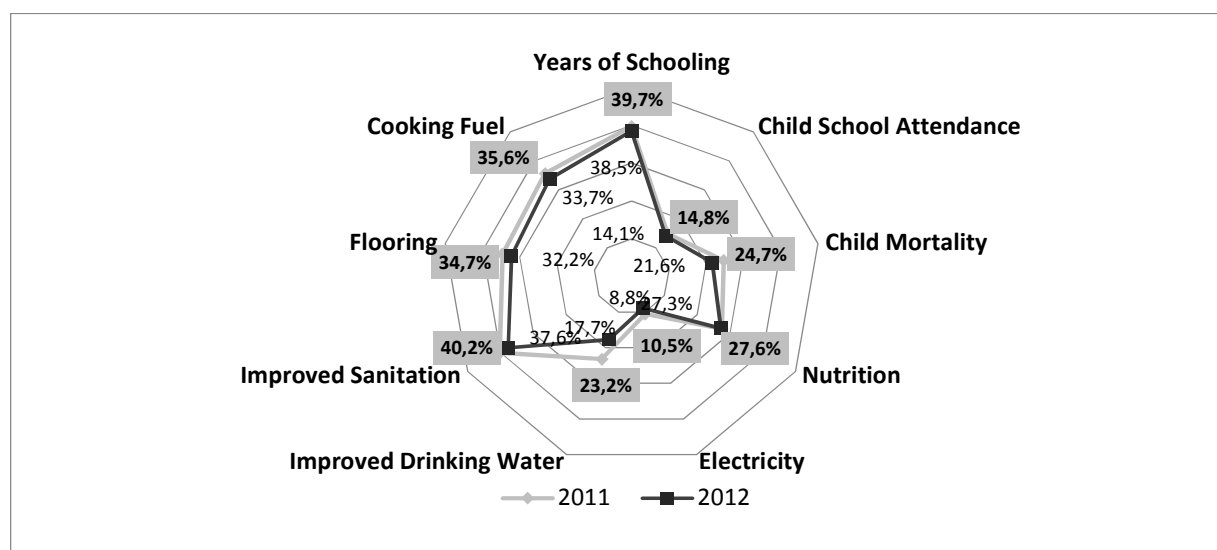
From another point of view and using OPHI’s methodology, Vásquez considered that a Multidimensional Poverty Index (MPI) should be taken into consideration for policymaking in Peru as an effective tool to focus on social policies and social programs performances. This index is calculated by the weighting of nine indicators –each one related to one deprivation– organized in three dimensions: education, health and living standard. In this way, policymaker could visualize the changes in the levels of population deprivation as it can be seen in the Figure 4 (Vásquez, 2012).

Under OPHI approach, the real Peru seemed to be different. By 2012, the rate of multidimensional poverty was calculated in 36.6%, contrary to monetary poverty (25.8%). In the same way, is worth to emphasised the decreased of multidimensional rate (-3.3pp) had been higher than the monetary rate (-2.0pp) from 2011 to 2012 (Vásquez, 2012).

Despite a further decrease in deprivation of multidimensional poor households compared with the increase in spending by monetary poor households, the relative importance of each deprivation did not change significantly over 2011 and 2012. This might be due to the lack of cost-effective social programs that should have eradicated some deprivation of the vulnerable people.

Figure 4 shows the deprivation of multidimensional poverty following OPHI methodology. On one hand, the access to improved drinking water was the deprivation that had better performance. This was a consequence of the influence of National Rural Water Supply and Sanitation Program that was created by 2012. On the other hand, by the same year the social security system (ESSALUD) and Integrated Health System (SIS) provided more medical services to their beneficiaries. As a result, the indicator of Child Mortality improved which meant that 794 388 additional people accessed to health care through public health centers.

Figure 4. Deprivation of multidimensional poverty, Peru 2011-2012 (% of population)



Source: Adapted from ENAHO 2011-2012 (updated OPHI methodology by Enrique Vásquez).

2.2.2. Inequality

According to ECLAC, Peru had slightly improvements in its Gini Index because it decreased from 0.525 in 2001 to 0.439 in 2014. One interesting fact is that income inequality in rural areas changed from 0.439 to 0.408, meanwhile in the urban area the Gini index changed from 0.477 to 0.399 during the period 2001 and 2014. Thus, there is no doubts that the income inequality decreased at national level in Perú. (ECLAC, 2017).

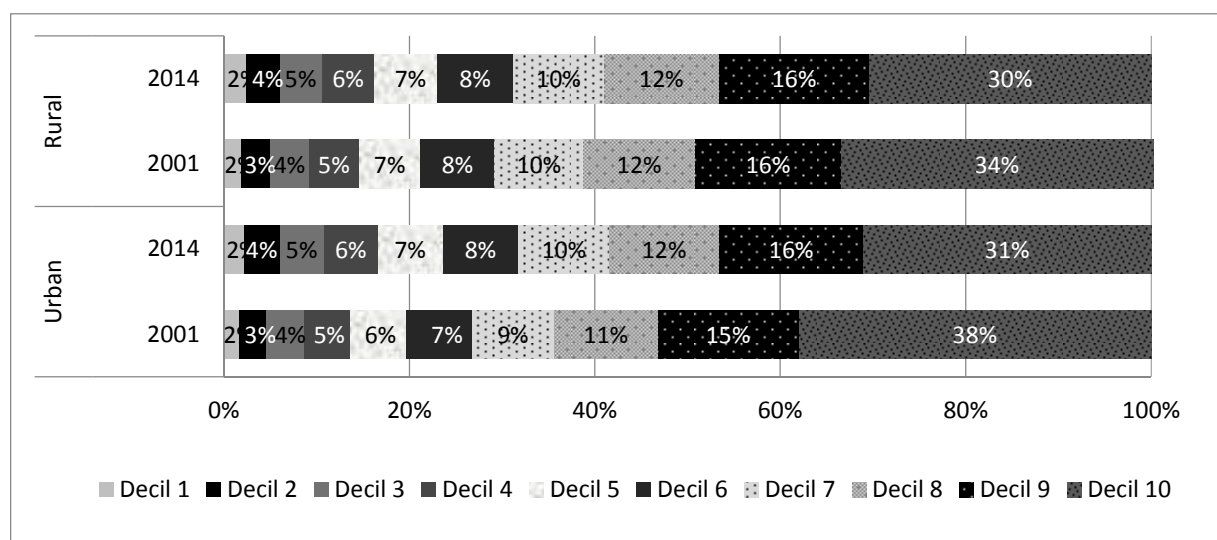
However, there were still differences of income distributions within the population. The concentration of consumption expenditure from the richest 20% of the population earned 43.7% of the country's total income, whereas the poorest 20% earned only 6.5% by 2015 (INEI, 2017, p. 25). Figure 5 shows that between the years 2001 and 2014, the gap between the rich and the poor in Peru had not decreased as it was expected.

Two of the common causes of social inequality in the country, according to Mendoza *et al.*, were the high economic dependence on mining activities and the concentration of the

workforce in low productivity sectors (Mendoza, Leyva, & Flor, 2011, p. 86). Besides, Montero and Vera found that the change of inequality was intensified by the opportunities related to education (particularly the level and quality education of the household of the nuclear family) and the characteristics of the region of origin (Montero & Vera, 2008).

Although the Peruvian economy over 2001-2015 had an accelerated expansion, there was not a fair distribution of economic growth throughout the regions of Peru (BID, 2012, p. 3). By 2015, Amazonas, Cajamarca and Huancavelica –political subdivisions of Peru– had the highest rate of poverty incidence because it fluctuated between 44.7% and 51.7%. On the contrary, Ica had the lowest rate of poverty that fluctuated between 3.22% and 6.70% (INEI, 2016, p. 62). Thus, there were different “Perus” within the same country because of the extreme difference of poverty.

Figure 5. Income Distribution by deciles of the population, by Geographic area, Peru: 2001-2014 (% of total income)



Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on (ECLAC, 2017)

2.2.3. Human Development Indicators

At this point of discussion, it is important to see other human development indicators in order to complement the analysis beyond the economic and income growth (United Nations Development Programme, 2010, p. 7). On one hand, the Human Development Index (HDI) measures achievements in terms of life expectancy, educational attainment and adjusted real income. This index fluctuates between 0 and 1, which means the higher the coefficient the higher the level of human development. In 2014, Peru was listed as 84th out of 187 countries on the HDI world ranking which meant an improvement in this index that has increased from 0.679 in 2000 to 0.734 in 2014. In other words, the country

had been doing well on human development. Even though, the inequality-adjusted HDI had decreased to 0.563 (PNUD, 2015).

On the other hand, Peru achieved a Happy Planet Index score of 34.6 and ranked 21st of all the countries analyzed (The New Economics Foundation, 2016). This index measures the human well-being and environmental impact through the levels of ecological footprints (The New Economics Foundation, 2012, p. 3).

In brief, the country had significantly improved its living standards particularly in reducing poverty levels. This outcome showed the government's commitment to improve the social welfare, as a result of macroeconomic growth as of 2000. Furthermore, by 2015 there had been a slight improvement regarding social inequality and human development indicators. The progress of Gini Index was not as significant as the improvement of HDI because the country got into the group of high human development in 2014. However, the relative position of the country was the lowest among the rest of Latin America and Caribbean.

2.3. Social conflicts: a consequence of social unrest

The dynamics of the economic growth strongly influenced the evolution of the social conflicts in Peru during the period 2000-2015, since this growth "has not involved, necessarily, the establishment of measures that generated a perception of social welfare and of political representativeness of certain groups of the [Peruvian] society" (Defensoría del Pueblo, 2012, p. 35).

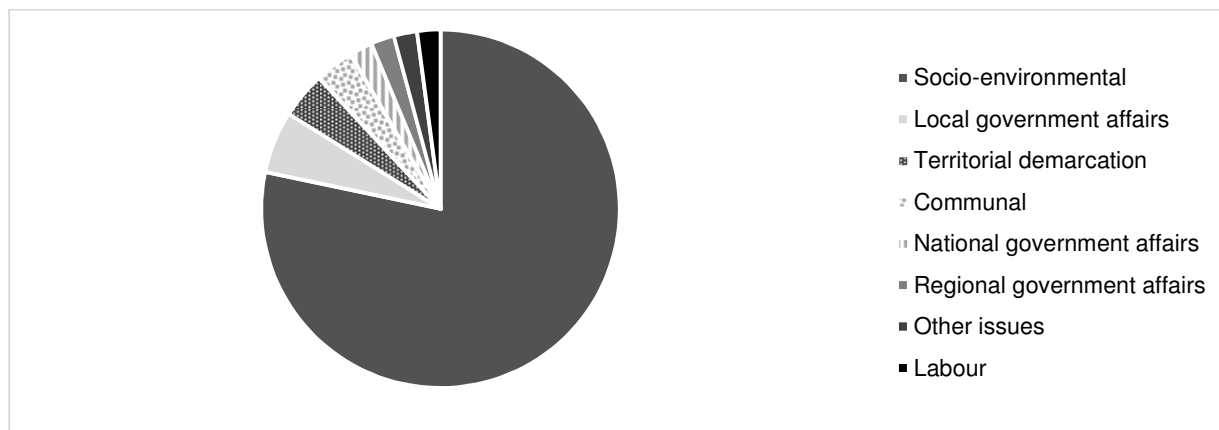
The increase of these social conflicts reflected the social dissatisfaction in Peru. According to the Peru Ombudsman Office, the number of social conflicts increased from 63 (47 actives and 16 latent) in 2004 to 211 (143 actives and 68 latent) in 2015 (Defensoría del Pueblo, 2015, p. 5; Defensoría del Pueblo, 2004, p. 1). In 2004, 5% of the total number of conflicts was due to causes related to the mining activity; while in 2015, 68.7% of active social conflicts of socio-environmental origin, 62.8% corresponded to cases related to mining (Defensoría del Pueblo, 2015, p. 8; Defensoría del Pueblo, 2004, p. 4).

The cause of these mining conflicts was due to environmental impact and the lack of mining legislation aligned to international standards, in Colombia, Mexico, and Peru. With regard to Peru, this type of conflict was originated mainly by negative externalities of extractive activities. There was a lack of mutual trust among government, the firms and native communities about key issues such as property rights and social compensation for using natural resources (Defensoría del Pueblo, 2015, pp. 88-89; Defensoría del Pueblo, 2007, pp. 5-6).

In Latin America, the social structures was weakened in 2008 and 2009, due to the process of "debt relief" in the region and the international economic crisis (Fernández,

2013, pp. 27-29). This weakening was reflected in Peru through the increase of conflicts during these years, since the number of conflicts was 53 in April 2008 and reached a peak of 235 in August 2009 (Defensoría del Pueblo, 2012, p. 35). In other words, external crisis made worse the conflictive climate in the Peru highlands.

Figure 6. Composition of active social conflicts, Peru December: 2015



Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on (Defensoría del Pueblo, 2015)

Table 1. Number of injured and deceased persons in social conflicts. Peru 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Injured	172	357	752	604	184	243	649	352	203	872
Deceased	13	41	37	52	31	21	24	9	22	21

Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on (Defensoría del Pueblo, 2015)

This increase of social conflicts, in many cases finished in violent demonstrations. Between January 2006 and September 2011, 109 out of 540 conflicts led to affectations to life which generated 195 deceased persons and 2 312 injured, including civilians and policemen (Defensoría del Pueblo, 2012, pp. 36-39). The majority of injuries (80.8%) and deceased (83.3%) in 2015 were due to socio-environmental conflicts⁵.

Thus, Peru was one of the countries with the largest number of conflicts in the Latin American region, surpassed only by Bolivia, although it showed one of the lowest levels

⁵ Analysis based on (Defensoría del Pueblo, 2015) .

in the radicalization of conflicts (Calderón, 2012, pp. 123,139). Moreover, Peru and Chile were the countries with the largest number of mining conflicts in comparison within the region (Saade, 2013, p. 33).

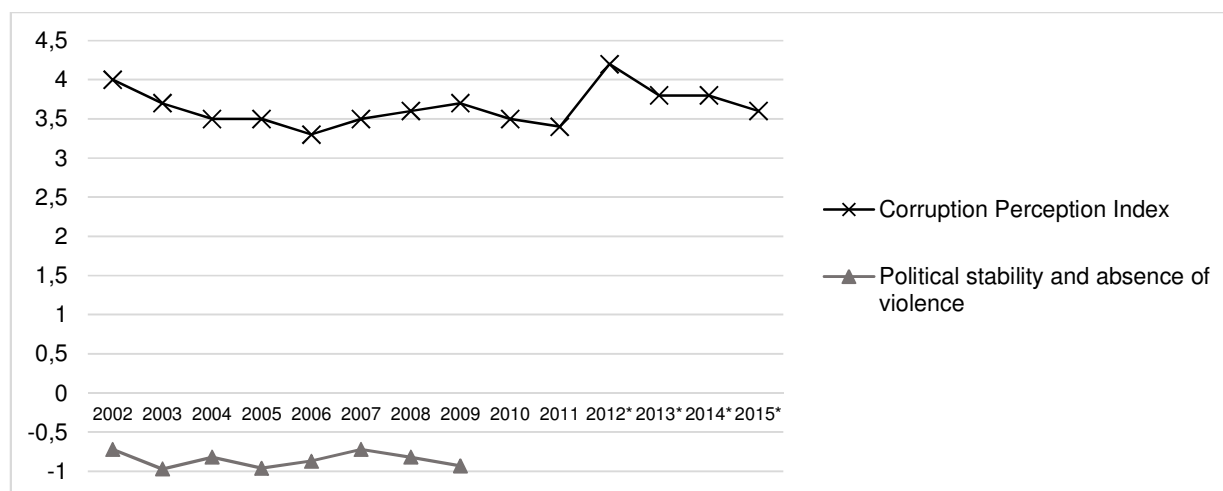
This level of conflict emerged from the existing inequalities in the country. In Peru, as well as in Ecuador and Bolivia, the "social abyss" was what triggered the risk and instability in the emerging country (Calderón, 2012, p. 115). Durand (2015) pointed out that the main conflicts occurred in places where the population was poor, disorganized and scarcely represented, but with an unexpected high capacity of protest (López, 2015, pp. 6-7). The fuelling of these conflicts was also explained by the lack of effectiveness of the decentralization process during the analysis period. Caballero (2011), explains the nature of this process in three ideas: conflicts over the distribution of local government public budget, the increase of the social conflicts within the regions and the increase in the levels of violence and deaths in social conflicts (Pásara, et al., 2011, p. 3).

Looking at the abundance of natural resources in Peru and the economic benefits obtained by them (Saade, 2013, p. 45), but seeing all the social conflicts that the country showed during this period, it is possible to draw attention to the resource curse thesis. This thesis was developed by Richard Auty in 1993, and explain the increase in the inequality and the weakness of the government because this conflictual relationship around the natural resources. A hypothesis which argues that the abundance of natural resources leads to rent seeking and corruption, which can directly affect the growth (Sachs & Warner, 1995, p. 18). Other studies indicate that corruption deepens the inequality, due to the greater motivation of the rich to participate in the corruption, the vulnerability of the poorest compared to the extortion and the low level of accountability (Jong-sung & Khagram, 2005, p. 136).

Mehlum *et al.* went beyond this thesis and argue that the determining factor for growth in a country with high amounts of resources, is the quality of the institutions of the State (Mehlum, Moene, & Torvik, 2006, p. 3). They showed how countries with a low quality of institutions, natural resources decreased the aggregate national income. The institutions of low quality in Peru were originated by the instability of the governments that have marked the country's ability to sustain economic growth and maintain the rule of law (Morón & Sanborn, 2007, p. 33).

According to Governance Indicators data, the indicator of political stability and absence of violence in the country showed that between 2002 and 2009 the perception of Peru's population was not very encouraging (BID, 2017). Regarding the Corruption Perceptions Index, the perception of the population was that the system was corrupt and it did not present any progress at all.

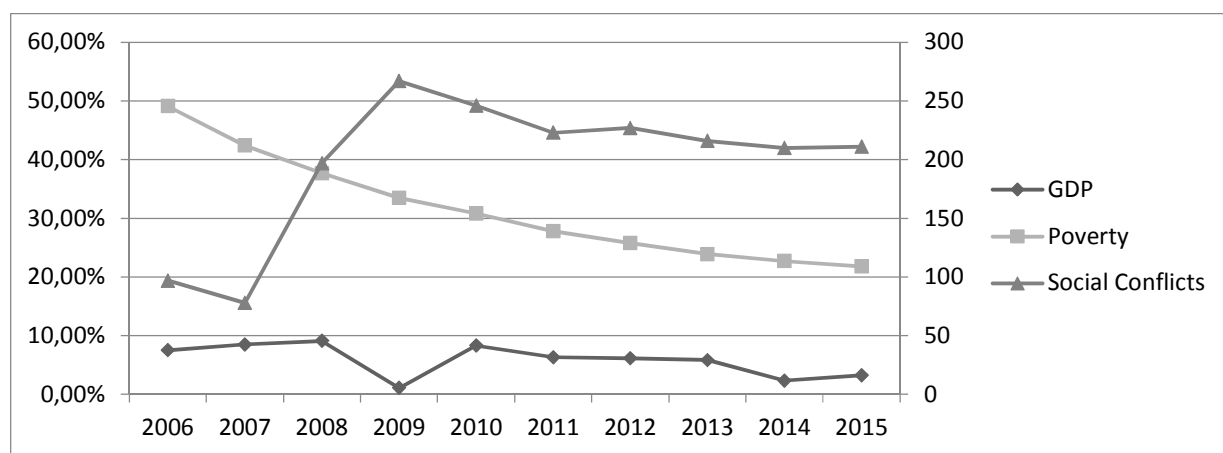
Figure 7. Evolution of indicators of the system of government, Peru: 2002-2015



Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on (BID, 2017)

In the 2000s, the country experienced various social conflicts and the population did not trust the government. Since 2008, the number of social conflicts, mainly of socio-environmental origins, increased considerably and they originated violent demonstrations. These social conflicts were the channel through which the population showed their social discontent and that was reflected in governance indicators. Paradoxically, despite economic growth, the number of social conflicts increased, as shown in the Figure 8.

Figure 8. Annual GDP growth (%) Monetary Poverty (%) and number of social conflicts in Peru in the period from 2006 to 2015



Source: Compiled by Centro de Investigación de la Universidad del Pacífico based on **Fuente especificada no válida.**⁶

⁶ This analysis about Social Conflicts was based on Defensoría del Pueblo in *Reporte de conflictos sociales* (2004), (2005), (2006), (2007), (2008), (2009), (2010), (2011), (2012), (2013), (2014) and (2015).

3. Concluding remarks

During the period 2000-2015, the Peruvian economy showed positive results of growth. The GDP increased from US\$ 134.8 billion PPP to US\$ 393.1 billion PPP in that period (World Bank, 2017). This generated an increase in the average monthly income from the work of US\$ 505.6 PPP in 2004 to US\$ 851.4 PPP in 2015 (INEI, 2016, p. 543).

This improvement of growth and income resulted in a reduction of both the monetary poverty from 42.4% in 2007 to 27.8% in 2011 (INEI, 2012, p. 26), as well as the multidimensional (55, 47% in 2007 to 37% in 2011), (Vásquez, 2012). Even more, the Gini index went from 0.525 in 2001 to 0.439 in 2014 (ECLAC, 2017). This last indicator made an impact on the Human Development Index, despite the slight improvement (0.679 in 2000 to 0.734 in 2014), the rate adjusted to the rates of inequality drop to 0.563 in 2014 (PNUD, 2015, p. 24). However, some indicators of labour showed that in 2015, only 50.8% of the occupied EAP possessed adequate employment and 45.7% was underemployed (INEI, 2016, p. 327). This problem of employment can in part be explained by the limited educational development in the labour force, which is the result of a weak educational base (primary level). Unlike the 2007 in which, only 7.2% of the students of second primary school had an acceptable level in reasoning logical-mathematical and 29.8% - in terms of reading comprehension (MINEDU, 2008, pp. 21-45), in 2015 these figures grew at 26.6% and 49.8% respectively (MINEDU, 2016, pp. 10-23). However, these statistics were still low in relation to the countries of the OECD. For example, according to the PISA Report 2015, 46.7% of the Peruvian students showed a low performance in the three courses evaluated (sciences, reading comprehension and mathematics) that were higher than the average of the countries of the OECD (13%) (OECD, 2016).

Contradictory to good macroeconomic performance and minor improvements in the social aspect, the number of conflicts increased from 47 in 2004 to 211 in 2015 (Defensoría del Pueblo, 2015, p. 8; Defensoría del Pueblo, 2004, p. 4). In December of 2015, great part of these conflicts was of environmental origins (68.7%) (Defensoría del Pueblo, 2015, p. 8). Conflicts related to mining (62.8%), hydrocarbons (15.9%) and energy (7.6%) accounted for the highest percentage of total environmental conflicts. These conflicts were originated mainly by negative externalities of mining activities, little trust in Government intervention and problems of relationship and property with the communities. In other words, Peru showed a paradoxical situation: great economic performance under social unrest during the period 2000-2015.

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