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Introduction

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INTRODUCTION

When in August of 1990 I left Peru to enroll at Lehigh University, besides aspiring to a better education, I was looking for an opportunity to have a future. Military dictatorships in the 1960s and 1970s had taken a toll on the economy by dismantling the private sector, nationalizing the mining and oil industries, expropriating land, and leaving no room for political opposition.

In the 1980s, the country welcomed democracy with much enthusiasm. However, after two successive governments failed to fulfill the public's expectations, all that remained by 1990 was political instability caused by the rise of the terrorist group Shining Path as well as by hyperinflation, food shortages, depleted international reserves, and a country isolated from the international financial community by defaulting on its sovereign debt. With political parties nonexistent, democracy discredited, and a terrorist group on the rise, there was literally no hope.

Fast forward to 2016, and both the economic and political landscapes have changed dramatically. On the macroeconomic side, Peru has seen inflation rates averaging 3 percent over the past 10 years, GDP growth rates above 5 percent for most of this century, the largest international reserves as a percentage of GDP in the region, and earned investment grade status by the three main rating agencies.

In terms of socio-demographic indicators, this period has also seen a steady growth of the middle class, which currently makes up close to 30 percent of the population compared to 19 percent at the beginning of the century. In addition, the poverty rate fell from 50 percent to 22 percent in the past 10 years. On the political spectrum, Peru has had 16 years of uninterrupted democracy and peace, with few remnants of what once was a government-threatening terrorist group.

In the early 1990s, the unthinkable happened. An unknown, inexperienced political figure gained the presidency and in a few years was able to control inflation, eliminate the threat posed by the Shining Path, and reinsert Peru into the international community. Along with important financial reforms and

regulations that fostered free competition, the stage was set for a steady and increasing flow of foreign direct investment, jumpstarting the economy. Nevertheless, all these achievements were overshadowed by corruption and criminal scandals that stopped short the reform process and had profound institutional and political effects that persist today.

As the Lehigh University Martindale Center Student Associates describe in their research, many profound challenges need to be addressed, including tackling the informal economy, dramatically improving public education standards, and restructuring the political parties. Such reforms are needed not only to solve structural deficiencies and inequalities hidden behind impressive macro figures but also because lack of progress will undoubtedly restrain the country from achieving long-term success.

Informality represents one of the major barriers to sustained economic growth. Despite ongoing policy efforts, more than 70 percent of employment persists in the informal sector and 90 percent of monetary transactions are in cash. In the banking sector, where only one-third of the Peruvian population has access to the financial system, informality is probably the greatest barrier. It is nearly impossible for a bank to evaluate a potential client with an unknown track record, absent any basis for estimating a regular income.

Another critical barrier to long-term success is lack of consistent and forward-looking state-sponsored education policies. This has resulted in Peruvians having the lowest scores on the PISA, a high school examination administered in more than 70 countries. Although recent results have shown improvement, Peru still ranks at the bottom.

Moving to politics, since 2001 Peru has had four straight democratic elections. Yet, an important unfinished agenda is profound political reform, which should encompass political parties, citizens' representation, and control. The credibility of politicians and political processes is low among the citizenship, especially regarding Congress, whose recent levels of approval hover just above

20 percent. Peruvians need to vote to elect their representatives, hold politicians accountable for their track records, and, more importantly, demand transparency in campaign finances.

Peru made an impressive turnaround in the early 1990s by focusing on solving problems that mattered most to the population: tackling hyperinflation, defeating terrorism, and opening the economy while rebuilding confidence from the international community. Although these changes have helped the country progress, they now seem

insufficient. Efforts must refocus on issues that matter to the population as well as help the country fortify success over the long term. I am confident that as a country we will be able to make an impressive turn for the better once again.

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