



# USAID | PERU

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## AN ECONOMIC SNAPSHOT

### Overview

The structure of the Peruvian economy has remained largely unchanged over the past two decades. In 1990, agriculture comprised 9 percent of the Gross Domestic Product (GDP), manufacturing 18 percent, and the service sector 64 percent. Today the composition of the economy remains essentially the same.

Poor economic performance, throughout the 1980s, left more than half the population in poverty and fueled the internal insurgency dominated by the Shining Path. In the early 1990s, President Alberto Fujimori instituted one of the most extreme neo-liberal policy reforms in the region. The adjustment and stabilization package stimulated economic growth. Peru secured GDP growth rates of several percentage points above the regional average. From 1990 to 1997, the GDP growth rate averaged a little over 5 percent. However in 1998, the economy was hit by the effects of the climatic phenomenon El Niño and the global financial crisis. Consequently, GDP growth dropped from 6.8 percent in 1997 to -.06 percent in 1998. Growth remained stagnant until 2002 but has recovered subsequently. Peru registered a growth rate of 6.7 in 2005.

Table 1: Key Economic Indicators

	1990	2000	2003
<b>Economy</b>			
GDP per capita (US\$)	1905	2334	2380
GDP growth rate (year on year)	-5.1	2.8	4.9
Value added in agriculture (% of GDP)	9	9	8
Value added in manufacturing (% of GDP)	18	16	16
Value added in services (% of GDP)	64	64	64
X/M (%)	101	88	93
Current Account Balance (millions of US\$)	-1419	-1557	-1206
<b>People</b>			
Total fertility rate	3.7	2.8	2.6
Under 5 mortality rate	80	42	39
Male adult literacy rate	55.0	48.6	54.8
Female adult literacy rate	21.6	25.9	26.7
Poverty rate (headcount)	3.7	2.8	2.6
Population (millions)	80	42	39

Source: Social Panorama of Latin America 2004, ECLAC; IMF Statistical Annex 1999; World Development Indicators; UNICEF.

## Trade Timeline

In keeping with its World Trade Organization commitments, since joining in 1995, Peru has carried out multiple trade and investment revisions including: new legislation on foreign investment, revision of tariffs and customs procedures, aggressive export promotion, and privatization of the telecommunications and electricity sectors, as well as legislation protecting intellectual property. Peru extends most favored nation (MFN) status to all its trading partners. Although Peru uses tariffs as its main source of protection, it has reduced its average applied tariff rate to most favored nation (MFN) from 16 percent in 1993 to 13.6 percent in 1999. An additional 330 agricultural items are further protected by a 5 to 10 percent tariff surcharge (WTO 2000). Peru benefits from increased and preferential market access to the European Union and the United States through agreements meant to encourage crop diversification away from coca production. The Andean Trade Promotion and Drug Eradication Act (ATPDEA) is the current tool used to promote alternative development. In late 2005, Peru and the United States negotiated a bilateral trade agreement that would replace the ATPDEA once it is approved by the US Congress. Set to expire in June 2007, the ATPDEA has been extended until February 2008 to allow time for the US Congress to approve the new trade agreement.

## Poverty Rates

Despite the high economic growth rates over the last several years, almost half of Peruvians continue to live in poverty, while a fifth live in extreme poverty. Moreover, national poverty rates fail to reveal the deep disparities that exist between Peruvians living in rural and urban settings, and among those living in the highlands, jungle, and the coast. Seventy-three percent of rural Peruvians are poor compared to 40 percent of urban Peruvians. In the highlands, 68 percent of Peruvians live in poverty and 38 percent live in extreme poverty. In comparison, the percentage of poor and extremely poor living in the rural Costa is 54 and 15 respectively. Although overall poverty remains high, between 2001 and 2004, the number of Peruvians living in extreme poverty declined by five percentage points.

The lack of broad-based and inclusive economic growth has contributed to the failure to achieve greater poverty reduction. Growth in capital-intensive industries, such as mining, does not extend employment opportunities to large numbers of individuals. High numbers of Peruvians find employment in the informal economy, characterized by low wages and low productivity. There is a clear need for greater investment in human capital, particularly in the highlands.

## Labor Market

Approximately 53 percent of the Peruvian labor force is absorbed in services, while 32 percent is engaged in agriculture and the remainder in industry. Women make up 43 percent of the total labor force and are disproportionately engaged in services which absorb almost 62 percent of the total female labor force.

Table 2: Economically Active, Share of each Sector in 2000 in percentage

	Percent of Each Sector		Percent of Labor Force		Total (1000s)
	Men	Women	Men	Women	
Agriculture	61.6	38.4	35.0	29.0	3655
Industry	71.7	28.3	18.1	9.5	1624
Services	50.3	49.7	46.9	61.5	5994
Total	57.0	43.0	100	100	11272

Notes: Persons aged 15 and older.

Source: Authors' calculations ENAHO 2000

The labor market demonstrates significant sex-segmentation—men and women are not distributed evenly across all sectors and occupations in proportion to their participation in the total labor force.

The Duncan Index, calculated for 10 sectors<sup>1</sup> and used to measure labor market segmentation by sex, was 21 percent in 1990. By 2001, it had risen to 25 percent.<sup>2</sup> Greater trade openness has not necessarily translated into more equal participation in the labor market for women. Across all sectors, women in Peru earned 90 percent of men's wages per hour in 2001. On average women's hourly wages are less than men's in agriculture, fishing, health and financial services. Public administration and defense are the only sectors in which women are likely to earn as much or more than men.

Even in rapidly growing and more modern sectors, the terms and conditions of employment may not have improved. Agribusiness and horticulture is a rapidly expanding sector that has increased its participation in exports over the last decade. Despite meteoric growth in this sector, the terms and conditions of employment for men and women are not improving in line with increments in export earnings. Although agribusiness has created job opportunities on the Peruvian coast, many of these jobs are informal and precarious. Data from an analysis of the Peruvian artichoke value chain indicate that 75 percent of workers are informal. Informality in the chain refers to the absence of fixed contracts, the lack of statutory benefits, and labor insecurity.<sup>3</sup> In spite of the fact that many workers are on the payrolls, not all of them receive the statutory minimum wages and health and pensions benefits established by law. In order to expand benefits of trade for poor men and women, efforts should be made to ensure labor laws are followed and that statutory benefits are conferred upon workers who are entitled to social security and health care.

Recent modifications to the trade agreements approved in the Peruvian Congress in June 2007 added several amendments to existing bilateral accords with the US underscoring the importance of protecting labor rights and enforcing labor and environmental law in export production. These amendments reinforce expectations that export sectors should adhere to existing labor law and guarantee the statutory rights of workers. The sectors that are most likely to be affected are agro-processing and textiles—where more than 60 percent of the workforce is comprised of women. Improving the terms and conditions of employment in these sectors will guarantee rights to more than 185,000 agricultural workers, 370,000 workers in agro-export processing plants and a further 425,000 workers in textiles.<sup>4</sup>

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<sup>1</sup> The Duncan Index is  $D = 100 * \frac{1}{2} \sum_{i=1}^N |f_i - m_i|$ . Where  $I = (1, 2, \dots, N)$  is the total number of sectors, industries or occupations and  $f_i$

and  $m_i$  are the sectoral employment ratios of men and women to their respective labor force. We use 10 sectors as defined by their 2 digit ISIC codes.

<sup>2</sup> The Duncan Index of dissimilarity, ranging from 0 to 100, can be used to measure labor market segmentation by sex. An index of 0 indicates that the sectors or occupations are not sex segregated and women and men are distributed across these sectors and occupations in proportion to their participation in the total labor force. An index of 100 indicates that men and women are in entirely different sectors and occupations.

<sup>3</sup> See GATE "A Pro-Poor Analysis of the Artichoke Value Chain in Peru."

<sup>4</sup> The numbers of potential workers affected were estimated using data from the "Marco Macroeconómico Multianual 2007-2009."

## References

GATE. "A Pro-Poor Analysis of the Artichoke Value Chain in Peru." Research Brief, USAID Greater Access to Trade Expansion Project. Arlington, VA: Development & Training Services, Inc. (dTS), June 2007.

IMF. "Statistical Appendix." Washington DC: International Monetary Fund, March 2003.

MEF. "Marco Macroeconómico Multianual 2007-2009." Ministerio de Economía y Finanzas, 2006. <http://www.mef.gob.pe> (last accessed July 1, 2007).

World Bank. "Peru - Opportunities for All – Poverty Assessment." Poverty Reduction and Economic Management Unit, Latin America and the Caribbean Region, the World Bank. Report No. 29825-PE. Washington DC: World Bank, 2005.

WTO. "Trade Policy Review: Peru" World Trade Organization, 2000. [www.wto.org](http://www.wto.org) (last accessed July 1, 2007).

## *Data Sources*

### *National*

#### *Bilateral*

CIA World Factbook

<http://www.cia.gov/cia/publications/factbook/>

International Database, US Census Bureau

<http://www.census.gov/ipc/www/idbnew.html>

#### *Multilateral*

Economic Commission for Latin America and the Caribbean

<http://www.eclac.cl/>

International Financial Statistics Yearbook, International Monetary Fund

ILO Labor Statistics

<http://laborsta.ilo.org/>

UNICEF

[http://www.unicef.org/infobycountry/domrepublic\\_statistics.html](http://www.unicef.org/infobycountry/domrepublic_statistics.html)

Human Development Report

<http://hdr.undp.org/statistics/data/indic/>

#### *Non Governmental*

Global Policy Network

<http://www.globalpolicynetwork.org/>

Globalis

<http://globalis.gvu.unu.edu/>

Index Mundi

<http://www.indexmundi.com/>