

A Strategy for Sustaining Growth and Prosperity for Peru

Professor Michael E. Porter
Harvard Business School

*Urubamba, Peru
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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); "Strategy and the Internet" (*Harvard Business Review*, March 2001); and a forthcoming book. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu. Version: November 27, 2009

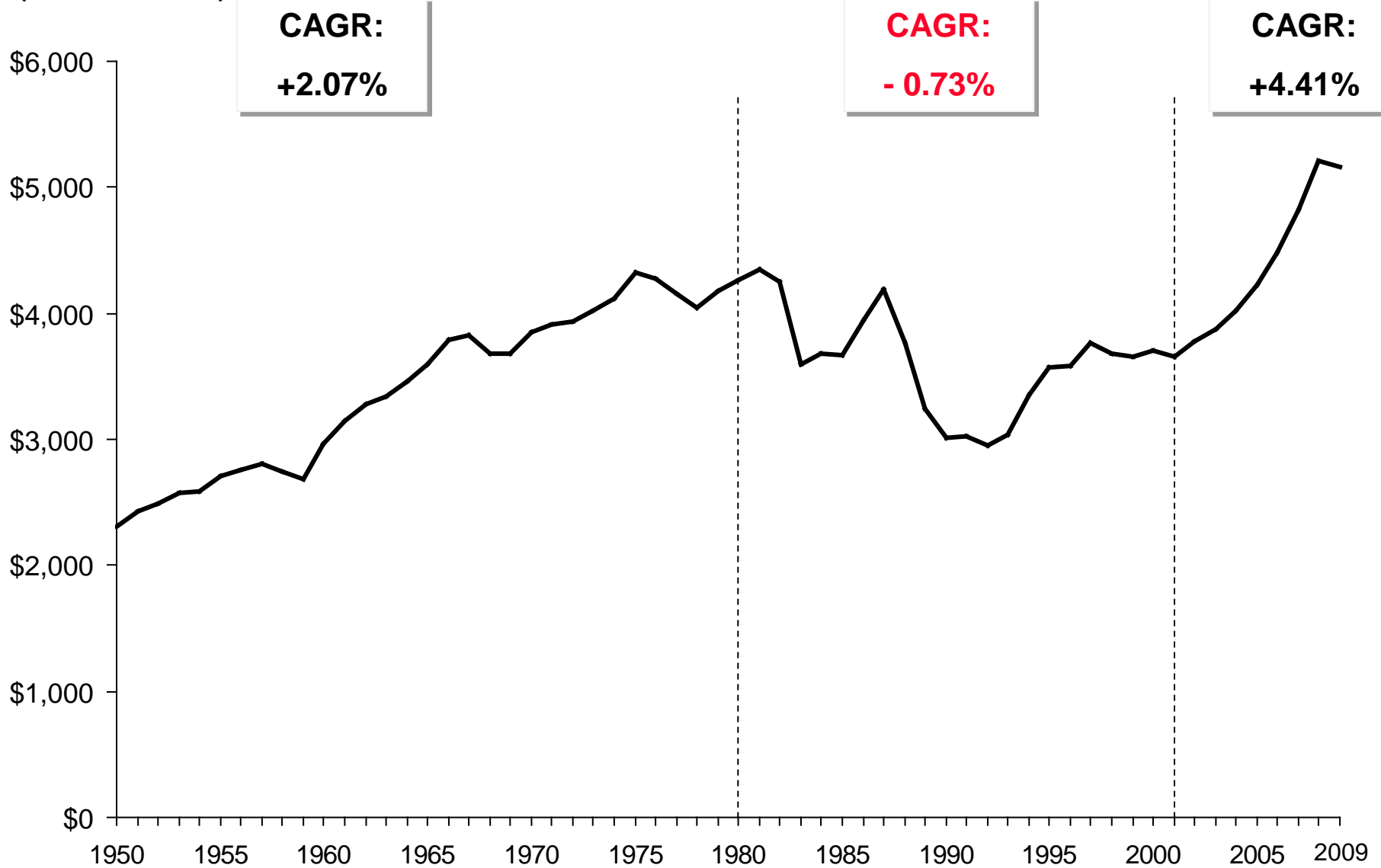
Recent Performance of the Peruvian Economy

- Peru has been one of the most remarkable **economic growth stories** of the last decade, both compared to its own historic record and to its peers

Peru's Prosperity Performance

1950-2009

GDP per Capita
(in 1990 PPP US\$)

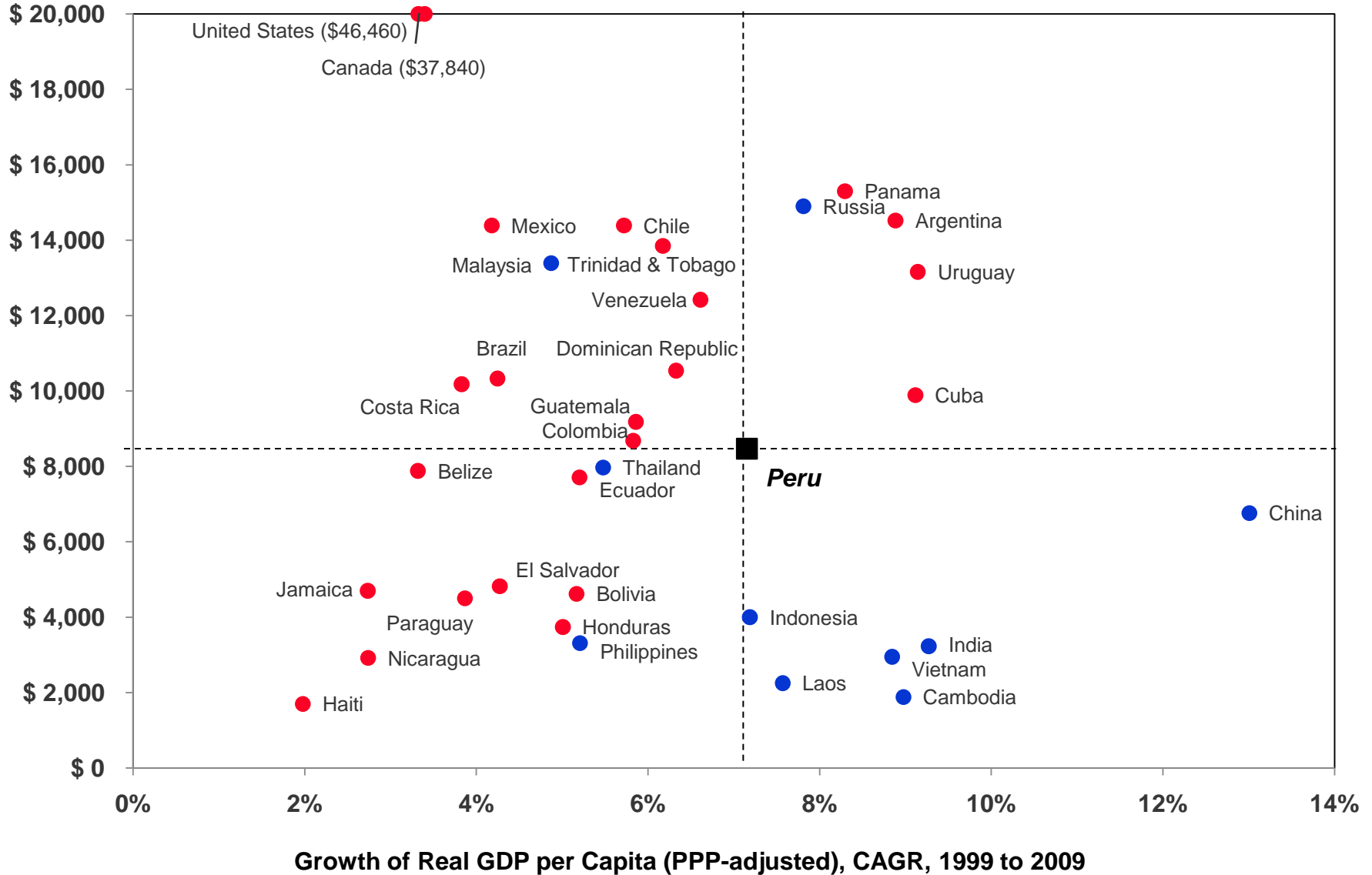


Note: PPP using Geary Khamis calculation methodology. Source: Groningen Growth and Development Centre, Total Economy Database (June 2009)

Prosperity Performance

Selected Countries, 1999 to 2009

PPP-adjusted GDP per Capita, 2009 (\$USD)



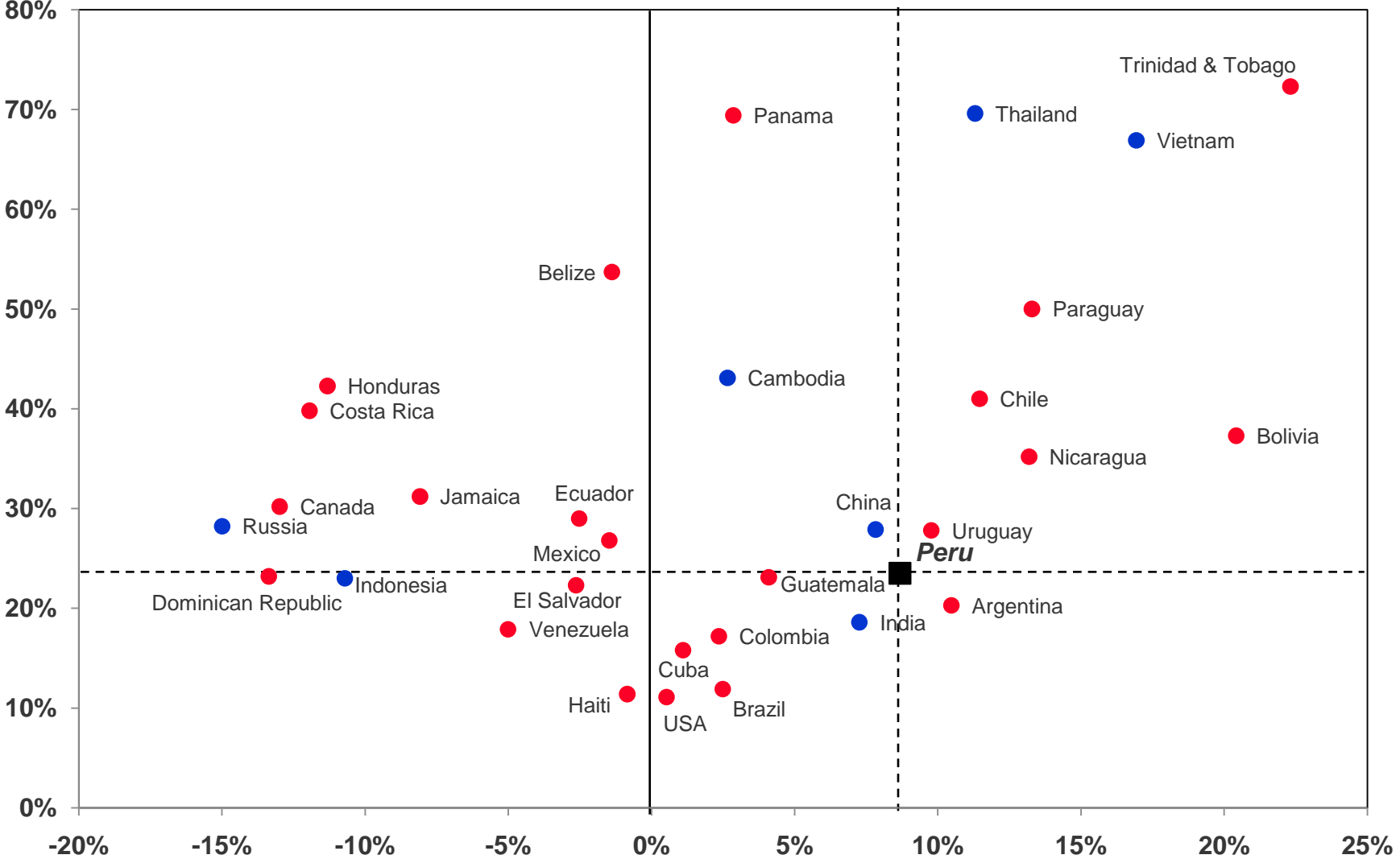
Recent Performance of the Peruvian Economy

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- Sound **macroeconomic policies** since the mid 1990s, **trade opening** and **a supportive international economic environment** have allowed the country to prosper

Export Intensity

Selected Countries

Exports as %
GDP, 2009



Change of Exports as Share of GDP, 1999 to 2009

Source: EIU (2010)

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- Improvements in **basic security** and **political stability** provided an important pre-condition for these achievements

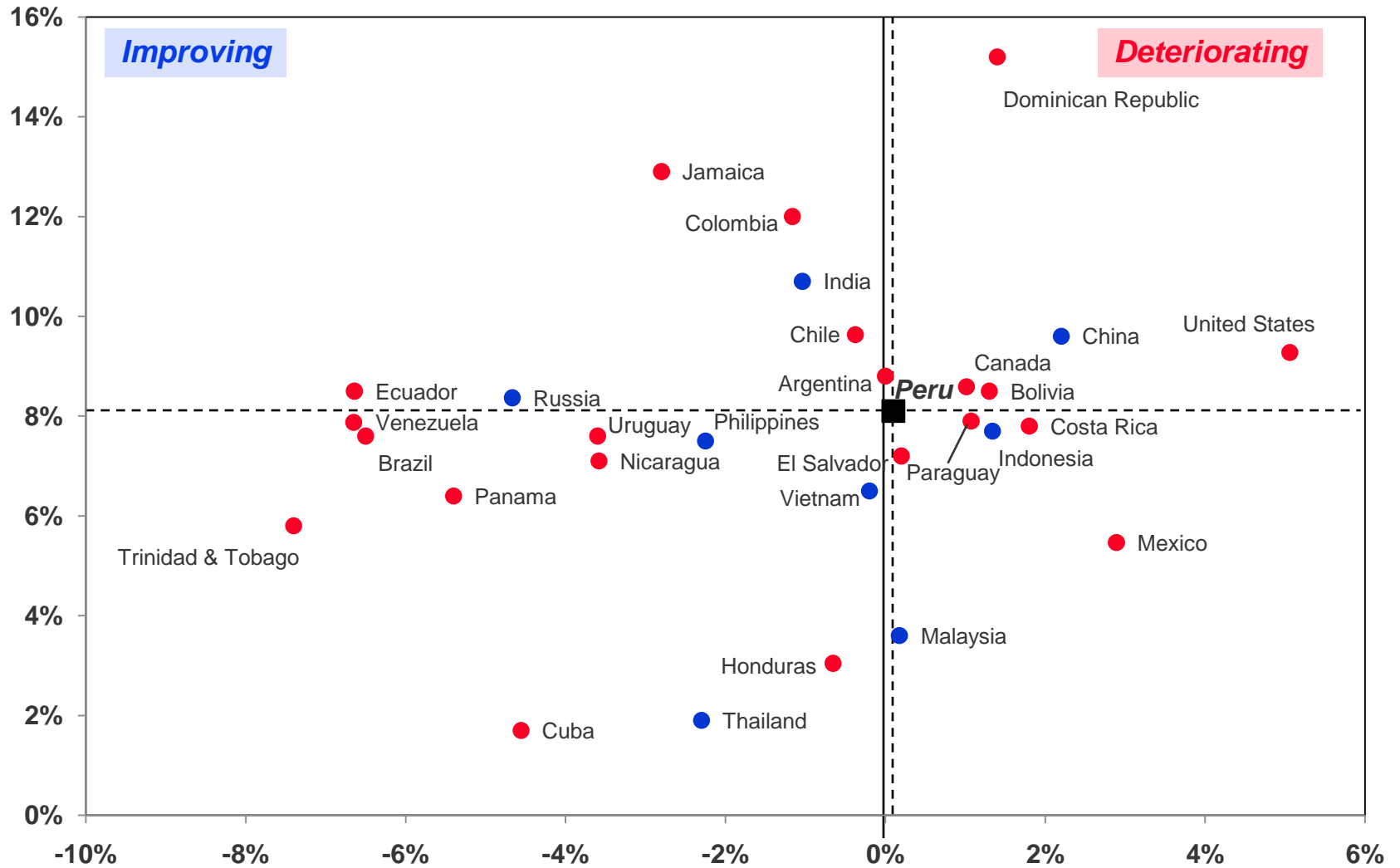
HOWEVER

- Growth has been **highly heterogeneous** across different segments of society and different parts of the country

Unemployment Performance

Selected Countries

Unemployment Rate, 2009

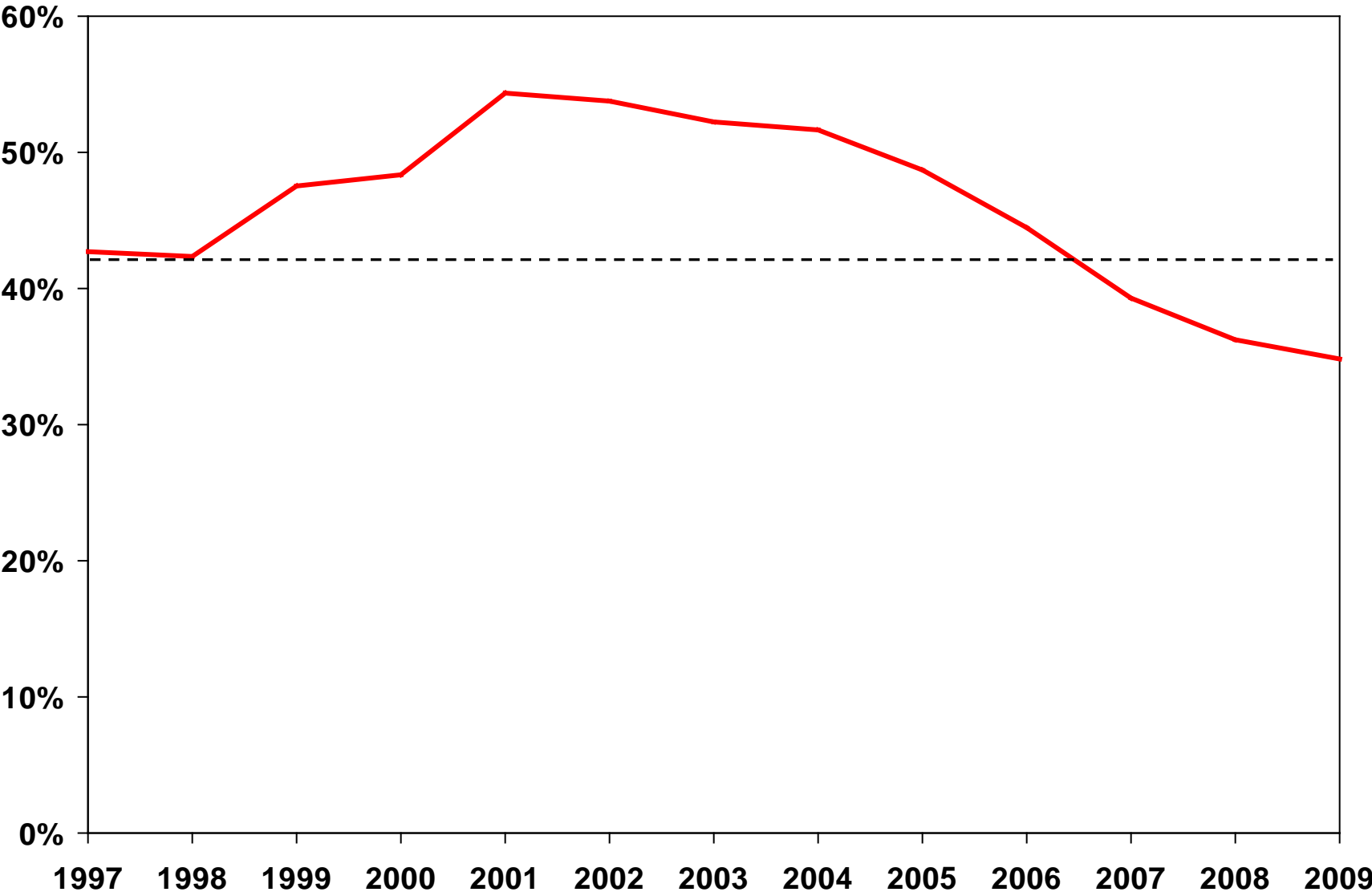


Change of Unemployment Rate in Percentage Points, 1999-2009

Poverty Rates

Peru, 2001 to 2009

% of Population Under
the Poverty Line



Source: Informacion Socio Demografica, from El Instituto Nacional de Estadistica e Informatica (INEI), 2010

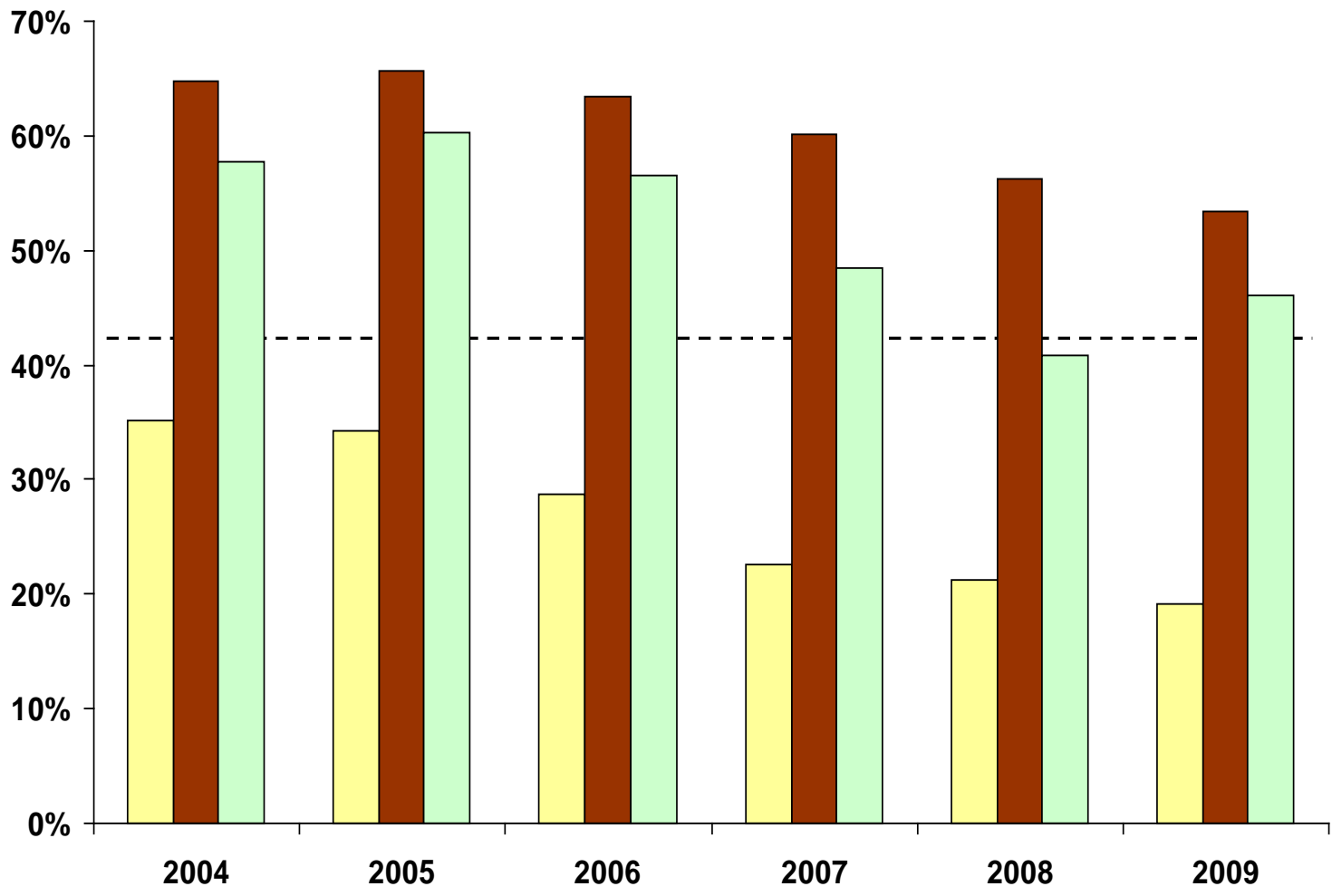
Regional Poverty Rates

Peru, 2004 to 2009



% of Population Under the Poverty Line

Coast Sierra Lowlands



Source: Informacion Socio Demografica, from El Instituto Nacional de Estadistica e Informatica (INEI), 2010

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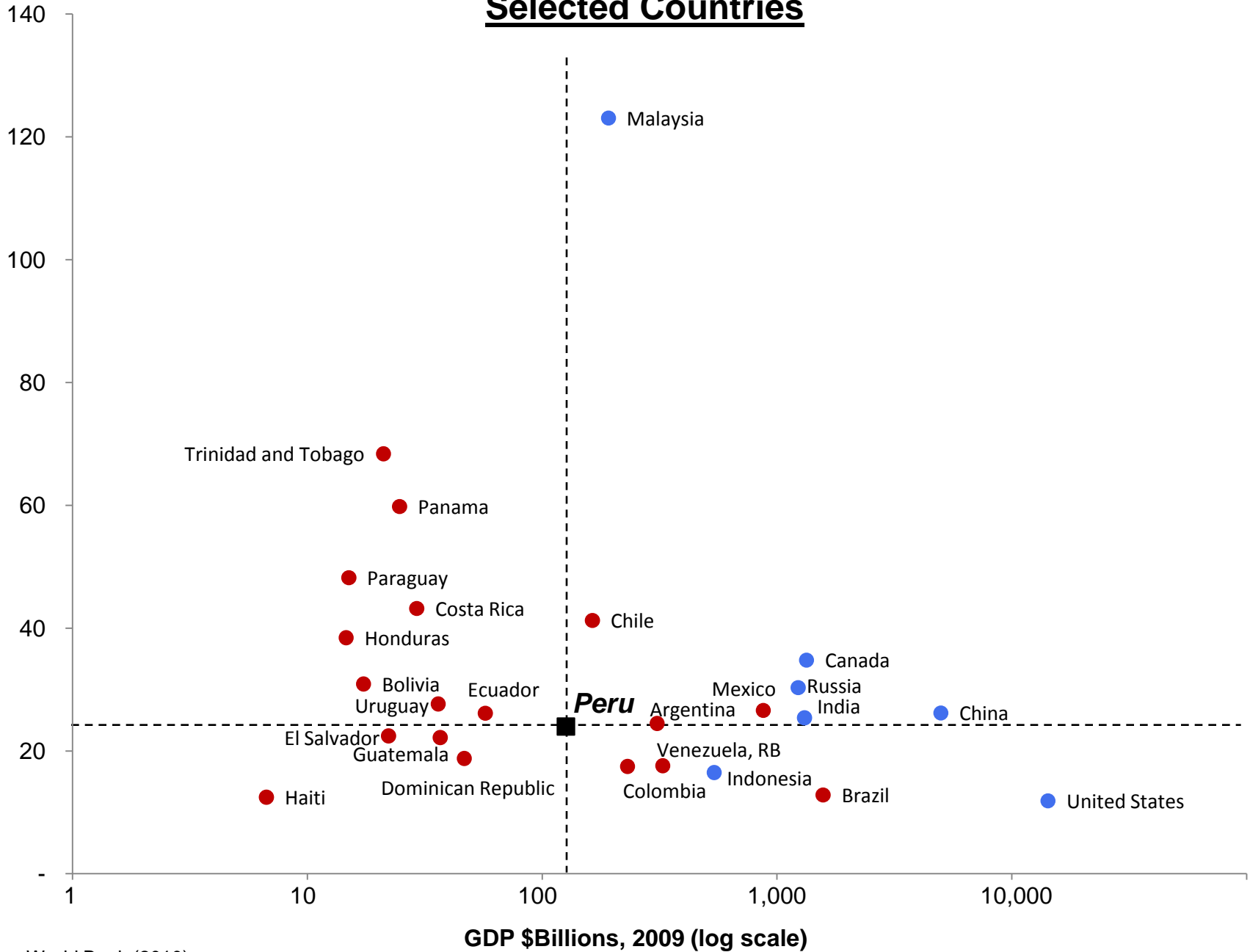
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- **Lack of diversification** and **dependence on global commodity markets** for natural resources is exposing Peru to high levels of volatility

Exports as %
GDP, 2009

Export Intensity and Size

Selected Countries



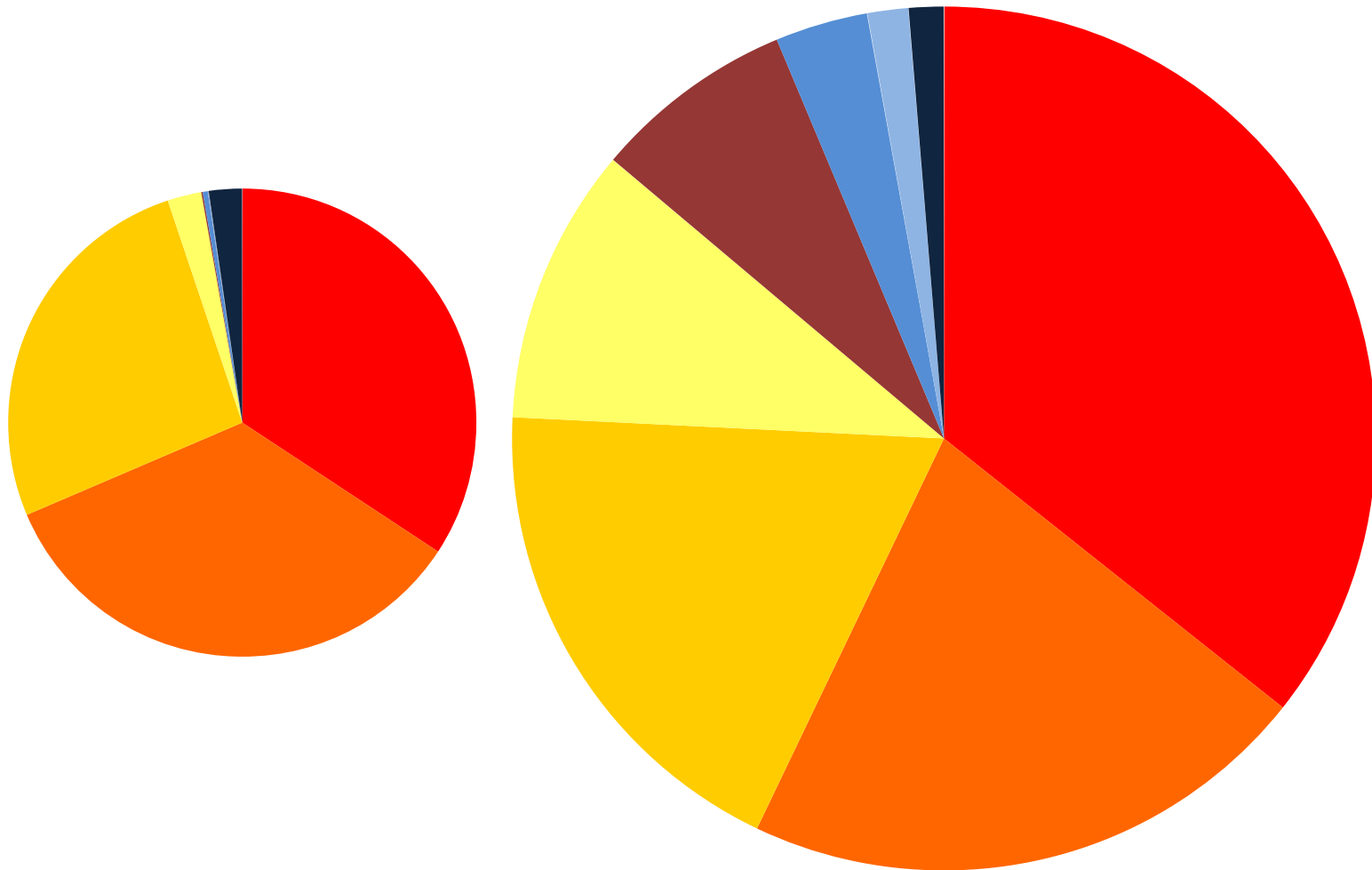
Source: World Bank (2010)

Peru's Export Composition by SITC categories 1962-2009

1962: \$4 billion*

2009: \$20 billion

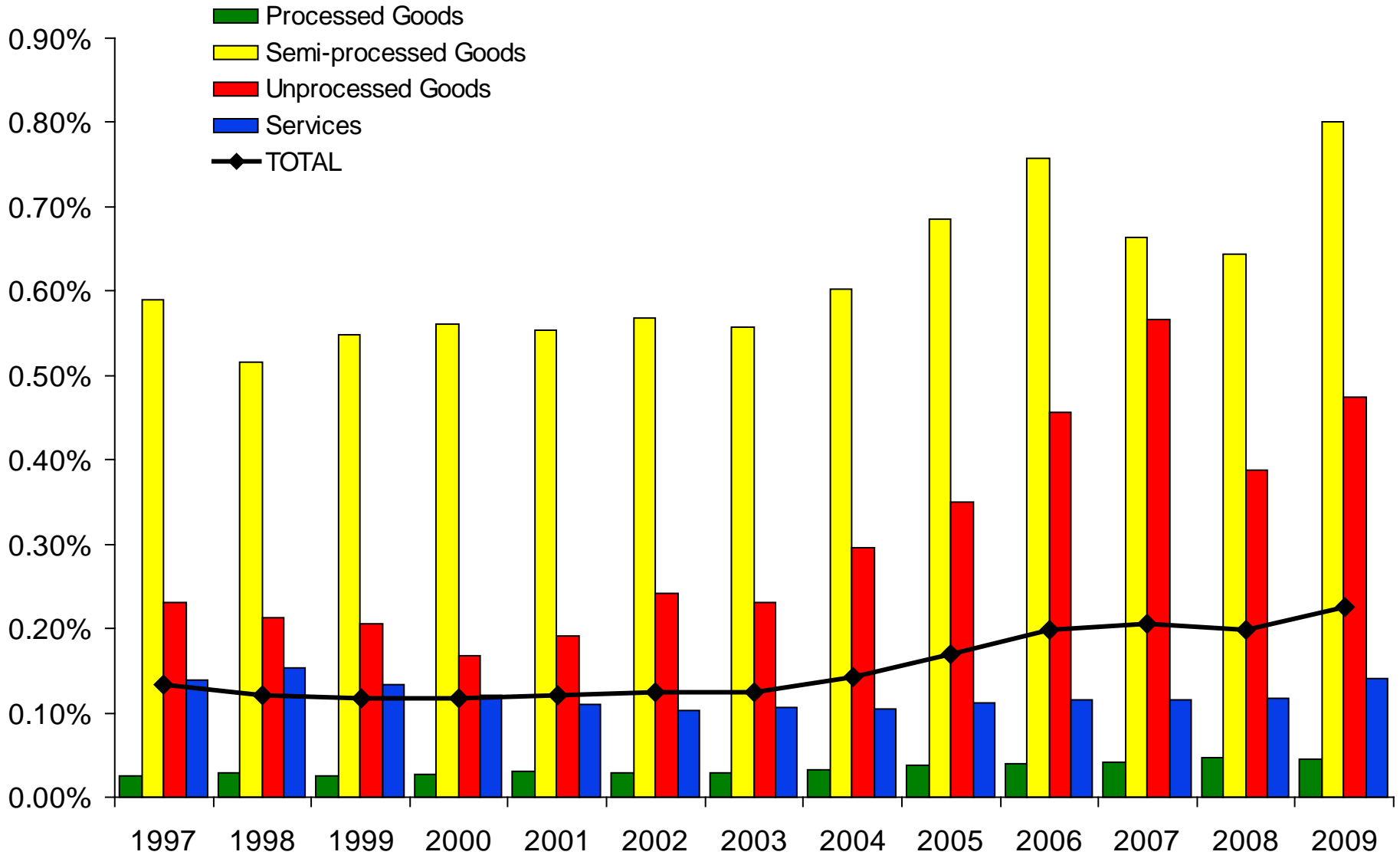
- Crude materials, inedible, except fuels
- Food and live animals
- Manufact goods classified chiefly by material
- Mineral fuels, lubricants and related materials
- Manufactured articles
- Chemicals
- Machinery and transport equipment
- Animal and vegetable oils and fats



* In 2009 dollars. Note: Showing standard SITC rev. 1 categories, goods only.
Source: UN Comtrade; authors' analysis

Peru's Exports By Type of Industry

World Export Market Share (current USD)



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

Recent Performance of the Peruvian Economy

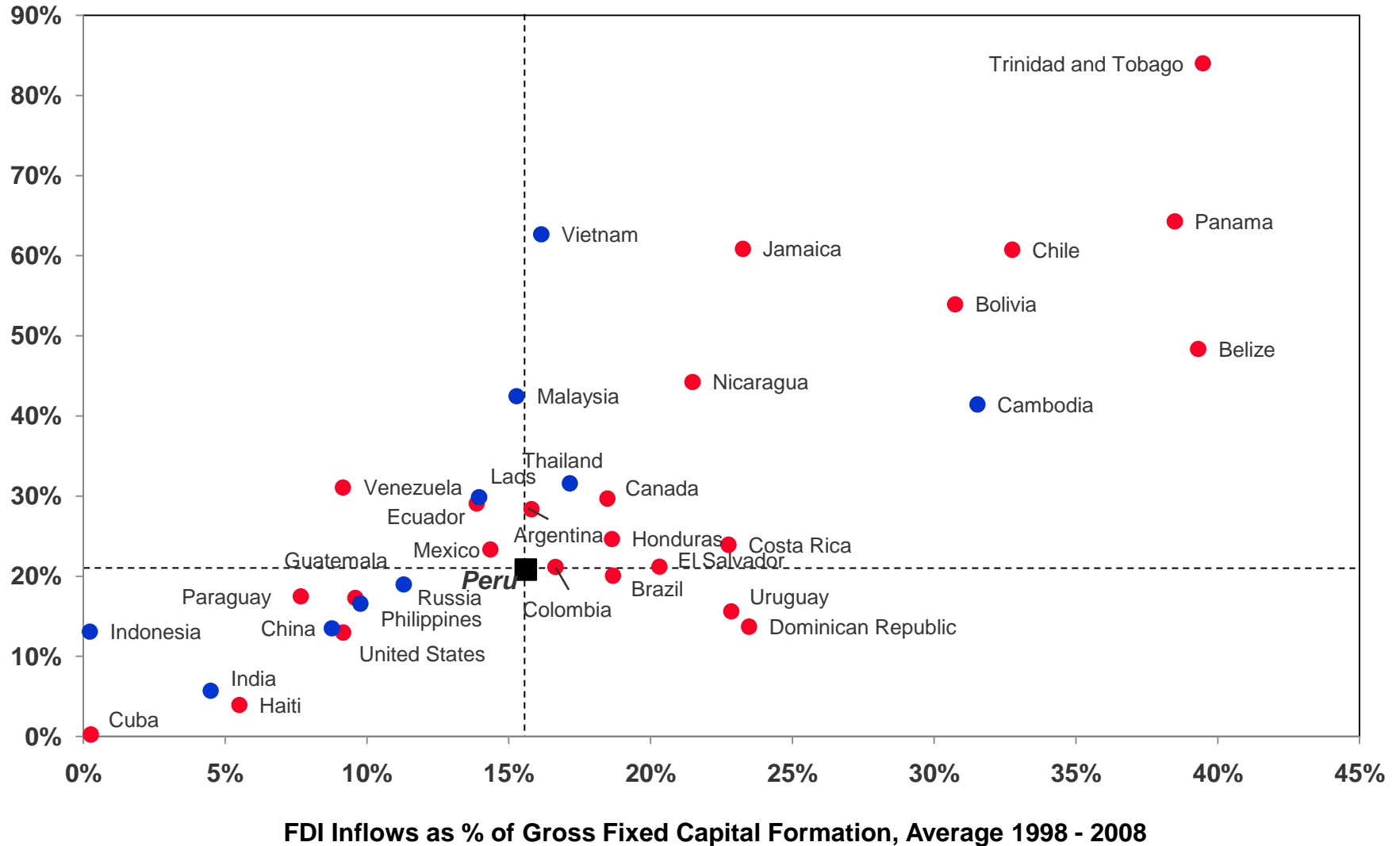
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- Sustained growth will depend on broad **microeconomic** and **institutional** improvement

Inbound Foreign Investment Stocks and Flows, Selected Countries

**Inbound FDI Stocks
as % of GDP,
Average 1998-2008**

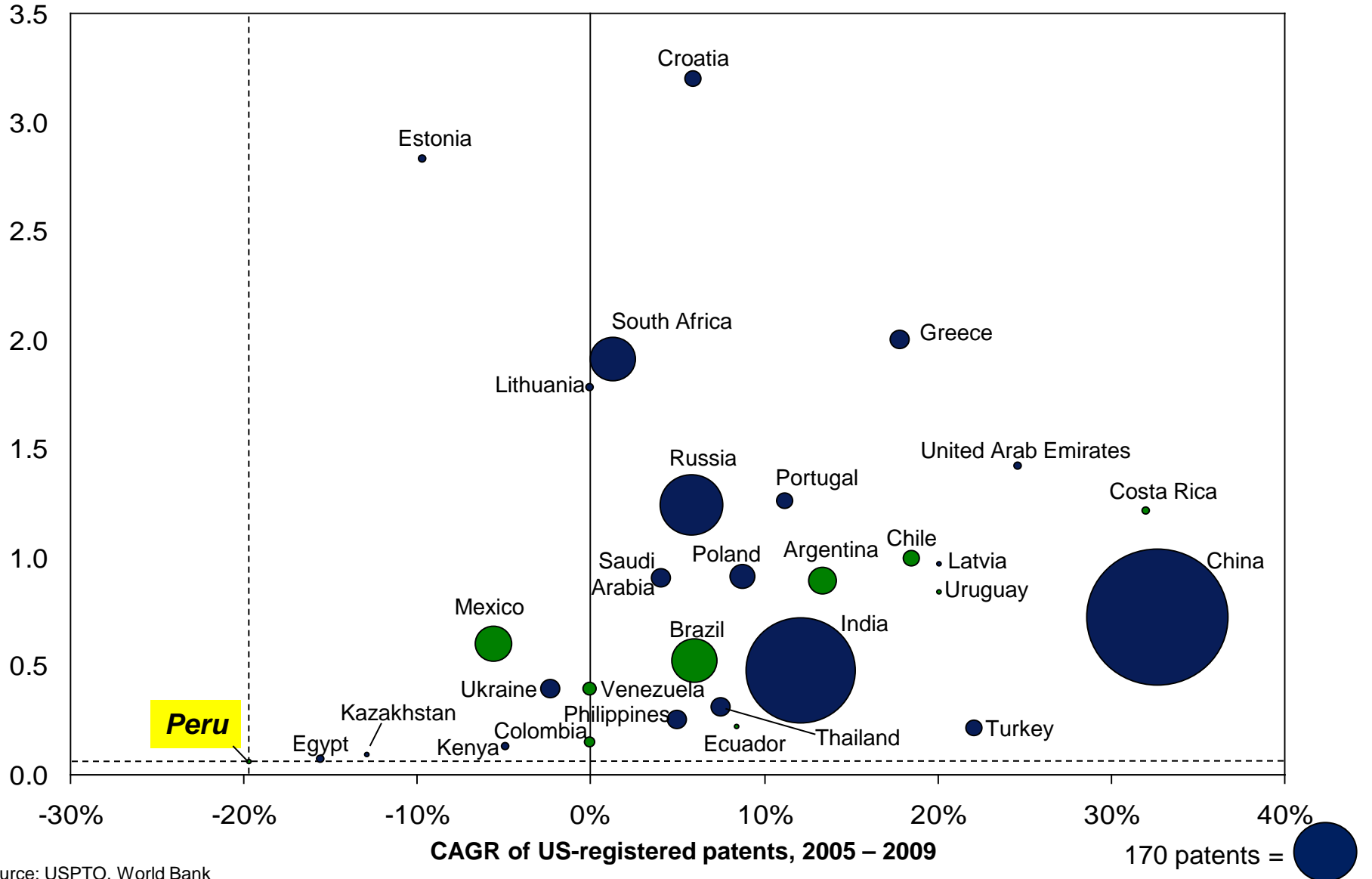


Source: UNCTAD, World Investment Report (2009).

Innovative Capacity

Innovation Output of Selected Countries

Average U.S. patents
per million population,
2005 – 2009



Source: USPTO, World Bank

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- Sustained growth will depend on broad **microeconomic** and **institutional** improvement
- Among the biggest challenges for the country are **complacency** after years of solid growth and the relatively mild impact of the global economic crisis



- Sustaining economic growth of 8 to 9% is possible only if Peru can substantially **improve competitiveness**
- Peru will need an **ambitious economic** and **social strategy**, building on the country's unique competitive advantages

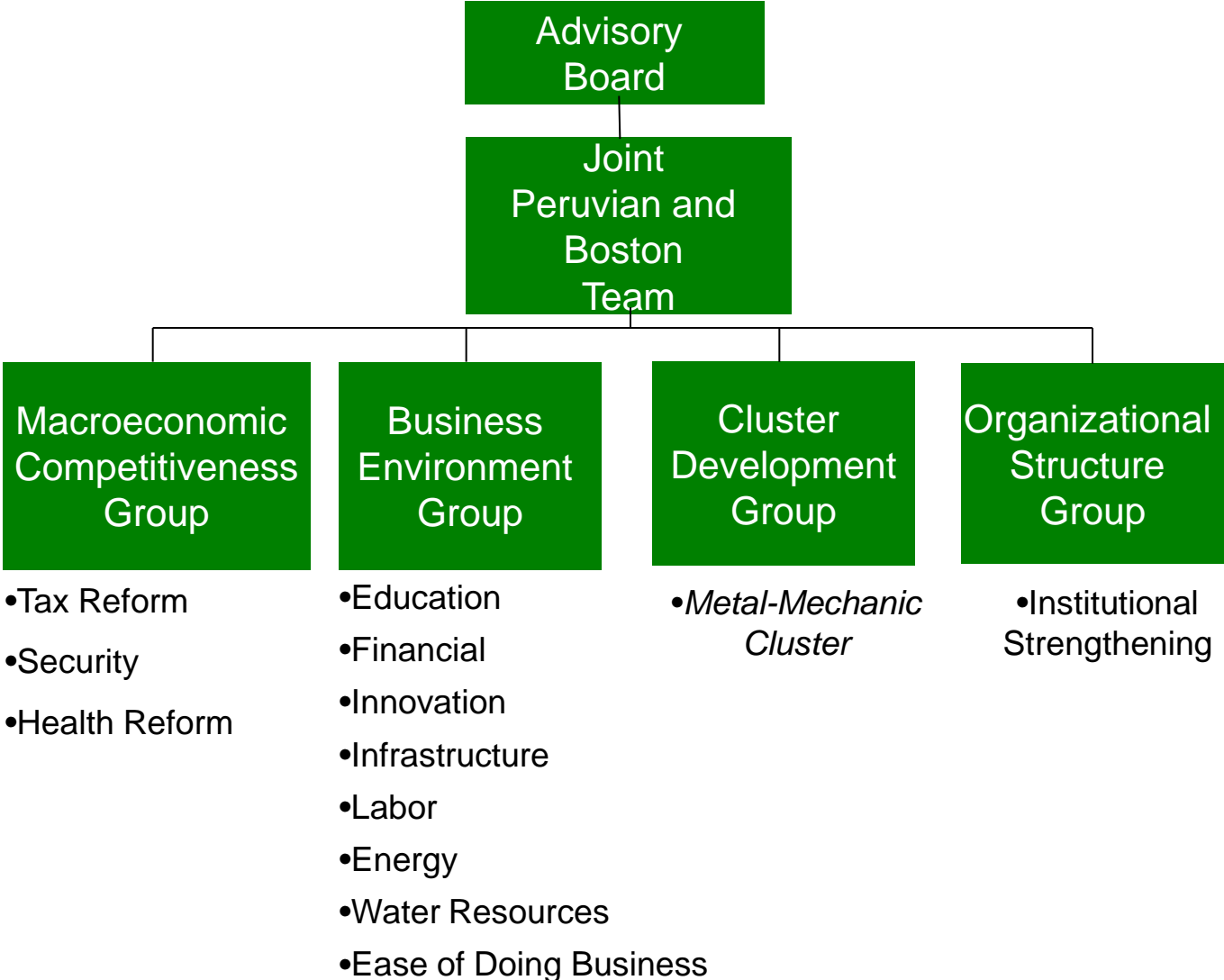
The Need for a Peruvian Economic Strategy

- Strategy means **focus**: Peru can not improve **everything at the same time** but need to **prioritize** the most pressing issues
- Strategy means **choice**: Peru **can not be good at everything** but needs to define how existing strengths are to be deepened and broadened to provide specific value to businesses
- Strategy means **action**: Peru does not need another plan but an **action agenda that drives change** through a process and institutional structure focused on implementation



- Peru needs to build a **broad consensus on its strengths** across society

Structure of the Project



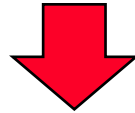
Executive Opinion Survey

- Survey conducted between May 18 and July 8, 2010
- **Surveyed senior executives** including presidents, CEOs and other C-level managers
- Lima companies above \$1 million in sales
- Other cities companies above \$500,000 in sales

City	Sample Size
Lima	160
Arequipa	80
Chiclayo	80
Cusco	80
Trujillo	80
Iquitos	<u>71</u>
TOTAL	551

What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
 - Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources)
 - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
 - Productivity in a national economy arises from a **combination of domestic and foreign firms**
 - The productivity of **“local” or domestic industries** is fundamental to competitiveness, not just that of export industries

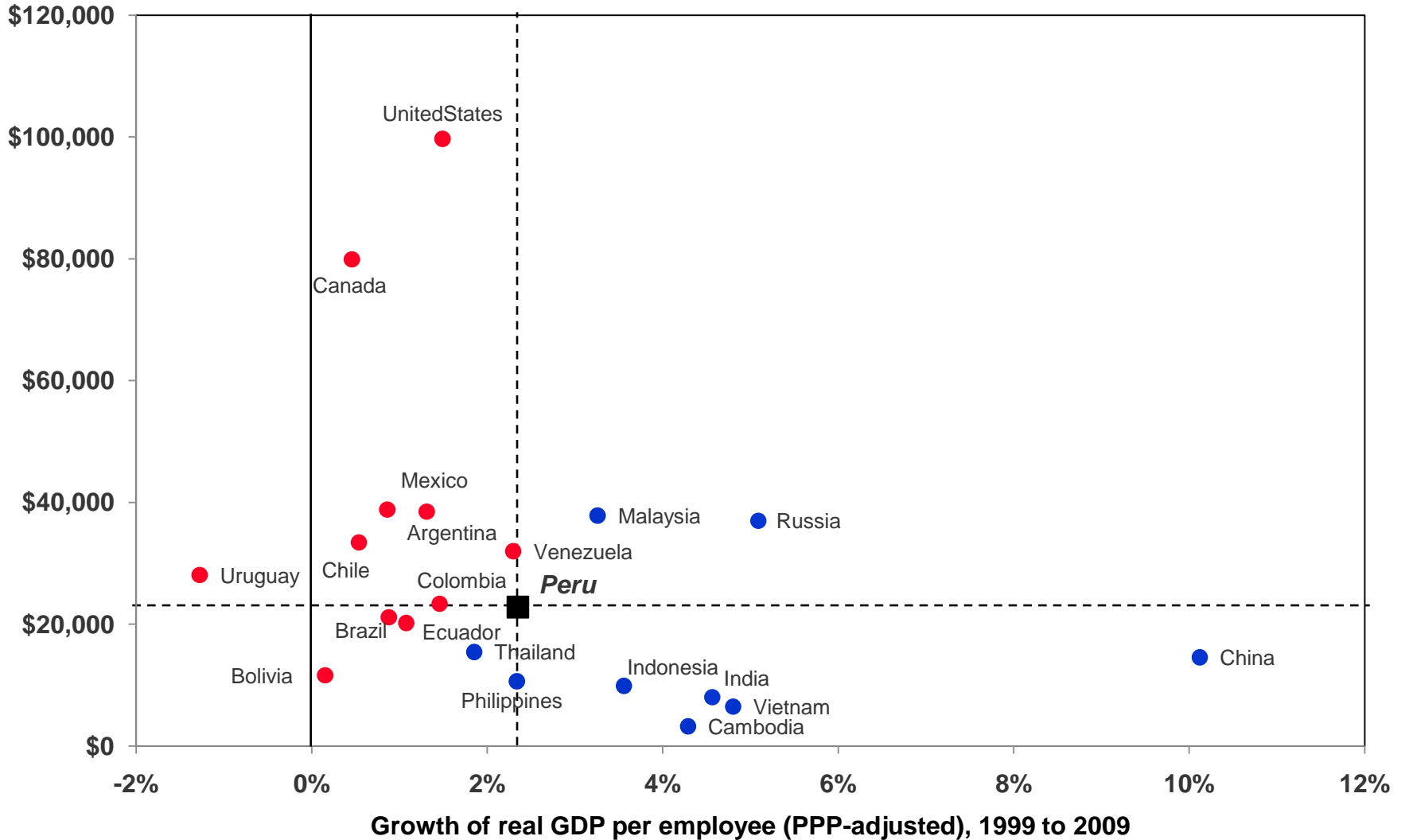


- Only **competitive** businesses can create wealth and jobs
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

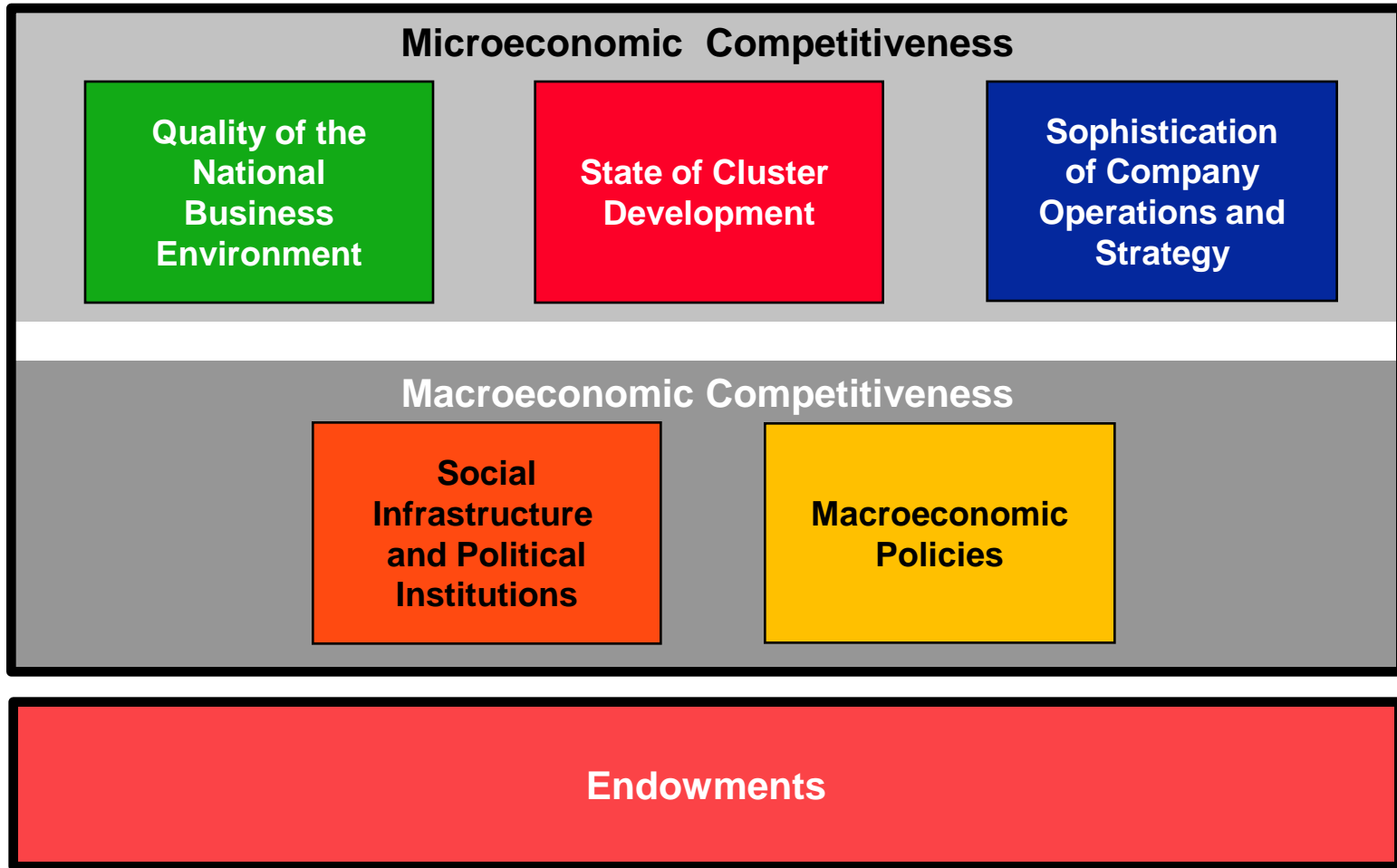
Labor Productivity

Selected Countries, 1999 to 2009

Real GDP per employee
(PPP adjusted US\$), 2009



Determinants of Competitiveness



- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**

Peru's Endowments

Natural Resources

- Rich endowment of minerals, fishing resources, forest resources, and fertile land
- Unique environment for fishing resources
- One of the largest concentrations of tropical rainforests in the world
- 70 percent of the world's biodiversity
- The Amazon region represents an untapped treasure

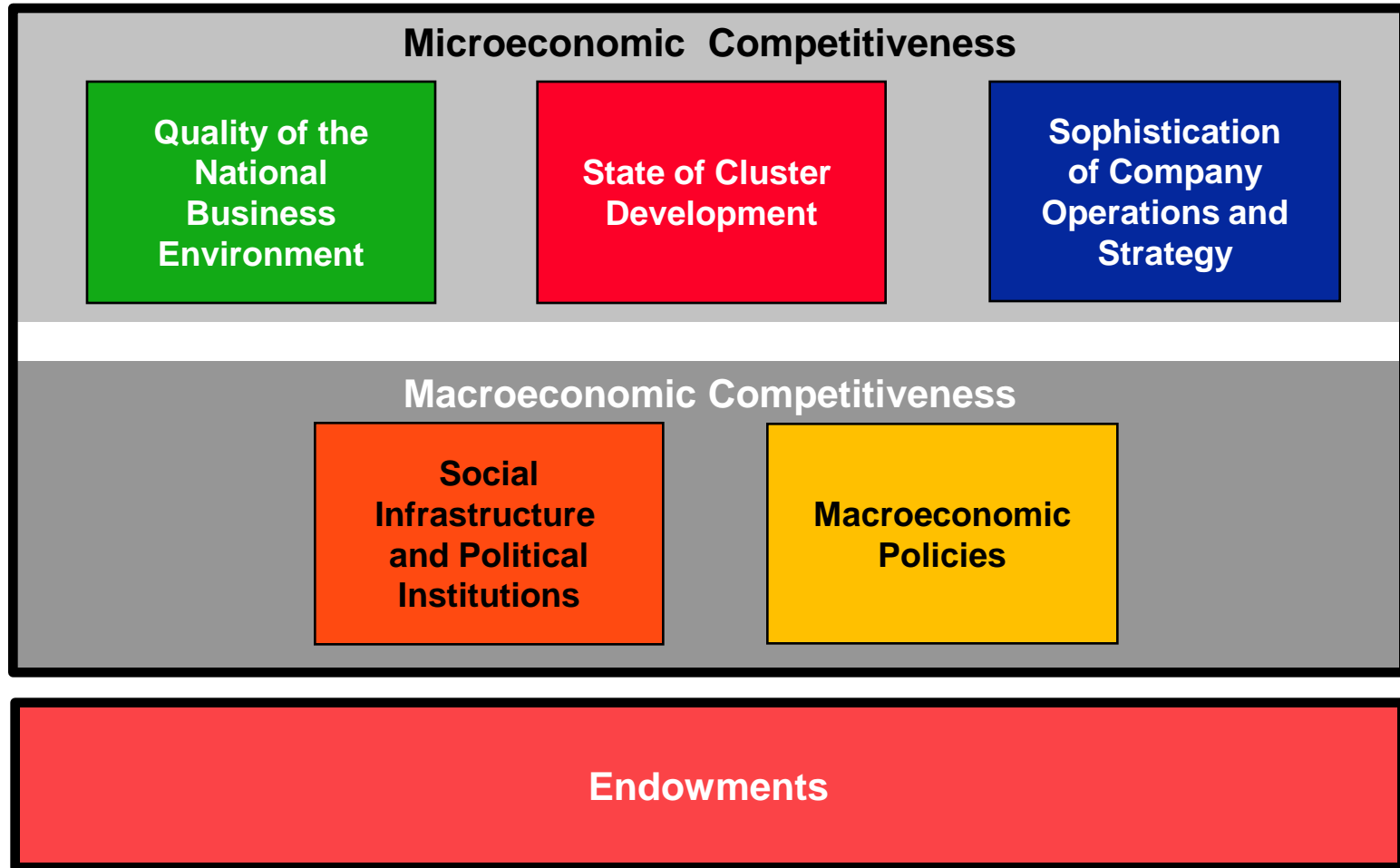
Geographic Location

- Location in the central zone of South America, on the Pacific coast
- Shares a border with Brazil, the largest market in South America.
- Access to the Pacific Ocean and to the Atlantic Ocean through the Amazon River
- Long coastline that extends 1,914 miles along the Pacific Ocean
- Natural conditions to develop large and efficient ports

Cultural Legacy

- Deep historical roots with ancient cultures
- Rich ethnic and cultural diversity
- Great variety of archeological sites. Machu Picchu is recognized as one of the wonders of the world
- Commitment to work, creativity, and entrepreneurial spirit of Peruvians

Determinants of Competitiveness



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Macroeconomic Competitiveness

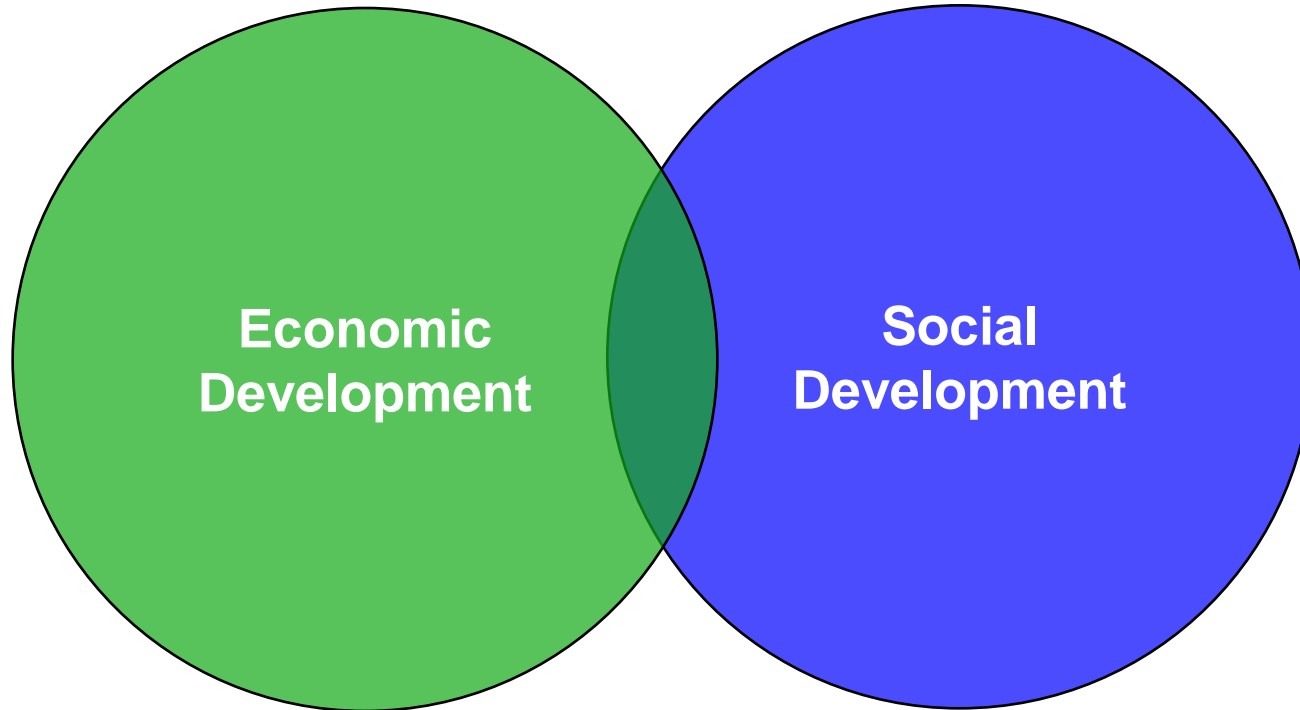
Social Infrastructure and Political Institutions

- **Human development**
 - Basic education
 - Health system
- **Political institutions**
 - Political freedom
 - Voice and accountability
 - Political stability
 - Government effectiveness
 - Centralization of economic policymaking
- **Rule of law**
 - Security
 - Judicial independence
 - Efficiency of legal framework
 - Business costs of corruption
 - Civil rights

Macroeconomic Policies

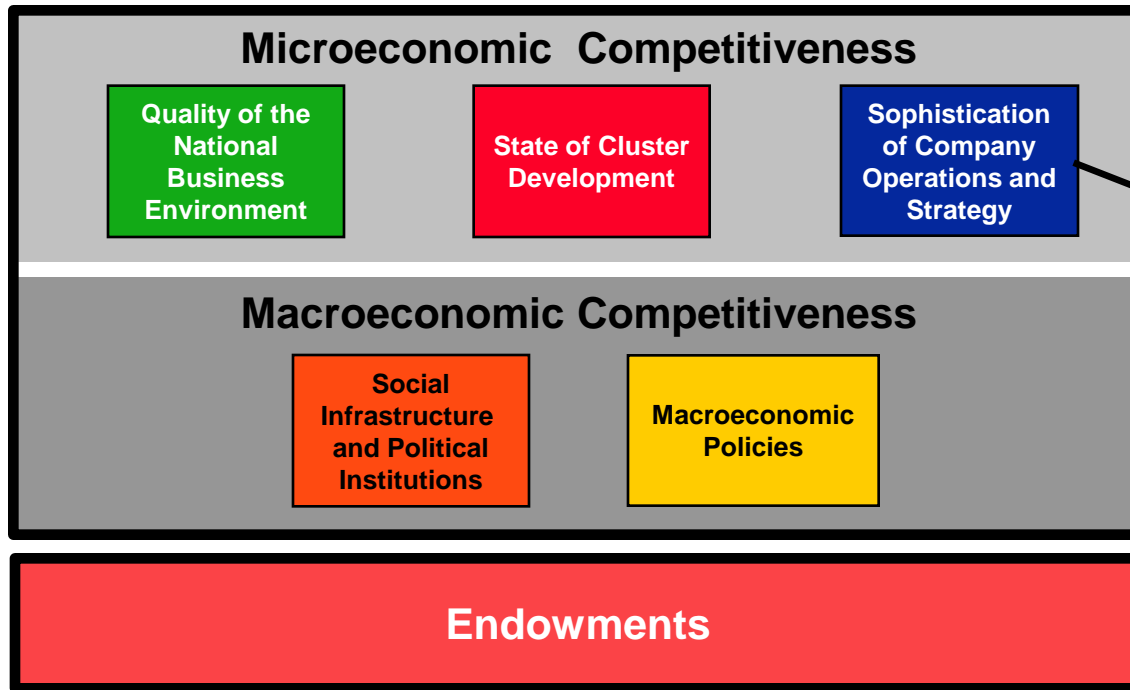
- **Fiscal policy**
 - Government surplus/deficit
 - Government debt
- **Monetary policy**
 - Inflation

Competitiveness and Poverty Reduction



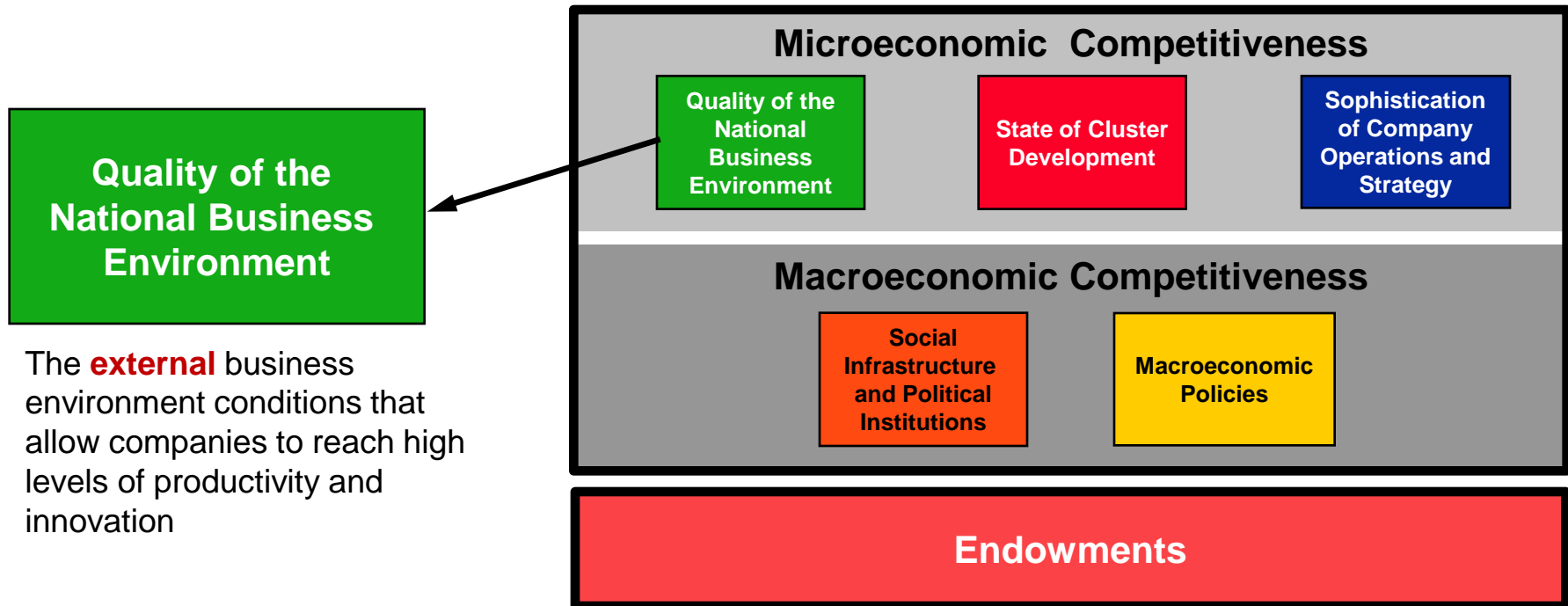
- There is a strong connection between **economic** and **social** development
- Improving competitiveness and decreasing poverty requires improving the economic and social context **simultaneously**

Determinants of Competitiveness

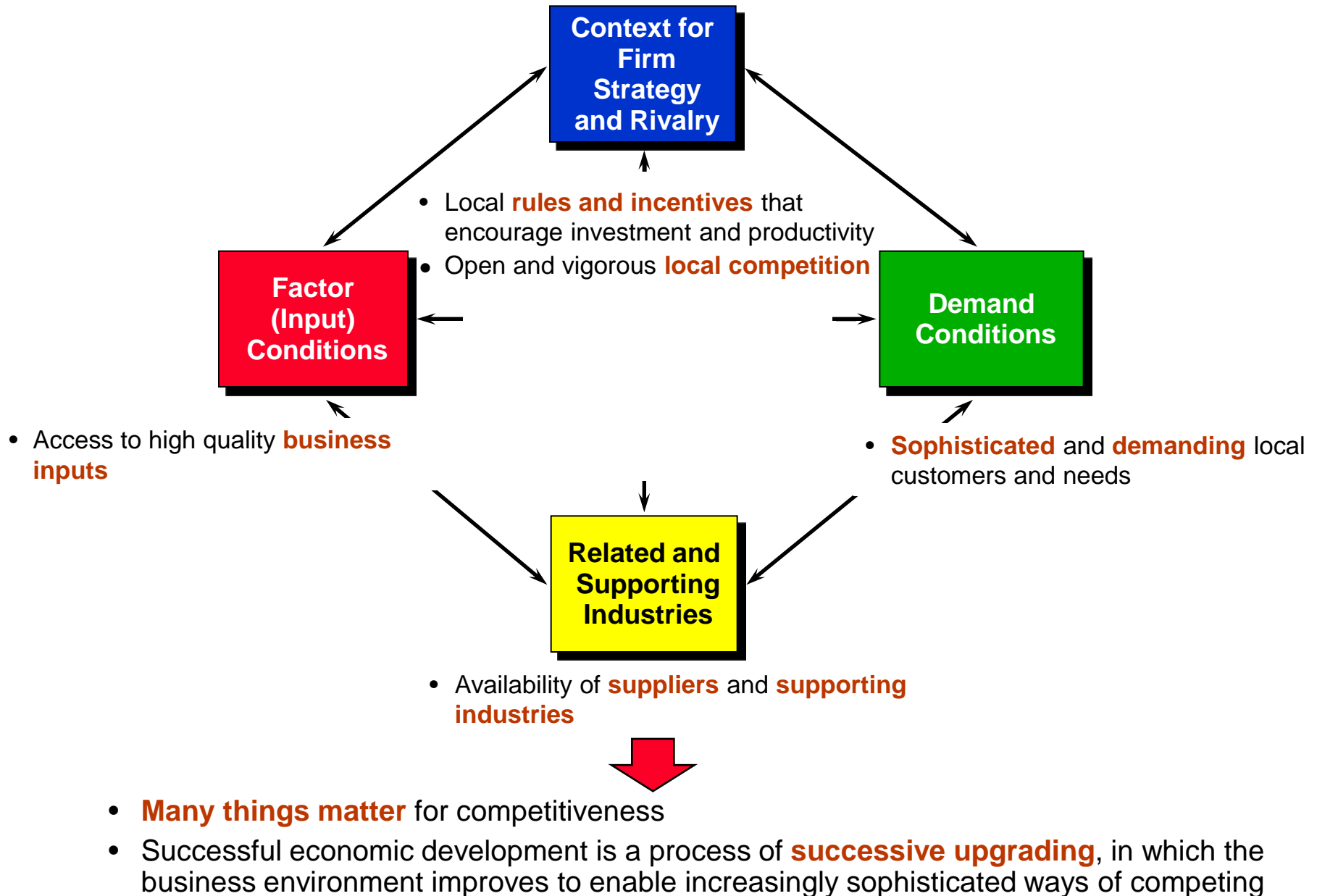


- The **internal** skills, capabilities, and management practices needed for companies to attain the highest level of productivity and innovation possible

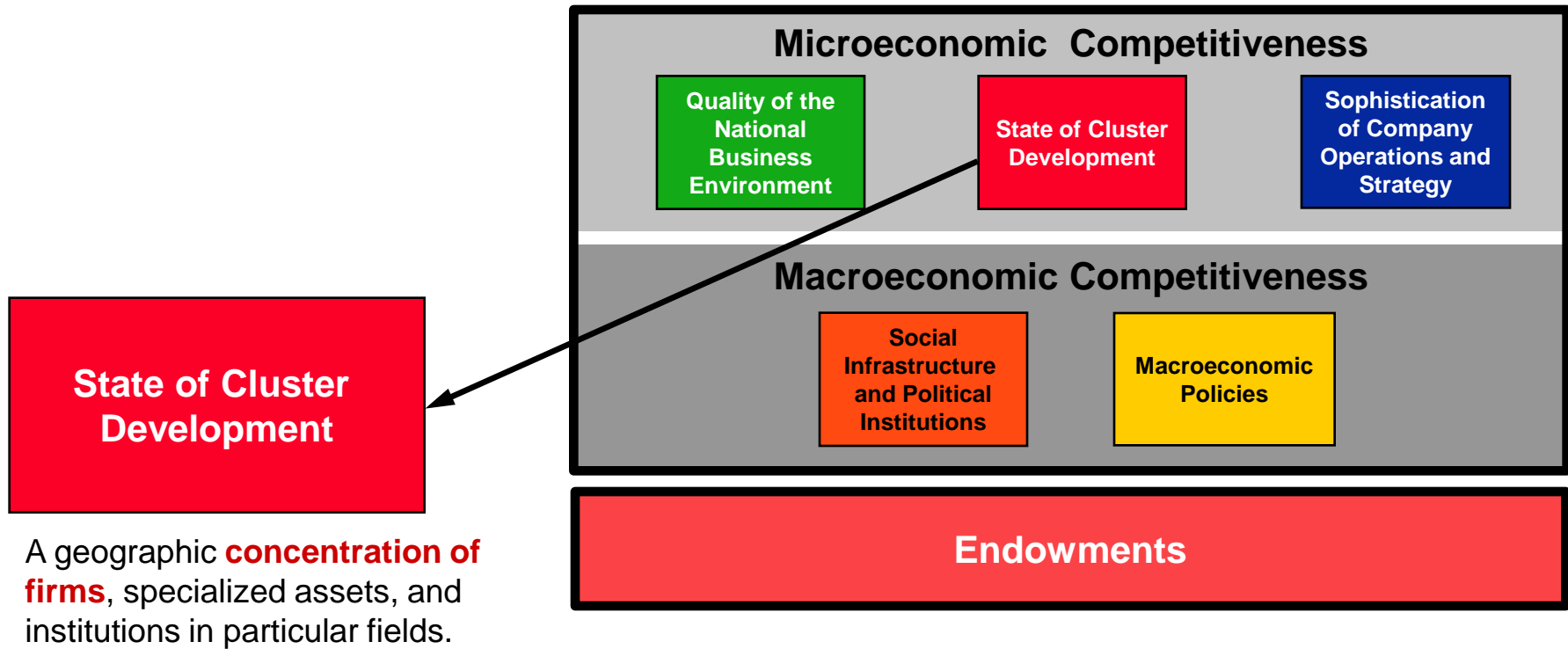
Determinants of Competitiveness



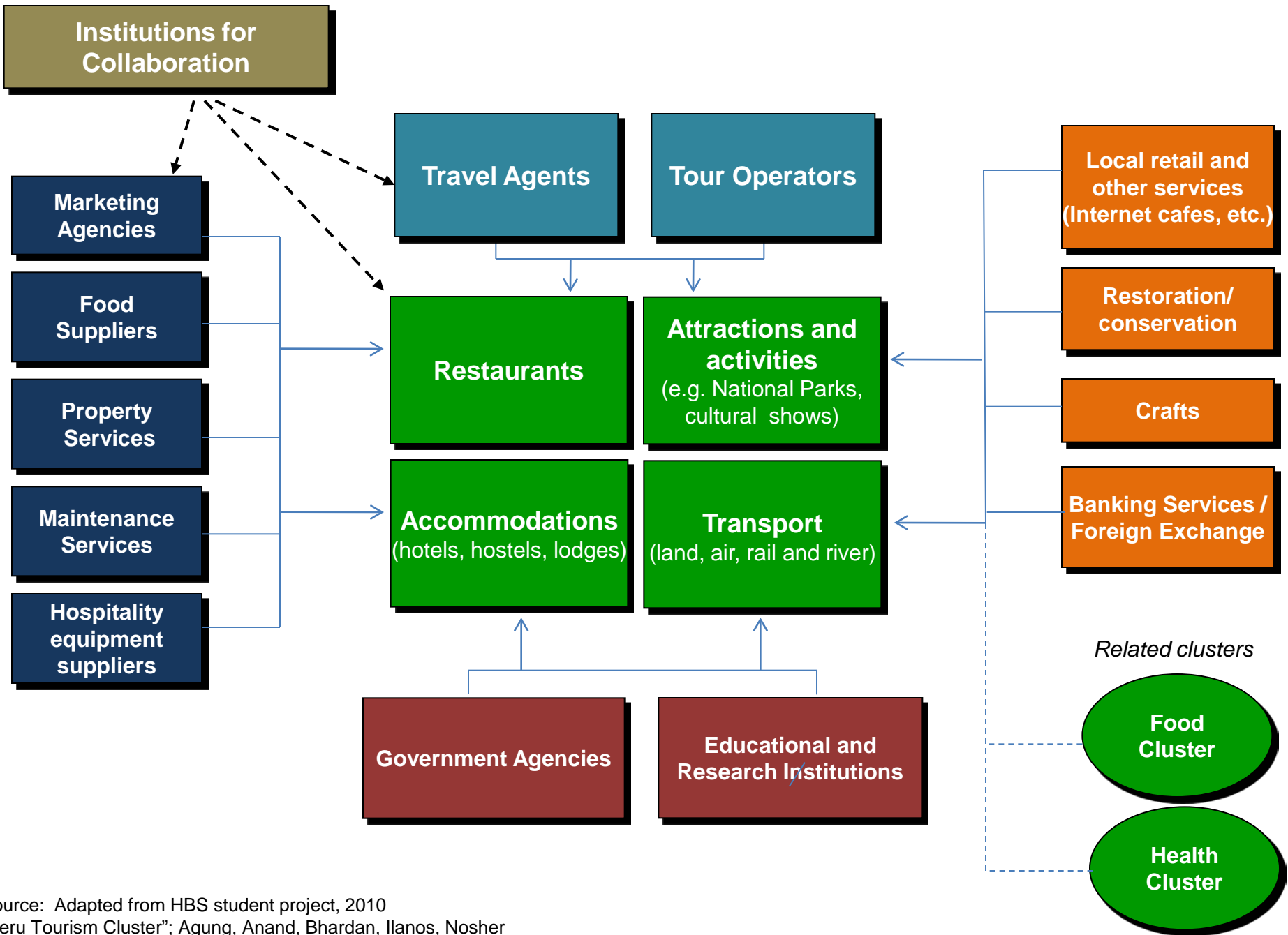
Quality of the National Business Environment



Determinants of Competitiveness



Cusco Tourism Cluster



Source: Adapted from HBS student project, 2010
 "Peru Tourism Cluster"; Agung, Anand, Bhardan, Ilanos, Noshier

Clusters and Competitiveness

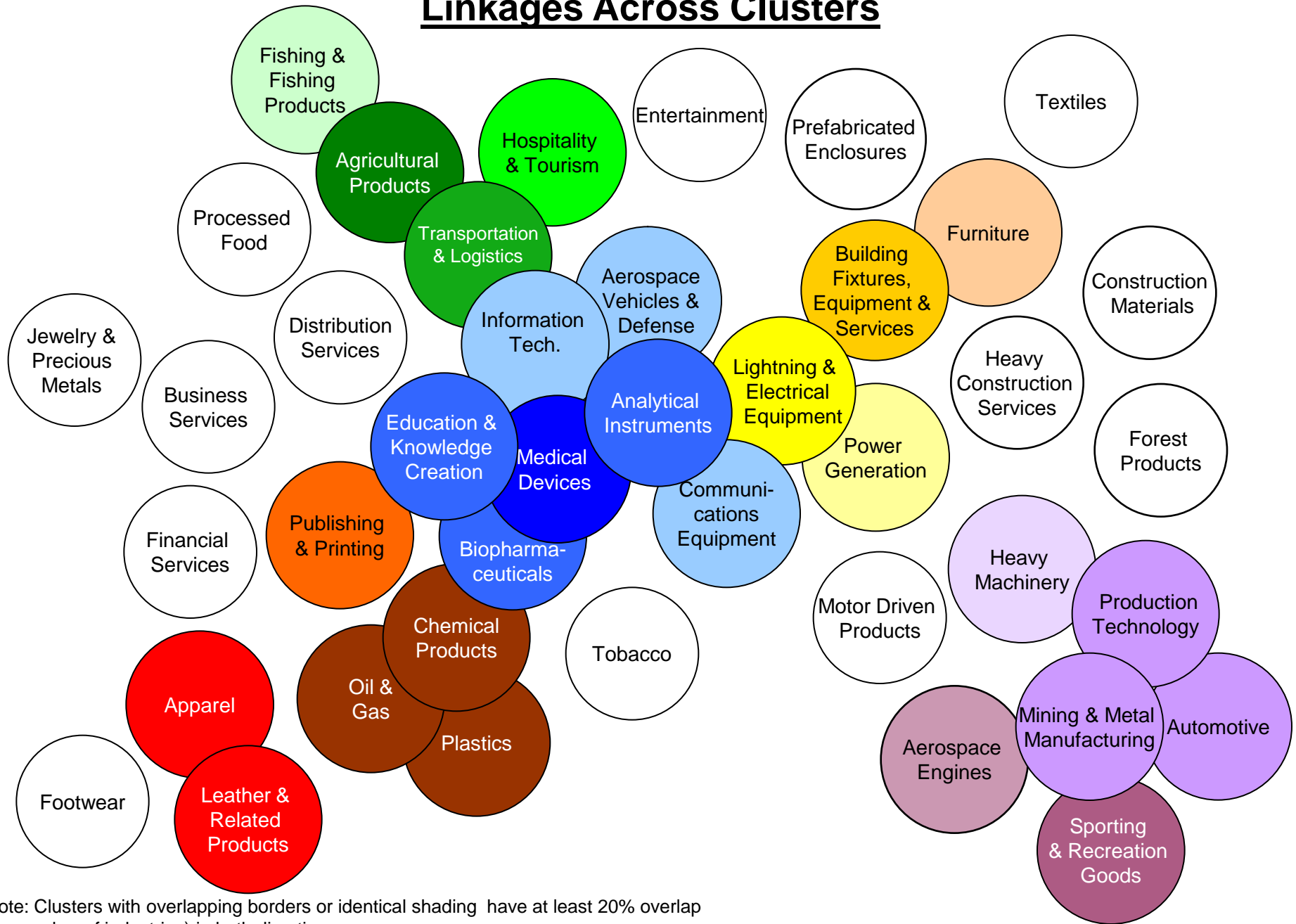
- Clusters **increase productivity** and **operational efficiency**
- Clusters stimulate and enable **innovations**
- Clusters facilitate **commercialization** and **new business formation**



- Clusters reflect the fundamental influence of **linkages and spill-overs** across firms and associated institutions in competition

Clusters and Economic Diversification

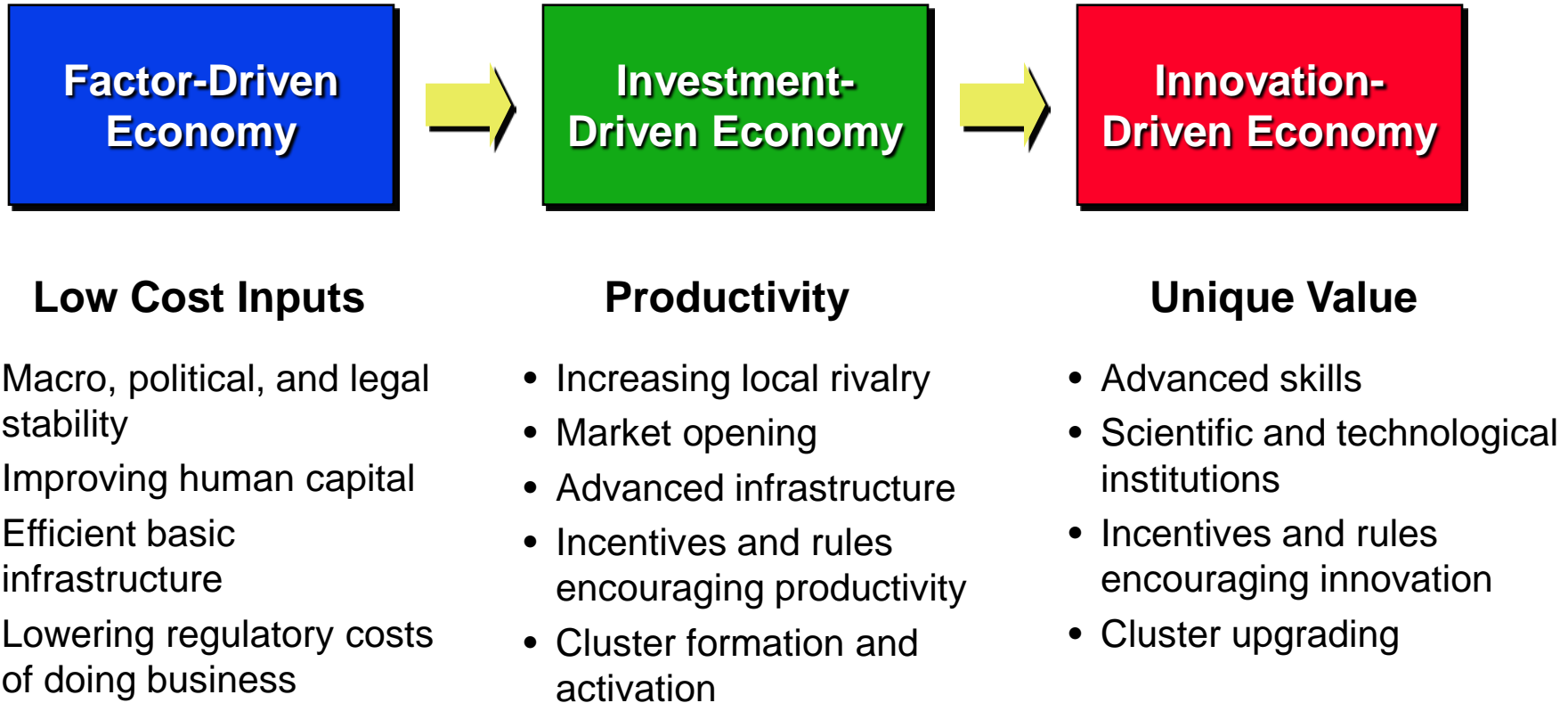
Linkages Across Clusters



Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

Stages of National Competitive Development

Shifting Policy Imperatives



Macroeconomic Policy: Assessment

- Sound policies have allowed Peru's fundamental **macroeconomic stability** to steadily improve over the past decade
- The implementation of **the inflation-targeting framework** has been successful in reducing inflation
- Peru's **fiscal stabilization fund** provided stability and allowed effective **stimulus** during the global crisis
- The economy continues to be **highly dollarized** with most credits denominated in dollars
 - About half of the banking system is currently dollarized and most commodity exports are priced in US-dollars

BUT

- Peru's public finances remain **overly dependent on commodities**, with as much as one third of tax revenues coming from commodity-related sources
- Peruvian **tax rates** are high relative to peers
- Peru must set policies that ensured the responsible **use of credit**

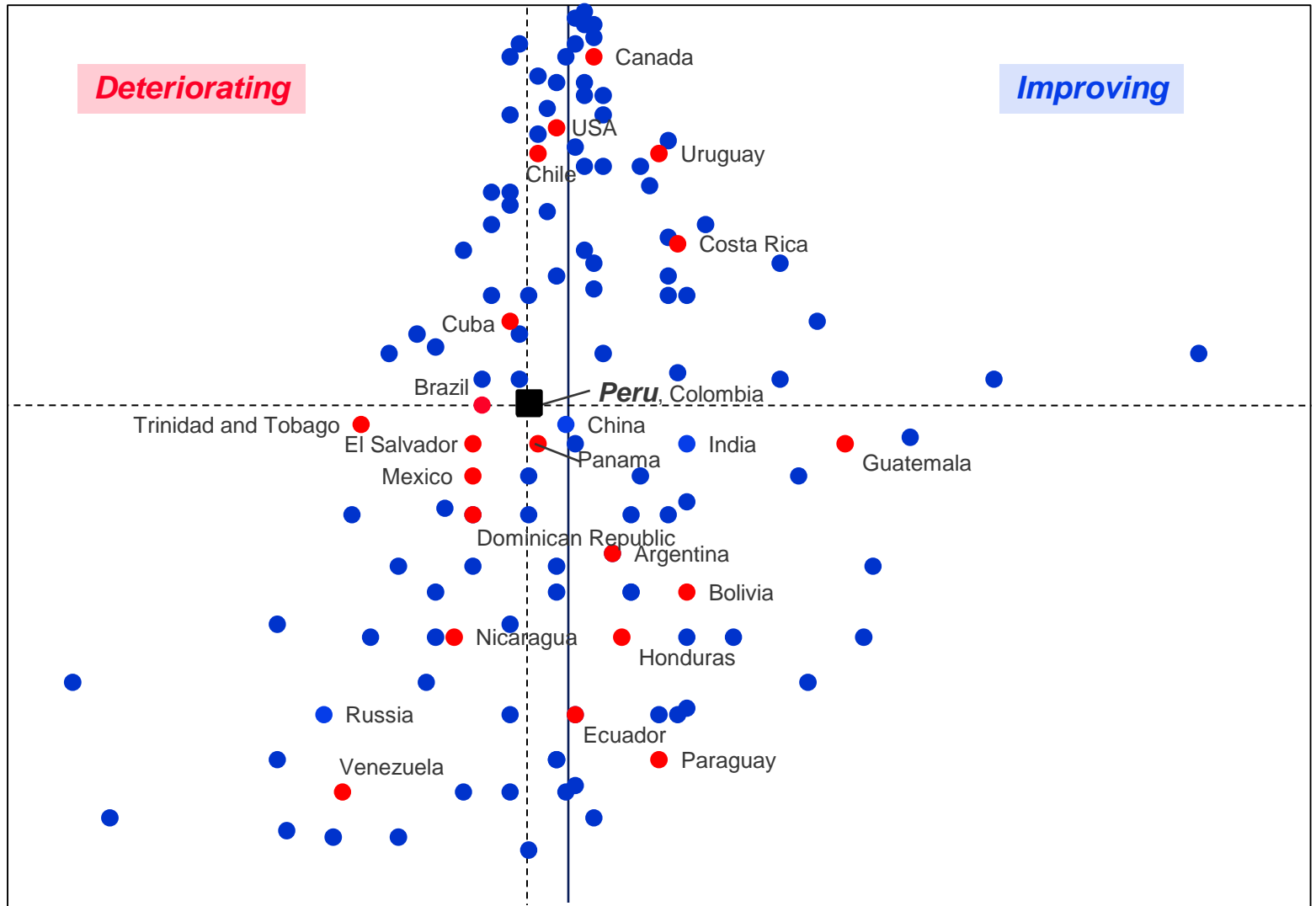
Political Institutions: Assessment

Corruption

- One of **critical weaknesses** constraining Peruvian development
- High corruption is due to **weak institutions**, **poor governance practices** and the excessive influence of **private** interests
- Corruption cases are **usually not reported** to authorities
- The institutions **perceived to be most corrupt** are Congress, the political parties, the national police, and judicial institutions

Corruption Perception Index, 2009

Rank in Global
Corruption Index,
2009



Change in Rank, Global Corruption Report, 2009 versus 2003

Note: Ranks only countries available in both years (131 countries total)

Source: Global Corruption Report, 2009

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Security

- There has been a **deterioration** of the security situation, mainly due to the organized crime, illegal drug trade, terrorism and a general decline in public safety
- The influence of drug traffickers is **starting to penetrate** institutions and the political system
- Social unrest occurs most often in places where **government institutions** are **weak**

Social Infrastructure: Assessment

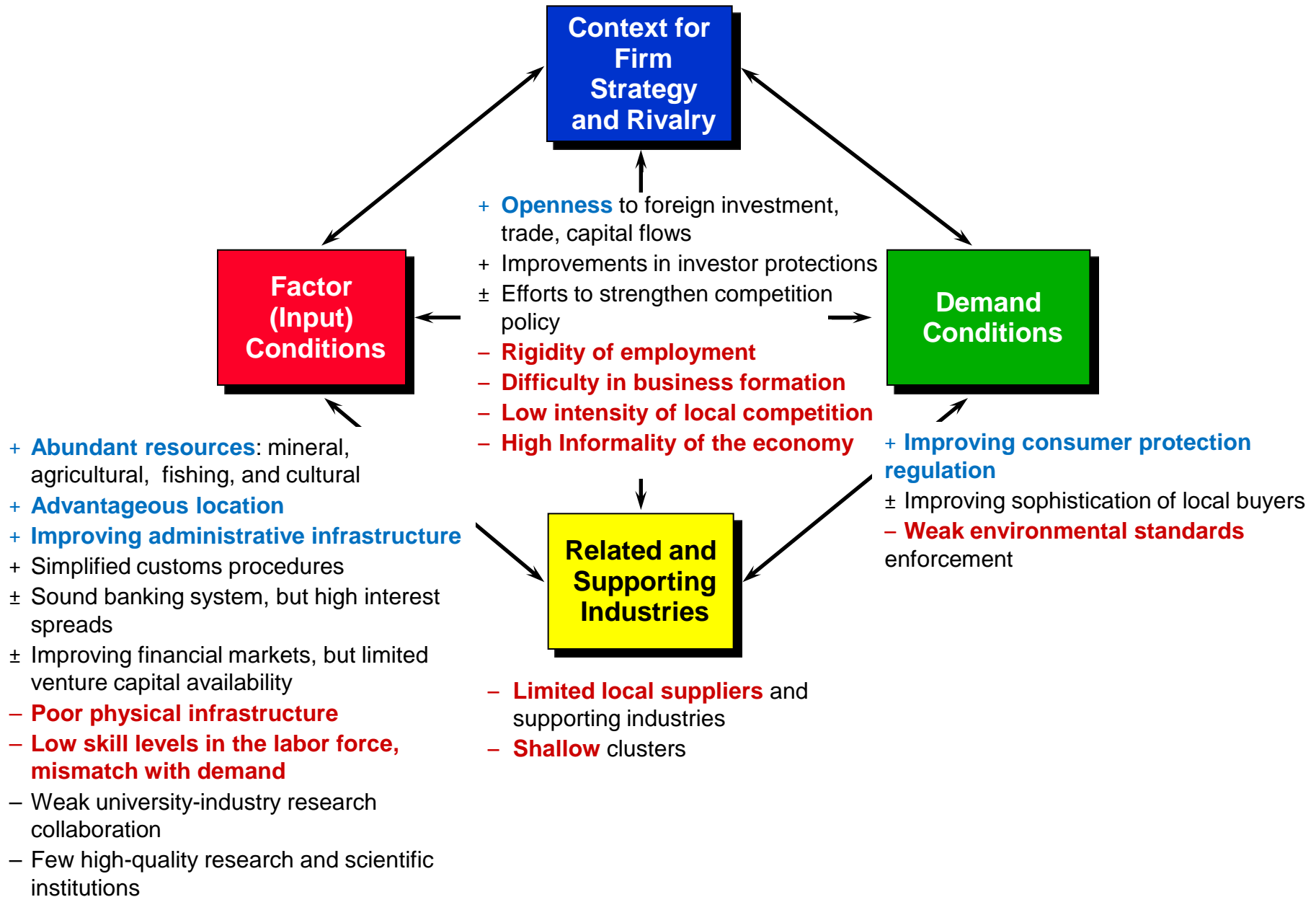
Education

- High formal enrollment but **low quality**
- **Weak infrastructure** in the public school system
- Curriculum is **poorly structured**, and one teacher must cover multiple grades

Health

- The health system continues to be characterized by generally **low quality** and **high disparities** in quality, particularly affecting the poor
- “Poverty diseases” such as tuberculosis are still **more prevalent** than in peer countries
- Health care spending in Peru **remains the lowest** among its Latin American peers
- There is a mismatch between the supply and demand for **health professionals**

Assessment: Peru's Business Environment



**Factor
(Input)
Conditions**

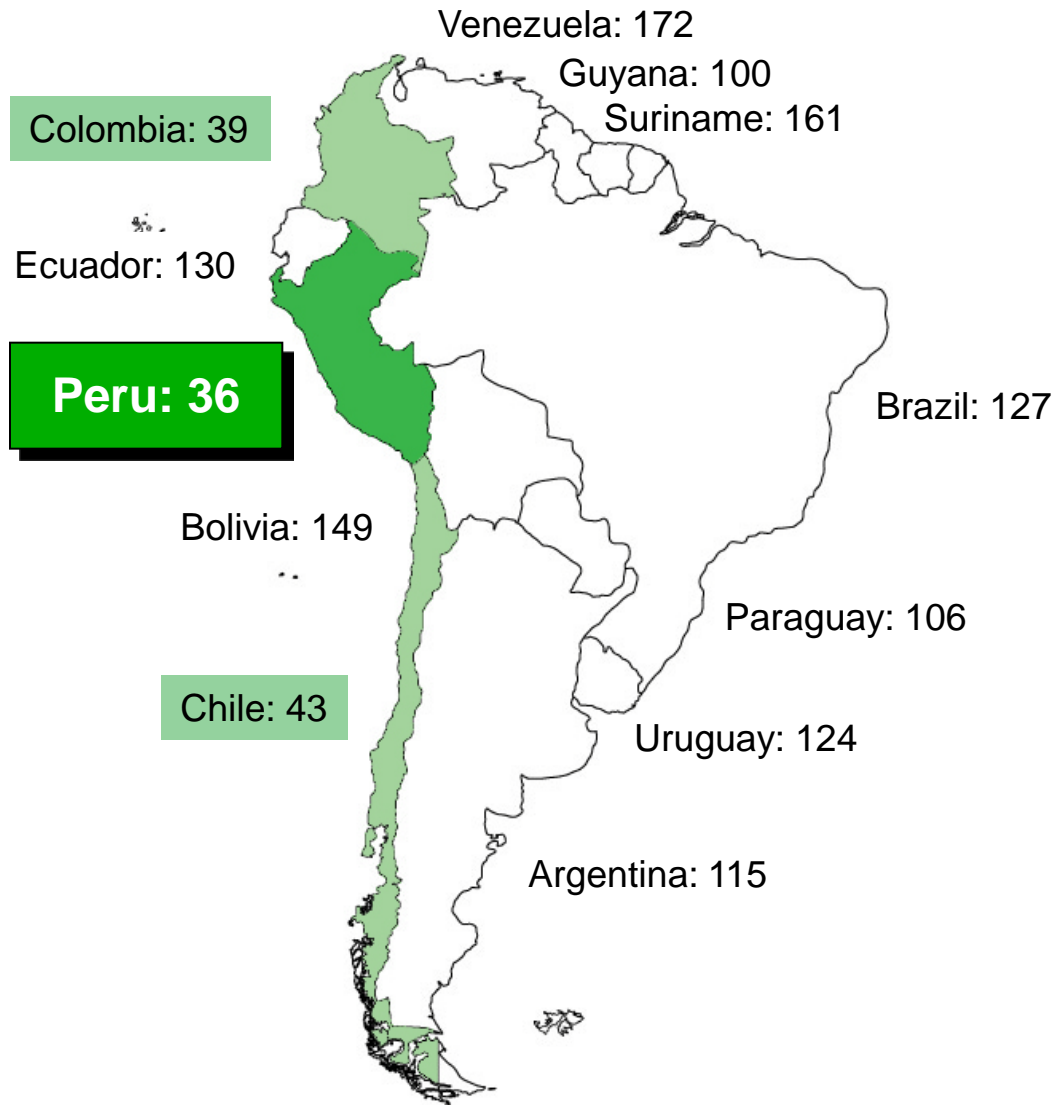
Factor input conditions in Peru **lag regional peers**, particularly in physical infrastructure.

Administrative infrastructure

- Peru has made important reforms in **simplifying administrative procedures**

Ease of Doing Business

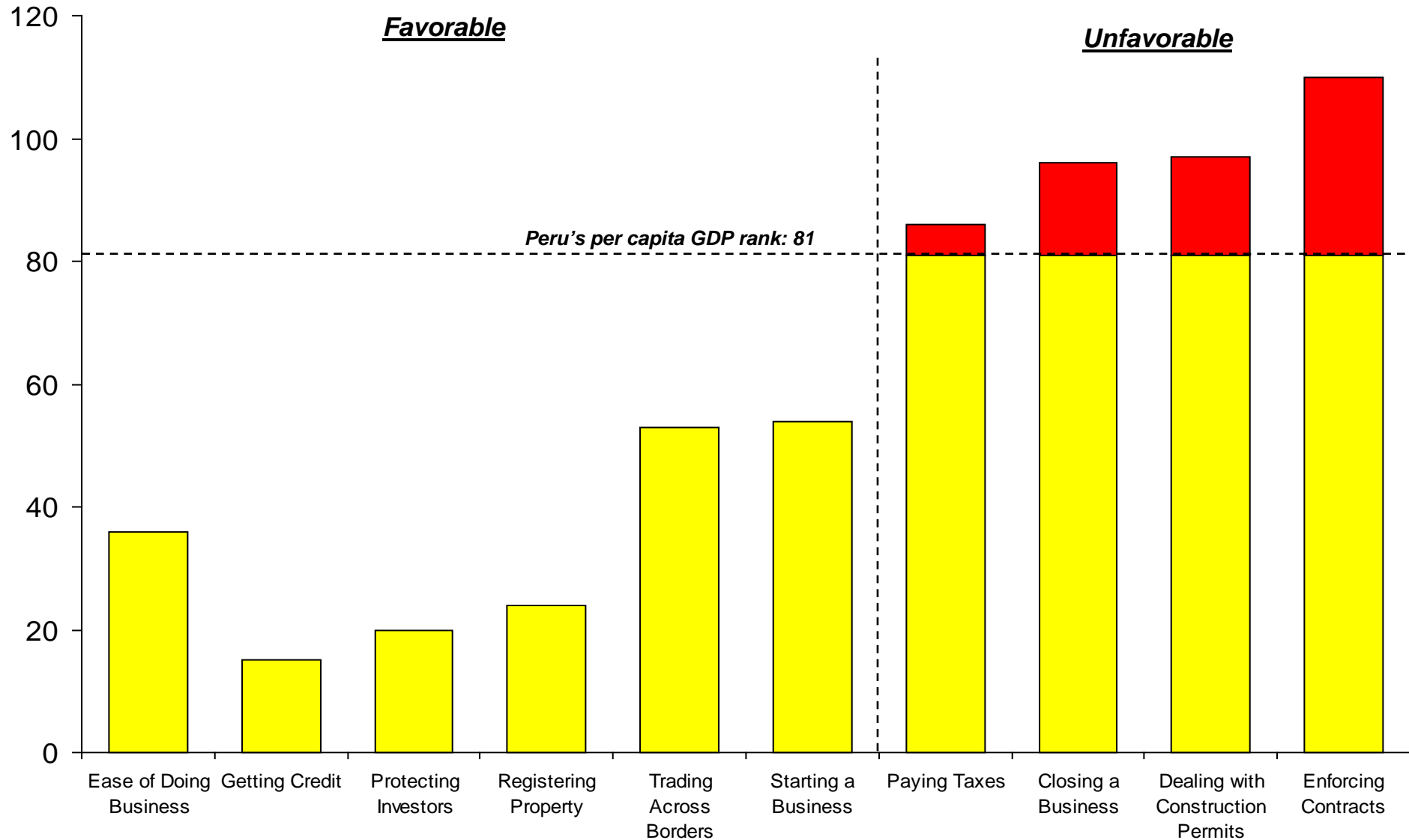
South America, 2011



Ease of Doing Business

Peru, 2011

Ranking, 2011
(of 183 countries)



Source: The World Bank, Doing Business (2011), GDP rank on GDP per capita, ppp-adjusted

Factor (Input) Conditions

Factor input conditions in Peru **lag regional peers**, particularly in physical infrastructure.

Administrative infrastructure

- Peru has made important reforms in **simplifying administrative procedures**

Physical infrastructure

- While Peru has increased infrastructure investment in recent years, it **lags in electrical generation capacity, telephone lines, and paved roads** relative to its Latin American peers. Infrastructure services remain expensive

Education and workforce skills

- The education system produces comparatively **few graduates in technical areas, engineering, and physical sciences**
- Peru is **last** in spending on education among its peers

Financial system

- Financial assets are highly concentrated. Four banks hold 83% of all bank loans
 - Borrowing costs are **high**
 - The Peruvian pension fund system is characterized by **low participation**

Science and technology infrastructure

- Peru's science and technology infrastructure **is very weak.**

Barriers to trade and investment have been reduced, but **labor market efficiency** and **local rivalry** remain limited

Foreign trade and investment policy

- Since the early 1990s, Peru's foreign trade and investment policy has been aimed at a process of **deregulation and liberalization** of the trade regime
- Peru has signed a significant number of **free trade agreements with several countries**, such as the United States and China
- However, **investment flows (in and out) remain low** in comparison with its neighbors

Anti-trust policy

- Peru has an advanced regulatory framework for antitrust. But, **implementation is weak**
- Peru's **domestic industries are highly concentrated**, with evidence of oligopolistic practices and cartels
- **A high level of informality in the economy** eases counterfeiting and money laundering

Labor market

- Peru's labor market is **highly rigid**, ranked by the World Bank as 149 out of 181 economies. There is no unified labor code in Peru
- High **non-wage labor costs** deter formal job creation

Demand Conditions

Peruvian consumer sophistication is increasing. Consumer protection and environmental regulations are **in place** but **not well enforced**

Local demand sophistication

Economic growth has led to the **emergence of a new middle class** that has access to consumer credit, has become aware of new products and brands, and demands quality

Quality and environmental standards

Regulations exist to protect quality, health, safety, and environmental standards, but there is **no mechanism to enforce** these regulations or the consumer code. And, in practice, the **large informal sector** operates outside of these protections

Availability of suppliers and supporting industries remains low, and Peruvian clusters are shallow

Export industries

- Peru's exports are highly concentrated on natural resource-based products. These activities are **not well integrated into the local economy** and have not generated local upstream and downstream industrial activities

Presence of suppliers

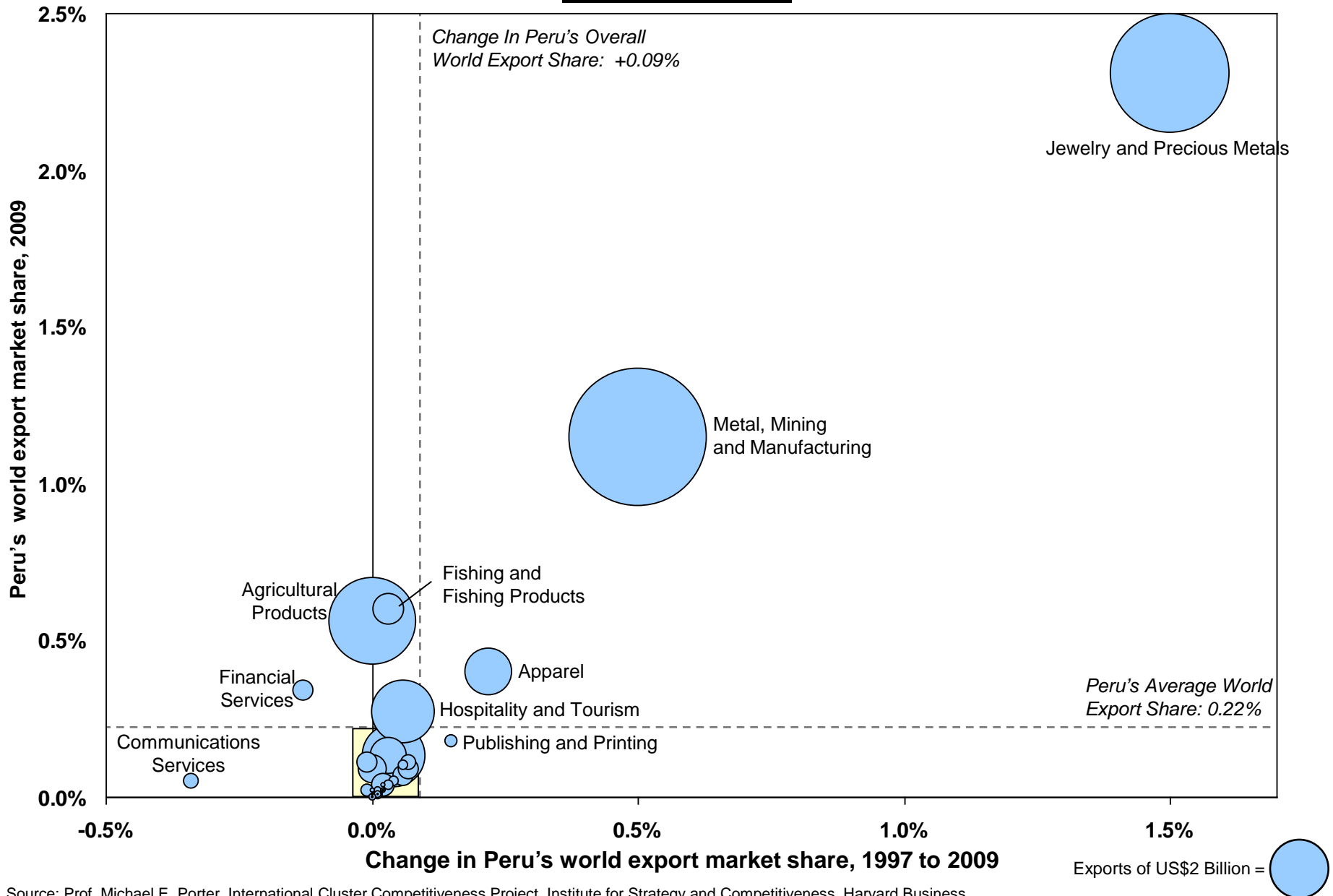
- There is a **lack of local suppliers of machinery, equipment** and services. Most products and services are imported
- Local production of inputs and machinery is in its infancy and cannot support advanced export-oriented companies

Cluster Development

- **Nascent clusters** are present, but there are **few cluster initiatives..**
- There is **a poor tradition of collaboration between the government and the private sector** in the area of cluster development

Peru's National Export Portfolio

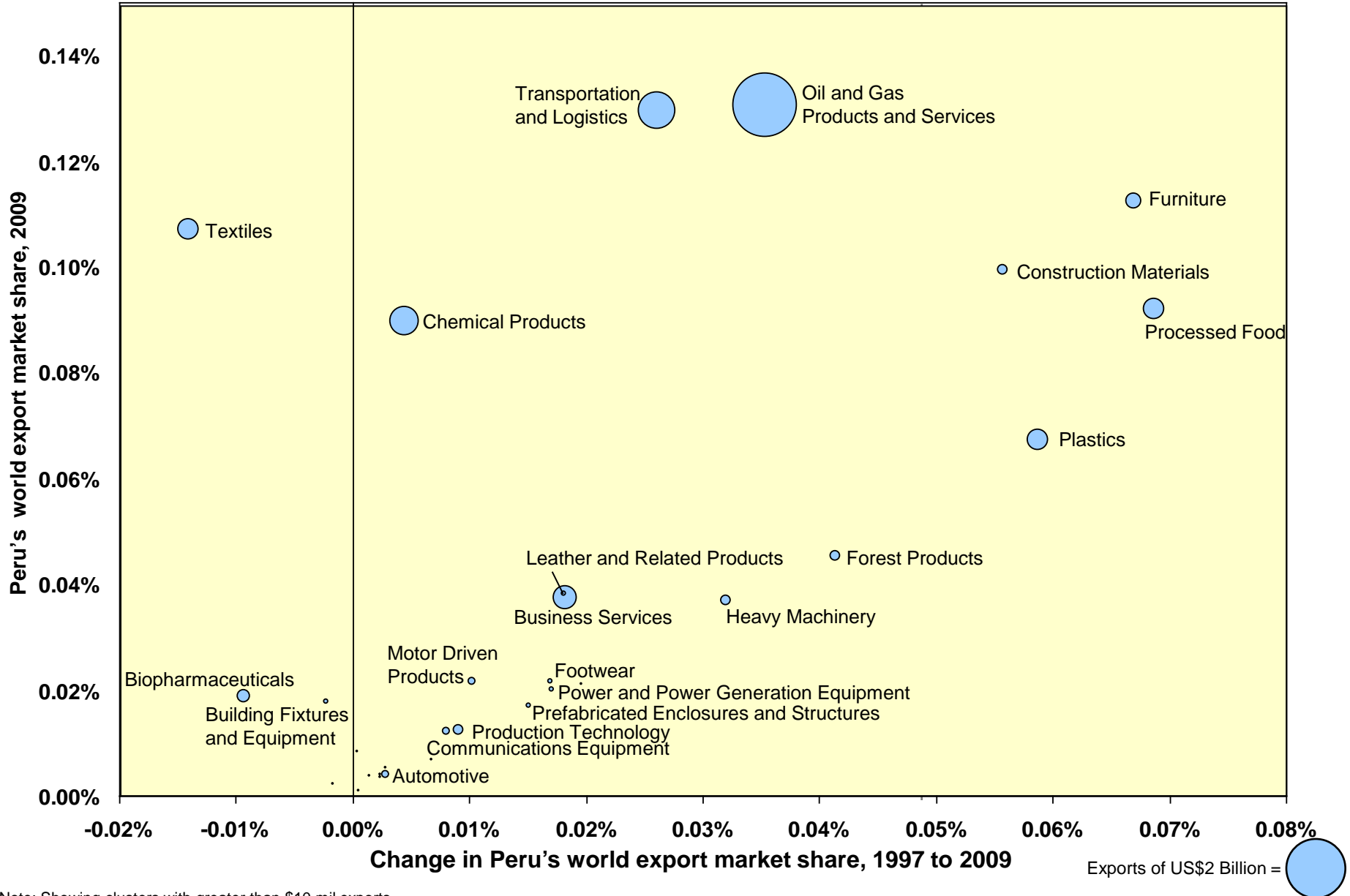
1997 to 2009



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

Peru's National Export Portfolio

1997 to 2009

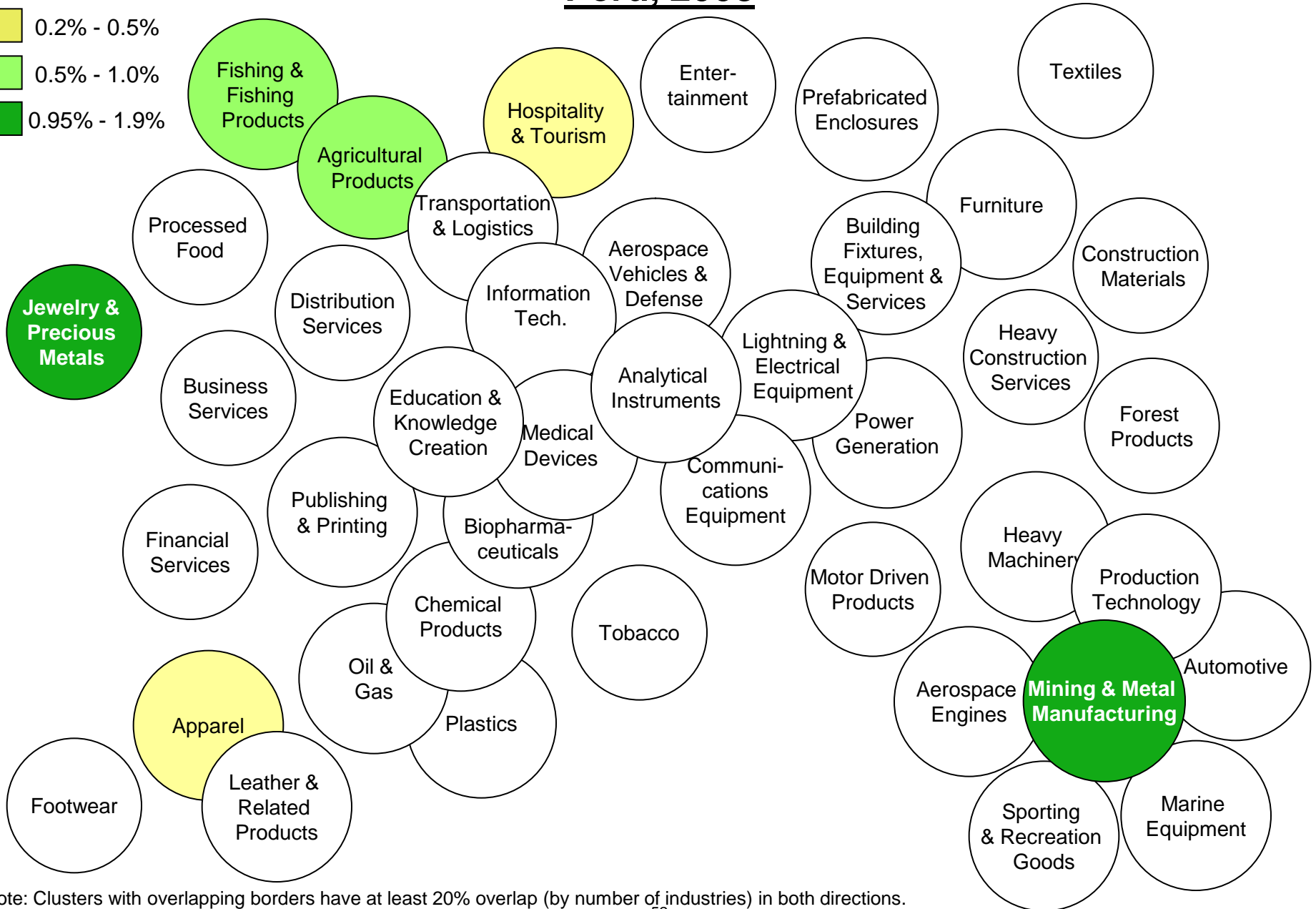
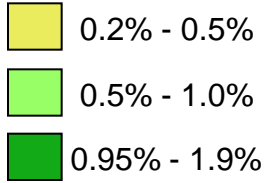


Note: Showing clusters with greater than \$10 mil exports.
 Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, HBS; Richard Bryden, Project Director. Copyright 2010 © Professor Michael E. Porter

Share of World Exports by Cluster

Peru, 2008

World Market Share



Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.

Specialization in Peru's Regions

Selected Examples

Piura

Agricultural Products: Mangoes, Lemons, Brown Sugar Syrup

Cajamarca (Bambamarca)

Dairy, Processed Foods

La Libertad (El Porvenir, Trujillo)

Leather, Footwear

Ancash (Chimbote)

Fishing and Fish Products

Lima (Infantas, Los Olivos)

Metal Manufacturing, Metal Furniture

Lima (La Victoria)

Apparel

Ica

Wine

Cuzco

Tourism

Puno and Arequipa

Apparel from Alpaca



Assessment: Peruvian Clusters

- Peru's current clusters are based heavily on **natural endowments**, and have much room for further upgrading
- Regions such as the Cajamarca, Arequipa, and Moquegua have concentrations in **mining**, but the clusters are **mostly shallow with weak linkages** between firms and local suppliers and experiencing significant technological bottlenecks
- In the main cities of Peru there are **some emerging clusters** consisting largely of small firms
- Peru's clusters have **weak suppliers** and **few supporting institutions**
- There is **a weak institutional capacity** in the regions hampering the development of clusters
- There is a **limited tradition of collaboration** among actors for regional development

Cluster Development Programs in Peru

- There are some **encouraging programs**, such as the CITEs
- Support programs for cluster development have **limited resources and scope**, and have been directed toward SMEs
- Cluster development have been supported primarily **multilaterals** and **international cooperation agencies**
- Programs were **driven centrally** without building capacity at the regional level
- Programs have failed to create **permanent institutions** and **sustainable processes of collaboration** amongst key actors such as local governments, academic institutions, training centers, private sector and relevant institutions for collaboration

Creating and Economic Strategy

National Value Proposition

- What is the **distinctive competitive position** of Peru given its location, legacy, existing strengths, and potential strengths?
 - What unique value as a business location?
 - For what types of activities and clusters?
 - And what roles with neighbors, the region, and the broader world?

Developing Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** represent local strengths?

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer countries?

- **Priorities** and **sequencing** are necessity in economic development

Role of a National Value Proposition

- The value proposition should be an **inspiration** to the Peruvian population
- The value proposition is a **signal to companies** from abroad and at home about **what assets and conditions can expect to find in Peru**
- The value proposition is a **signal to policy makers** in Peru of **what type of improvements are most critical** in order to make the value proposition a reality

Peru's Competitiveness Strategy



Towards a Peruvian Value Proposition

What is Unique about Peru?

ENDOWMENTS

- Abundant natural resources
- Central location in South America
- Vast biodiversity and ecosystems

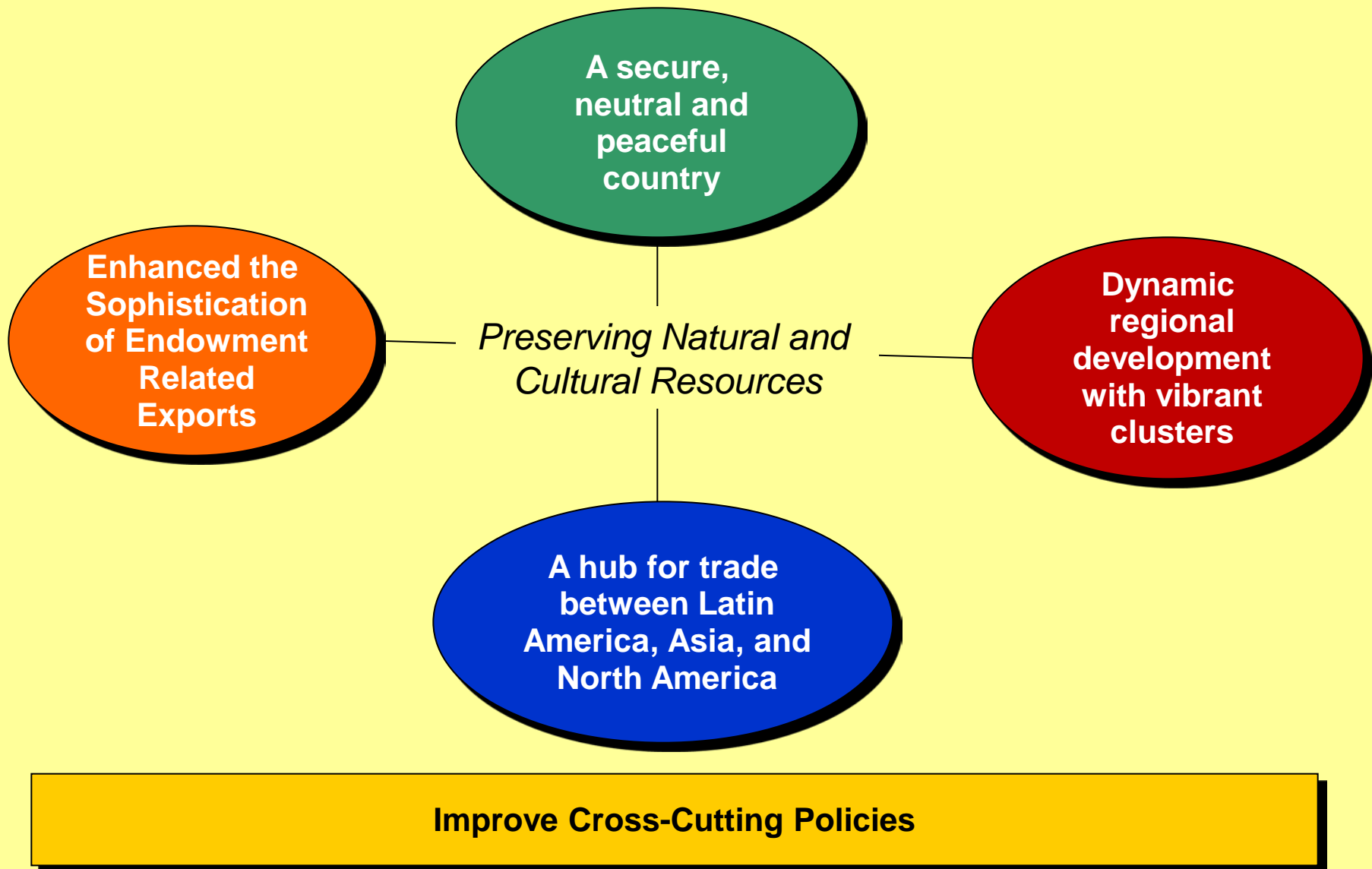
BUSINESS ENVIRONMENT

- Privileged access to foreign markets
- Open to FDI and capital flows

PEOPLE AND CULTURE

- Rich culture and history
- Creative and entrepreneurial population
- Young, hardworking population
- Legacy of domestic cooperation to overcome obstacles

Towards a Peruvian Value Proposition



National Value Proposition: A secure, neutral and peaceful country

Peace and neutrality in Peru have been crucial to the **good economic performance** of the last two decades, but Peru remains at risk of **deteriorating security**.



A secure,
neutral and
peaceful
country

Reduce corruption to fight informality and inequality

Empower **security institutions** and foster links with **local communities**

Break the **cycle** of drug trafficking and insurgency

Develop regional clusters to generate a stronger link between the **growth** process and new **employment**

National Value Proposition: Utilizing Endowments

Peru's endowments have attracted significant interest from **foreign and domestic investors** already in the past. Peru must create **higher value** from its endowments driven clusters.



Enhanced the
Sophistication
of Endowment
Related Exports

- Provide **highly efficient infrastructure** and an efficient **regulatory environment** to make Peru one of the most productive locations for accessing natural resources
- Ensure that regulatory conditions enable endowments to be used in ways that are **ecologically and culturally sustainable**
- Upgrade and deepen clusters drawing on Peru's endowments and develop suppliers, services and related clusters

National Value Proposition: A Trade Hub

Peru's **geographic location**, its array of **free trade agreements**, and its **macroeconomic and political stability** make it a natural hub for trade between Latin America, North America, and Asia



A hub for trade
between Latin
America, Asia, and
North America

Maintain and extend **low trade barriers**

Improve the efficiency and quality of **trade enabling regulation and infrastructure.**

Mobilize and **develop clusters** of trade related services including logistics and finance

National Value Proposition: Decentralization

Peru's development remains highly heterogeneous across different parts of the country. The emergence of a larger **middle class remains limited to a few regions** in the country. Sustained growth can only be achieved if all **subnational regions** develop by upgrading their competitiveness.



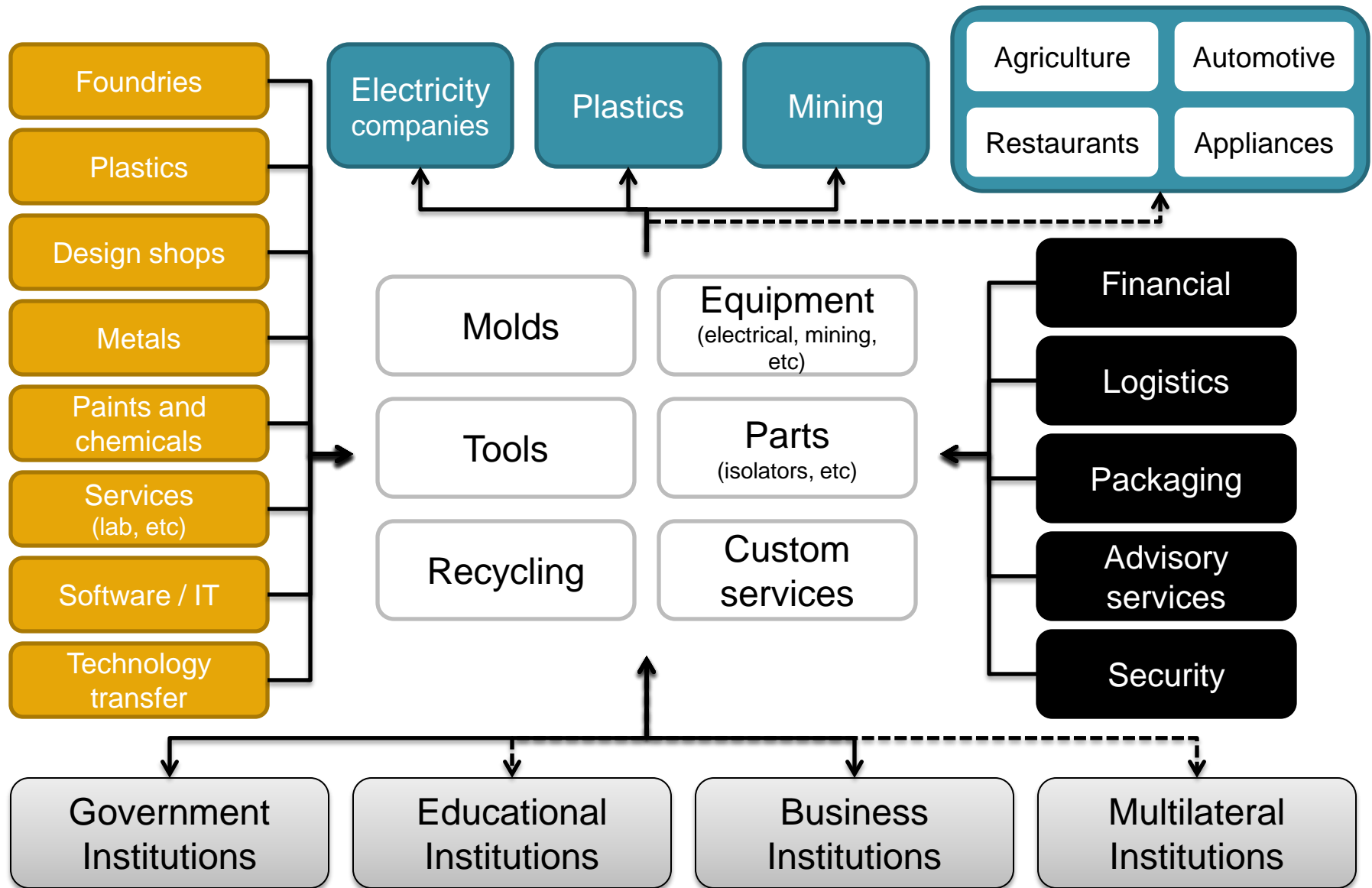
**Dynamic regional
development
with vibrant
clusters**

Build **unique regional economies** based on local strengths.

Upgrade key weaknesses including regional education, regulatory conditions, and infrastructure

Strengthen regions through upgrading regional institutions

Lima metalworking cluster: Example of a Cluster Development Initiative



Action Agenda



**A secure, neutral and
peaceful country**

POLICIES

- Sustain the security improvements against old and new threats
 - Maintain improvements achieved in security and prevent a pronounced increase in organized crime and violence
 - Empower security institutions and foster links with the community
- Systematically reduce corruption
 - Simplify rules and regulations to reduce the cases in which corruption can occur
 - Promote a new governance ethic in political and business leaders

Secure, Neutral and Peaceful: Action Agenda

Sustain the security improvements against old and new threats

Action Areas

- Public safety is critical to becoming a trading hub
- Maintain improvements achieved in security and prevent a pronounced increased in crime and violence
- Empower security institutions and foster links with the community

Specific Recommendations

- Frame an institutional setting where a single institution concentrates efforts to fight drug trafficking and terrorist activities
 - Support market-based income-substitution programs, control of chemical inputs for coca transformation, drug interdiction, and anti-money laundering efforts
- Reform the police force considering labor regime, salary and equipment and needs
- Strengthen the powers of local mayors as presidents of local public safety committees in coordination with the police
- Engage local communities to prevent social unrest
- Support comprehensive policies - covering crime prevention, crime investigation, the judicial system, the jail system, and re-insertion programs.

Secure, Neutral and Peaceful: Action Agenda

Systematically reduce corruption

Action Areas

- Reduce corruption to thrust domestic economic activity and take advantage of opportunities created through open trade policy
- Generate a strong track record of fighting against corruption
- Consider its effects on informality and inequality

Specific Recommendations

- Launch a systematic campaign to reduce corruption and investigate corruption cases
- Simplify rules and regulations to reduce the cases in which corruption can occur
- Foster clean governance in political and business leaders
- Improve the quality of the civil service. Support meritocracy, responsibility, accountability, training and adequate compensation.
- Key public officials should be appointed in a process with the consent of the Congress

Action Agenda

**A hub for trade
between Latin
America, Asia and
North America**

POLICIES

- Focus efforts on becoming the springboard for South American firms seeking access to U.S. and Asian markets
- Deepen free trade policies
 - Intensify policy of negotiating free trade agreements
 - Eliminate remaining domestic barriers to trade and investment: tariffs, non-tariff measures and export subsidies
- Improve physical connections with other countries
 - Transportation
 - Energy and Water

CLUSTERS

Transportation and Logistics
Financial Services

Action Agenda



**Enhanced the
Sophistication of
Endowment Related
Exports**

POLICIES

- Transform endowment-based industries into broad clusters
 - Launch an ambitious cluster development program
- Build organizational processes in which all actors, particularly private sector representatives, collaborate in building a common vision for each cluster
- Diversify the economy by developing related clusters

CLUSTERS

Metal Mining and Manufacturing
Hospitality and Tourism
Biodiversity

Action Agenda

**Dynamic
regionalized
development with
vibrant clusters**

POLICIES

- Design a modern policy for regional development
 - Devise a strategy for each region based on its unique attributes and strengths
- Enhance education and workforce skill development
 - Focus on education as a central enabling condition for productivity
 - Align education supply with needs through collaboration with clusters

CLUSTERS

Metalworking

Apparel

Leather

Fishing and Fishing Products

Footwear

Agricultural Products

Wine

Improve Cross Cutting Policies

- Sustain path of sound macroeconomic policy
- Ensure adequate basic education and health care
 - Focus basic education on enforcing quality standards
 - Improve basic education services with the vision to reduce inequality and foster social inclusion
 - Reform healthcare system to increase coverage and provide better value
 - Focus on preventive care to reduce costs
 - Concentrate on vulnerable segments of the population
- Reduce the cost of doing business through better rules and regulations:
 - Rules of the judiciary system
 - Taxes
 - Labor market regulations
- Strengthen access to capital
 - Increase financial-sector competition and access to capital
 - Encourage the development of new financial instruments
- Develop science and technology capabilities
 - Expand university-business collaboration
 - Encourage industry to absorb and improve foreign technology
 - Involve talented expatriate professionals
 - Improve innovation infrastructure
- Improve the effectiveness of the government

Eleven Goals for 2021

Income and Inclusion

- Peru will be in the **upper tier of middle-income countries** with an income per capita of **\$10,000**
- Peru will reduce its **poverty level to 20 percent**
- Peru will reduce rates of **malnutrition to less than 10 percent**

International

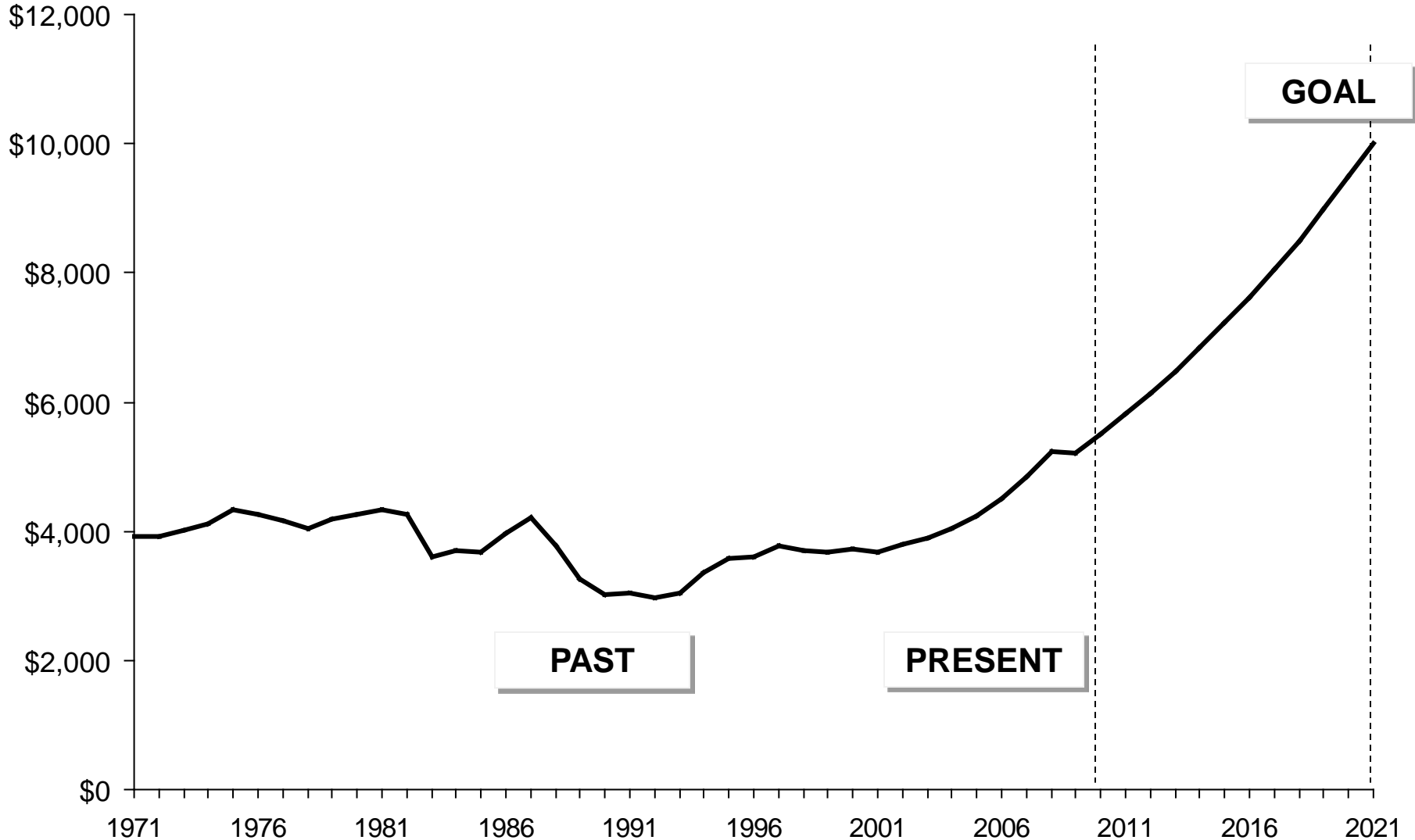
- Peru will be one of the **top two** South American countries in **volume of trade with Asia**
- Peru will be the **first-ranked recipient of foreign direct investment** among the countries along the South American Pacific coast

Regional development

- Peru will have **at least seven regional centers of development** across the coastal, highlands and Amazon regions

Peru will be in the upper tier of middle-income countries with an income per capita of \$10,000

GDP per Capita
(in 1990 PPP US\$)



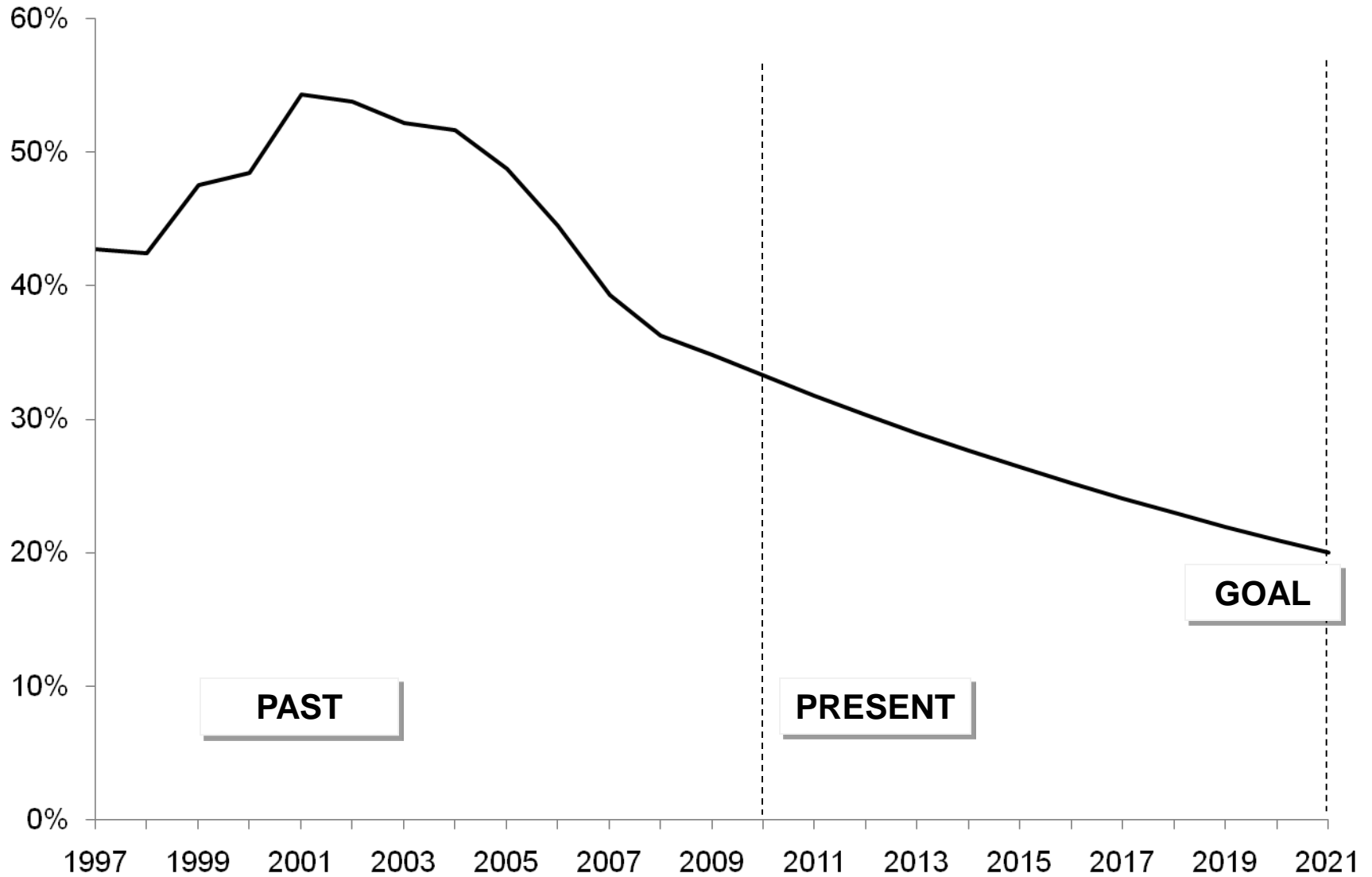
Note: PPP using Geary Khamis calculation methodology.

Source: Groningen Growth and Development Centre, Total Economy Database

Copyright 2010 © Professor Michael E. Porter

Peru will reduce its poverty level to 20 percent

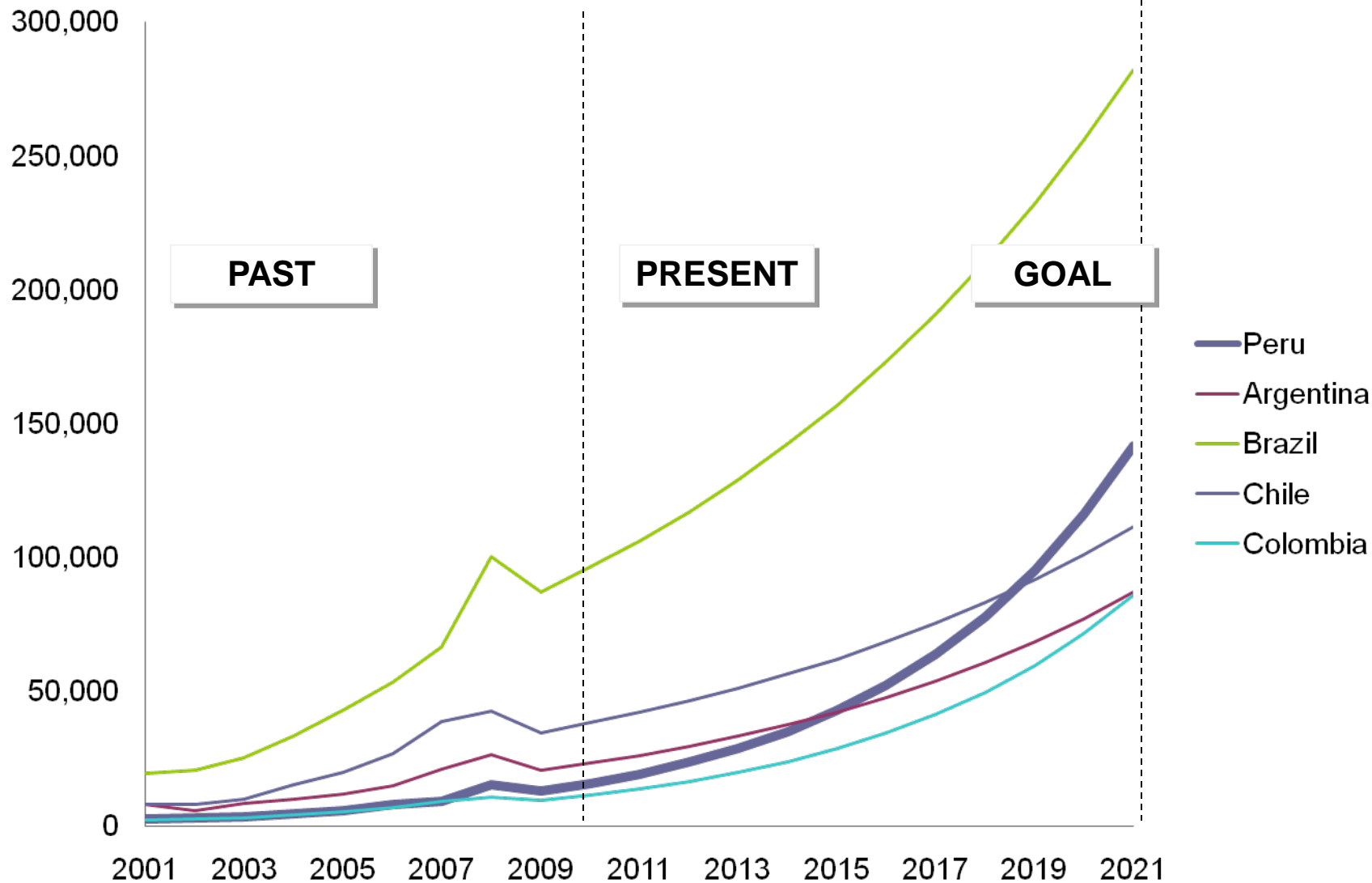
% of Population Under the Poverty Line



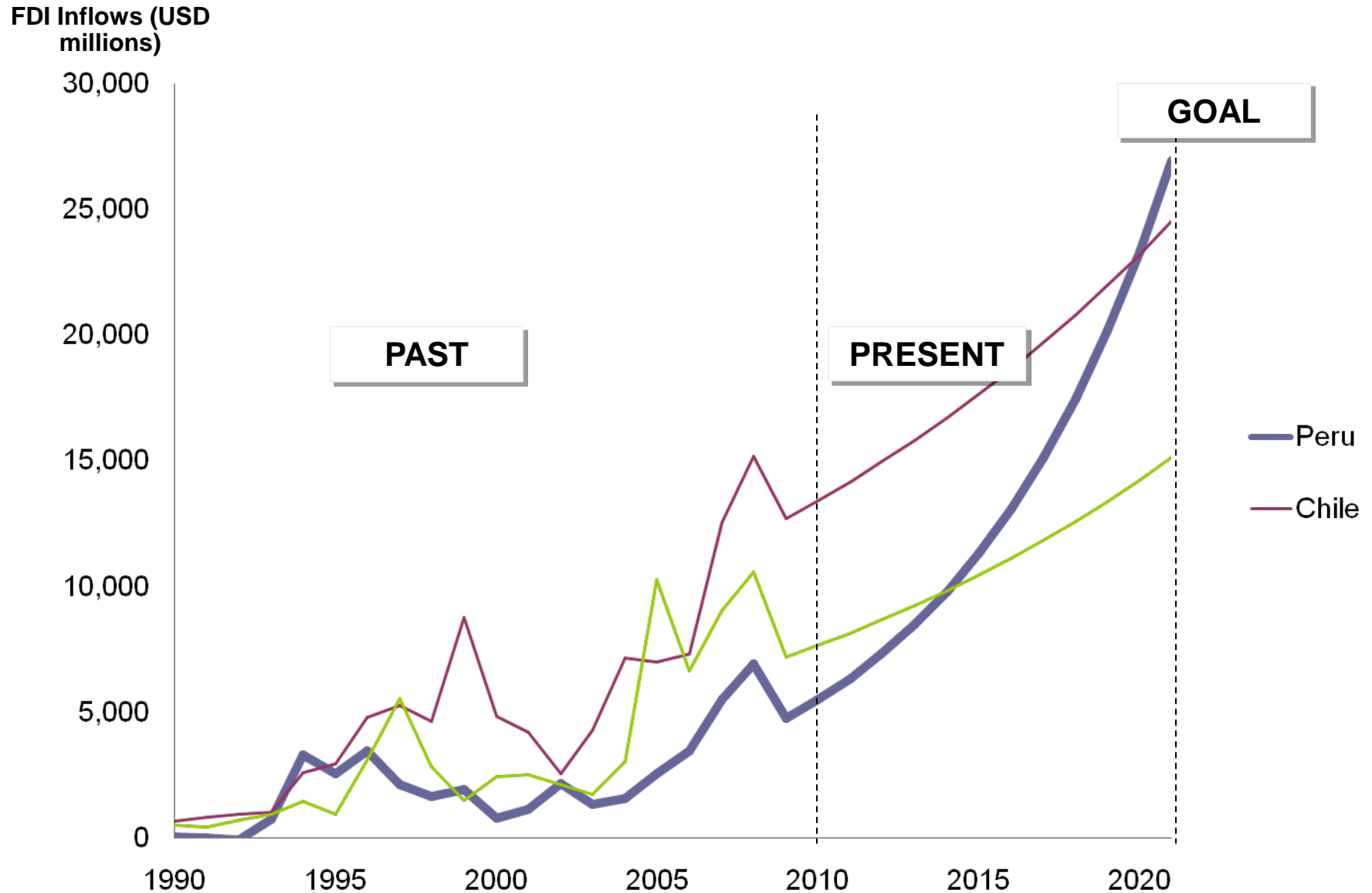
Source: Compendio Estadístico, Instituto Nacional de Estadística e Informática (INEI), 2010; own projections

Peru will be one of the top two South American countries in volume of trade with Asia

Total trade (USD millions)



Peru will be the first-ranked recipient of foreign direct investment among the countries along the South American Pacific coast



Eleven Goals for 2021

Education

- Peru will **pass from the third to the second tier** in the evaluation made by the OECD Program for International Student Assessment (PISA)
- All high school graduates will be **proficient in the English language**

Corruption

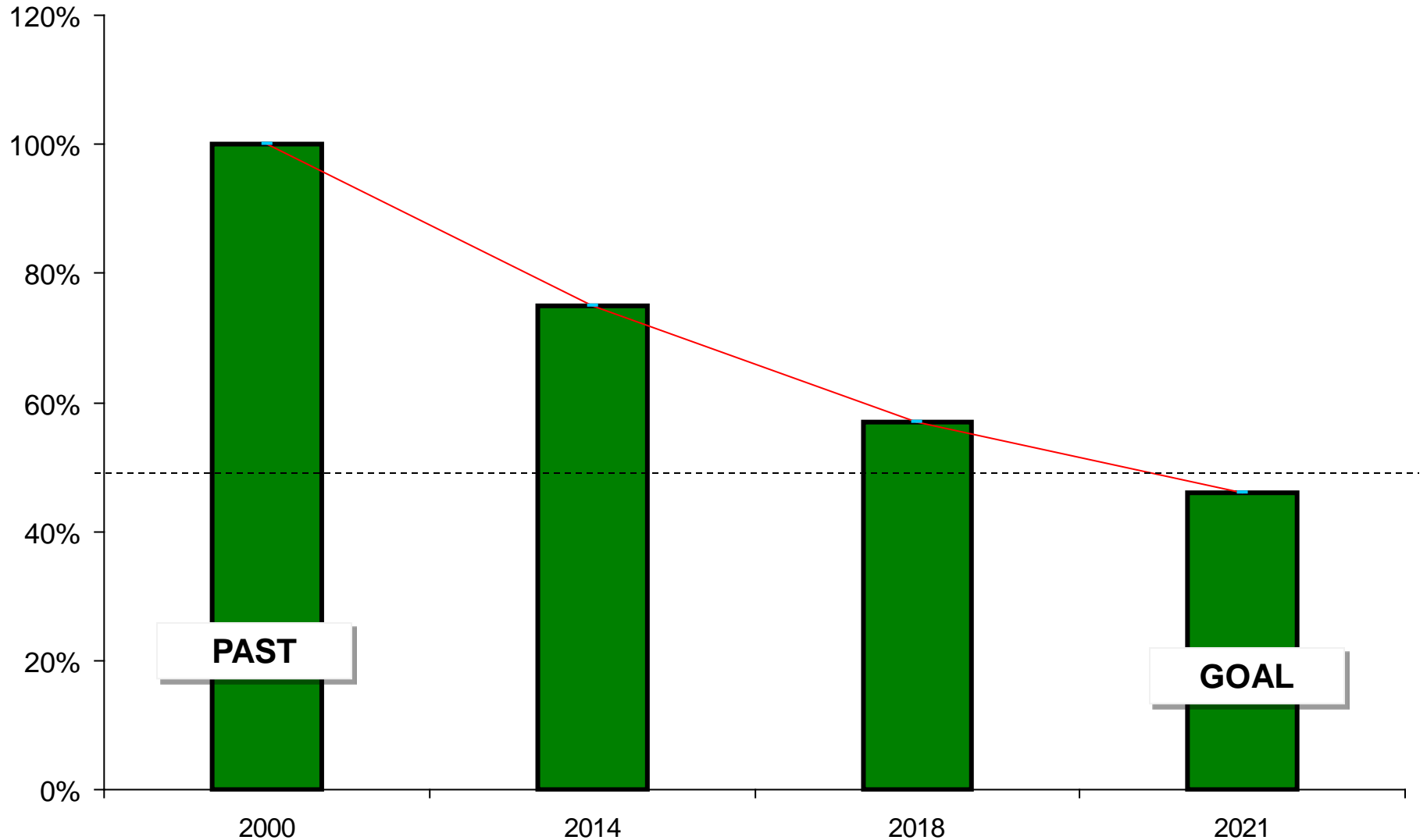
- The country will **pass from "mid-level" to "low-level" for corruption** in the region, as measured by Transparency International's Corruption Perceptions Index

Cluster Development

- Peru will adopt a **cluster-based strategy for development**
- Peru will **upgrade and develop well-established clusters** in mining, tourism/gastronomy, fishing, agribusiness, and manufacturing

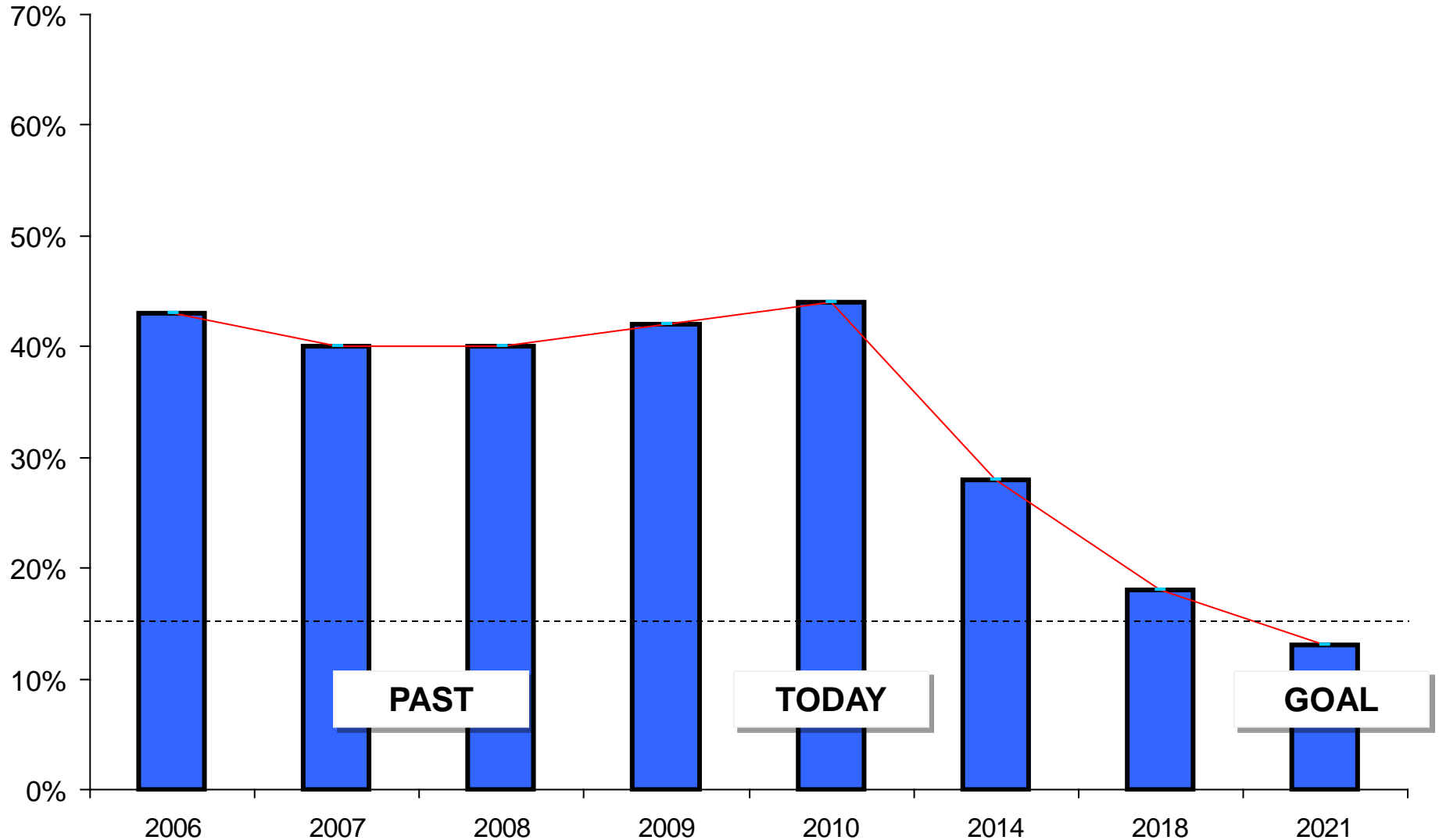
Peru will pass from the third to the second tier in the evaluation made by the OECD Program for International Student Assessment (PISA)

% of top countries
(out of 65 countries)



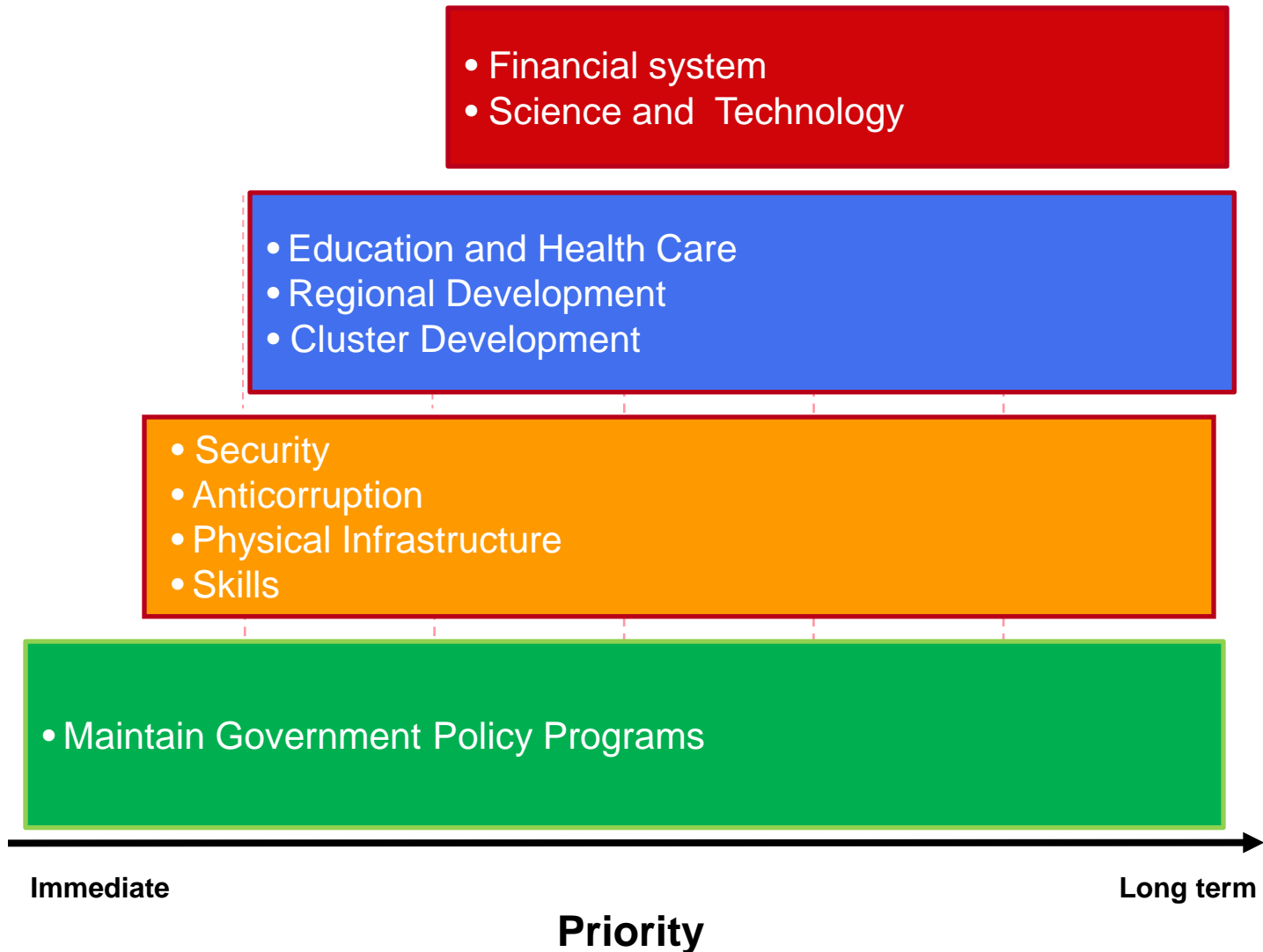
Peru will pass from "mid-level" to "low-level" for corruption in the region, as measured by Transparency International's Corruption Perceptions Index

% of less corrupted countries
(out of 180 countries)



Source: Transparency Report. 2010 Corruption Perception Index. Authors calculations

Implementation Strategy: Sequencing of Policies



Implementation Peru's Economic Strategy:

Organizational Structure

- Reinvigorate the **Peruvian National Competitiveness Council** (NCC) to coordinate economic strategy and implementation
 - Chaired by the Prime Minister
 - Set within the Prime Minister's office
 - Membership by all involved ministers and government officials
 - Secretariat responsible for agenda and accountability
- The NCC should have an **appropriate budget** and a **well-trained and qualified staff** for technical support
- **Representative university and civil society leaders** should be formal members in the NCC
- **Private sector participation** in economic policy should be coordinated by a Peruvian Private Competitiveness Council (PPCC)

Summary

- Peru has made significant progress towards becoming a **prosperous economy** and a **better society**
- Peru has **many assets**, and already made **important policy choices** towards a better future. The results over the last few years are a clear validation of this course

BUT

- There is **much more to do**
 - Many parts of society and regions of the country have not **fully participated** in the country's recent growth
 - Many dimensions of competitiveness **remain weak** and have to be improved
- The proposed strategy outlined here offers **an ambitious but realistic plan forward**

It defines clear priorities, identifies concrete action steps, and sets measurable objectives



- **Change will occur only if consensus builds** within Peru
 - The process **needs to continue**