ESID Working Paper No. 79

Mining, political settlements and inclusive development in Peru

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May 2017

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Abstract

This paper examines how economic and political factors have influenced mineral extraction, governance and development in Peru since the late 19th century. It argues that the legacies of the past have weighed heavily in contemporary mining governance, but also points to moments in which shifting political alliances and agency aimed to alter past legacies and introduce positive institutional change.

The authors identify three historical periods characterised by relatively stable arrangements for the distribution of power, each with implications for state-building and extractive governance. For the most recent period (post-2000), they discuss how the response of democratic governments to socio-environmental conflict has included the creation of institutions to redistribute mining rents, regulate environmental impacts and promote indigenous participation. However, they argue that political instability and fragmentation have inhibited the effectiveness and legitimacy of these institutions and of longer-term policymaking in general, which in turn helps explain Peru's persistent reliance on natural resource extraction and the challenges to more inclusive and sustainable development.

Keywords: Peru, mining, political settlements, inclusive development, extractive industries, neoliberalism

Sanborn, C. A. and Hurtado, V. (2017) Mining, political settlements and inclusive development in Peru. ESID Working Paper No. 79. Manchester, UK: The University of Manchester. Available at www.effective-states.org

The background research for this paper was funded by the Effective States and Inclusive Development Research Centre (ESID), based at The University of Manchester, UK. This document is an output from a project funded by UK Aid from the UK government for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of, or endorsed by the UK government, which can accept no responsibility for such views or information or for any reliance placed on them.

Introduction

When one examines the history of Peru, the last thing that comes to mind is a stable order or settlement. 'Pendulum', 'labyrinth', and 'kaleidoscope' are among the terms used by scholars to characterise Peru´s volatile political and social dynamics.[1] Since gaining independence from Spain in 1821, the country has had 12 constitutions and over 100 governments, while its economic system has run the gamut from extreme liberalism to statism and back again. A colonial legacy of violence, racism and corruption, combined with erratic primary export-led development, high concentration of wealth, and narrow domestic markets, generated patterns of economic inequality and social exclusion that were also reflected in the political sphere. Democracy with universal suffrage was not achieved until 1980, and successive popularly elected governments have only been in place since 2001.

The relationship between these negative outcomes and Peru´s historical reliance on natural resource-based exports, particularly large-scale mining, has been the subject of considerable debate. For years, scholars tended to blame Peru's erratic development on the perils of such dependency, and on the external economic shocks often associated with it (Thorp and Bertram, 2013). More recently, some analysts have shifted attention to the country's weak institutions, and to the lack of effective, broad-based political pacts behind them (Sanborn, 1991; Moron and Sanborn, 2007). Historically, Peruvian elites have been reluctant to construct stable alliances with broader sectors of the population, and have been unable or unwilling to build institutions that can govern the national territory, buffer external shocks, regulate natural resource extraction and invest in the delivery of collective goods (Schmidt, 2004; Paredes, 2013).

Within this history, however, there have been periods of conflict and realignment, in which new leaders or coalitions have promoted significant changes in the state, and in its relation to natural resource extraction and governance. These was the case in 1968, and again in 1992, when authoritarian rulers emerged in the midst of crisis to concentrate power, construct alliances with key actors, and change the prevailing economic models and institutions and their relationship to key export sectors. This has also been partially the case since 2001, as the return to democracy was accompanied by new forms of political decentralisation and innovations in the governance of Peru´s abundant mineral resources, in line with global trends. At the same time, this period is also marked by continuity of the liberal economic reforms undertaken during the previous decade (Sanborn, 2008; Muñoz, 2010).

As we examine this case within the comparative framework of the Effective States and Inclusive Development (ESID) project, we pose the following questions:

[1] See, for example, Gonzáles de Olarte and Samamé (1991), Cameron (1997), Schmidt (2004: 87-127) Tanaka (1998), Tuesta (1996), and Parodi (2002). Cited in Moron and Sanborn (2007).

- When have there been periods of political realignment and 'settlement', with a relatively stable balance of power between contending social groups or classes, as reflected in the institutions and policies of the state?

- How have such settlements shaped the governance and exploitation of Peru´s natural resources – and more specifically, its minerals – and in turn, how has this shaped the prospects for future settlement?

- How have the relationships between dominant elites, mineral extraction, and the State affected patterns of inclusive development over time?

These questions are addressed through the following five sections of this paper. In the first, we discuss the relevance to the Peruvian case of recent literature on political settlements, institutions, and inclusive development, as well as longstanding work on political pacts, regime transitions, and the so-called resource curse. We also define key concepts used in the rest of the paper. In Section II we present an analysis of Peruvian history in terms of these concepts, and address the first question above, identifying the main periods of settlement and change. Our second question is addressed in Section III, which examines the evolution of mining and the main forms of governance thereof, focused primarily on large-scale mining for export, but also mentioning the presence of artisanal and small-scale mining (ASM) operations. Section IV discusses the interactions of political settlements and mining governance, drawing out the cross-cutting factors that emerge in this case and examining the outcomes of these interactions for inclusive development in contemporary Peru. The paper ends with a summary of our answers to these questions and final reflections on this case.

In addressing these questions, the paper adopts both a historical and transnational perspective. We stress how the legacies of dominant elites and prevailing ideologies have weighed heavily in the nature of the state, yet also point to moments of opportunity in which shifting political alliances and agency aimed to alter such legacies and introduce institutional changes. For most of this history, the mining sector has been dominated by foreign firms. Hence our study also points to the power of transnational actors, especially multinational corporations and banks, but also other States and, more recently, transnational social movements.

This paper is based on the analysis of both primary and secondary sources. Given the historical scope of the study, we drew on extensive historical literature covering Peruvian politics and governance in the late 19th and 20th centuries, and analyse a broad array of published sources on issues related to mining governance and policies. For more recent periods, we draw on data produced by numerous government agencies as well as private industry associations,[2] and on major print media and specialised economics and mining publications. Ten intensive, semi-structured

[2] This includes specialised survey data produced by the National Institute for Statistics and Informatics (INEI), the Central Bank, National Tax Authority (SUNAT), INGEMMET, the ministries of Energy and Mines, Production and Culture, and the National Mining Society (SNMPE).

interviews with experts and policymakers were also critical to understanding more recent events.

I. How politics shapes development: A conceptual discussion

'Inclusive development' is a very broad term, but generally refers to an equitable distribution of social and material benefits across the diverse groups within a given society. As Hickey puts it, 'such benefits necessarily comprise not only material and economic gains but enhanced wellbeing and capabilities, as well as social and political empowerment' (2013: 3). This moves beyond a primarily economic definition of development to one that includes the achievement of equity and citizenship rights, and moves beyond an exclusive focus on poverty to one with broader goals of social justice.

What does inclusive development look like in a country like Peru? Clearly, it involves sustaining economic growth, accompanied by state capacity to tax private wealth and spend public revenues effectively. It also involves diversifying the economy to decrease dependence on a few primary export sectors, reducing poverty and inequality, expanding access to basic services for the majority of the population, and also expanding labour rights and social security. Politically, this means guaranteeing human and civil rights to all citizens, strengthening democratic institutions, and expanding participation at all levels of government. Furthermore, for development to be inclusive in a country with a large indigenous population, as in Peru, it should be multicultural, including by granting collective rights to communal lands and other resources, and respecting ethnic and cultural differences.[3] And in a country with such diverse but fragile ecosystems, it should also involve the rational use of natural resources, with effective regulation of the extractive industries and measures to protect the environment for future generations.

How might these outcomes be achieved? The ESID framework proposes to track the conditions under which state capacity and elite commitment to development are achieved and sustained, considering multiple variables such as intra-elite relations, coalitions and pacts, development ideologies, popular mobilisation, and the role of transnational actors (Bebbington, 2013; Hickey, 2013). This requires a fundamental understanding of the political dynamics that have affected the creation of institutions that might advance inclusive development. In addition, it involves not only the horizontal negotiations and bargains between elites, but also vertical relations between elites and their followers (Laws, 2012: 9).

[3]Peru has one of the largest indigenous populations in South America, yet their total numbers are difficult to measure. National census data do not include questions of racial or ethnic identity, only the maternal language of heads of household. Using this indicator, the last census, conducted in 2007, estimated the total number of indigenous people at four million or roughly 15.7 percent of the population (INEI, 2007; CEPAL, 2014). Alternative measures range from as low as 5 percent when only self-identification is used, to as high as 75 percent when taking into account ancestors, traditions and customs (Sulmont 2012). The Ministry of Culture has identified 55 main indigenous peoples, the largest being Quechua and Aymara, and over 51 smaller groups of Amazonian peoples (INEI, 2007; Ministry of Culture 2017b).

For the purposes of this paper, when we refer to 'elites', we mean the minority of individuals or groups that hold resources which allow them to exercise control over the state, and, more generally, on the establishment of political settlements and the corresponding distribution of assets and rights in society. Such resources are often economic (land and financial or industrial capital, held nationally or transnationally), but may also be intellectual (technocrats, think tanks, mainstream media) or coercive (in the case of military elites, control over the organised use of force) (Hickey, 2013: 3, 4; di John and Putzel, 2009: 15). Such elites and the sources of their power change over time. Within the framework of this project, it is important to identify periods when certain actors accumulate enough power from outside the dominant coalition to either provoke its breakdown or force a transition and analyse to what extent this leads to new agreements and policies that affect inclusive development.

The work of Terry Karl (1997, 1986), Michael L. Ross (1999), Anthony Bebbington (2013), and others reminds us that in countries highly dependent on natural resource extraction, the role of this activity *per se* must be taken into account when examining the evolution of politics and the prospects for inclusive development. However, while extraction may distort the incentives of political and economic elites in various ways, it is also through politics that the revenues resulting from such activity can be channelled towards more desirable results. How can this be done? Some recent 'institutionalist' literature argues that if countries like Peru did not create inclusive politics and effective states early, it may be extremely difficult to avoid erratic and inequitable development outcomes (Aceglomu and Robinson, 2012; Slater and Soifer 2010). Yet research and debate on democratic consolidation (Munck and Snyder, 2007; Schmitter, 1992; Schmitter and Karl, 1991), as well as that of authors such as Bebbington (2013), and Orihuela (2013) – who look specifically at mining countries – argue that a country can also build such institutions at later stages under certain conditions.

This work thus indicates that there are at least two routes to alter the balance of power: (1) social mobilisation, which can drive those in power to make positive institutional innovations, or can change the very balance of power (Tilly, 1978; Mahoney and Thelen, 2010; Bebbington, 2013), or (2) linking to transnational actors and 'epistemic communities', which transmit new ideas and incentives for institutional reform (Haas, 1992; Orihuela, 2013). These routes may be related, but it is important to disaggregate them analytically. In the case of transnational actors, some may exert more coercive power over national elites, even pushing in a way to undermine prevailing settlements. Others work through peer networks and voluntary forms of engagement, and still others by informing and empowering local grassroots activists. In the case of social mobilisation, which has expanded in Peru since 2000 when compared to the 1990s, transnational activists and donors have supported a number of environmental and social policy reforms. Yet this support has not helped to overcome the fundamentally fragmented and localised nature of much social movement and protest in Peru, and the inability to forge a movement or alliance capable of significantly changing the country´s current development path (Remy, 2005; Panfichi, 2011).

When we refer to 'political settlements' in this paper, we refer to 'rolling agreements between powerful actors' (Parks and Cole, 2010: viii) that usually refer to informal power pacts, rather than formal and public ones. Such arrangements do not guarantee a stable social order, but do help to resolve or reduce high levels of political conflict and violence, and attain a minimum of political stability and economic performance (ibid; also Laws, 2012; Schünemann and Lucey, 2015; Khan, 2010). Yet, because they involve managing the uneasy relationships between elite interests and the broader array of interests and needs in society, there are ongoing processes of conflict, negotiation and compromise, which the ruling coalition attempts to shape and control (Parks and Cole, 2010: 5). A political settlement remains operative to the extent that it is 'underpinned by a viable combination of institutions and a distribution of power between organizationally powerful groups in society' (Khan, 2010: 20).

Within this framework, the argument in this paper can be summarised as follows. There are three broad periods that we identify in the Peruvian case as 'settled', in terms of having relatively stable institutional arrangements that have been crucial for the development of economic policy models and the distribution of holding power among key actors – this being defined as 'the capability of an individual or group to engage and survive in conflicts' (Khan, 2010: 6). These are the very long period of oligarchic predominance (1895-1968), a second period we call statist (196890), and the neoliberal period which dates from the early 1990s. Each of these periods is reflected in particular patterns of state building and economic models, as well as governance of mining and related extractive industries. However, in the face of global market forces, and with pressure from new ideological trends and mobilisation from excluded actors, each settlement lost strength and eventually became radically altered.

Transnational actors have been influential across this history, but as we will see, their roles have also changed over time. They have limited what parties to the settlement can do within national institutions, and they have also at certain times helped to undermine a settlement. Local and regional actors, including mayors and other community-based leaders, have not been part of the ruling coalition in the three settlements identified, or have played a marginal role. They have not forged stable alliances with the national political elite, and have encountered resistance to the projects they desire to roll out, or to their efforts to modify investment priorities that come from the capital city, Lima. The power of these sub-national elites lies in their protest capacity, rather than their ability to influence the prior definition of state priorities. This scenario is exacerbated by the fractured character of competitive politics, meaning local leaders have few party channels through which to express voice, allowing Lima-based technocrats operating in the state to define institutional arrangements.

II. A history of political settlements and change

As noted above, we have identified three 'settlements' – understood as periods defined by a relative balance of power between contending social groups that influence the reproduction of institutions, including those associated with mining governance: the oligarchical, statist and neoliberal settlements. In each case, realignments eventually occurred due to social conflict and mobilisation, the changing composition of political elites, or both. We will discuss each settlement in turn.

A. Oligarchical rule and foreign capital domination (1895–1968)

Upon gaining its independence from Spain in 1821, Peru was characterised by a weak central state and limited capacity to control its national territory and sustain economic development. The early years of independence were marked by enormous instability, with powerful leaders (*caudillos*) and their associated 'client-groups' divided among themselves, and fearing that the indigenous people would stage a rebellion in reaction to their dispossession from native lands, subjection to forced labour, and heavy tax burdens (Paredes, 2013). In addition, new political authorities were often willing to cede economic power to foreign interests, including British commercial houses, bondholders and foreign contractors competing over access to lucrative deposits of nitrates in the form of *guano*, or accumulated excrement of seabirds on islands off the Peruvian coast, which was widely used for fertiliser (Thorp and Bertram, 2013; Hunt, 2011; Slater and Soifer, 2010; Paredes, 2013).

The lack of a unified nation and strong ruling coalition is associated with Peru´s loss of major southern territory, rich in these nitrates, to neighbouring Chile in the War of the Pacific (1879-83). It was in the wake of the crisis following this war that Peru attained the first semblance of a stable order: the 'Aristocratic Republic' (1895-1919). This period was characterised by a dominant oligarchy with a liberal economic orientation and elected civilian governments, although with highly restricted suffrage and personalist elite parties. In this period, we see an expansion and diversification of exports, including oil, copper and silver, with significant presence of foreign investors, especially from Britain, Germany and the United States.

In 1919, the Aristocratic Republic gave way to a long period of authoritarian rule under President Augusto Leguía (1919-30). Here there were important efforts to strengthen the state bureaucracy, including the creation of the Central Bank and the Bank of Agricultural Credit, and the construction of large irrigation and transportation infrastructure, mainly on the coast. Leguía also gave legal recognition to indigenous communities in the constitution of 1920, and created a central government agency for Indigenous affairs (the *Dirección de Asuntos Indigenas)*. However, the land-based oligarchy retained enormous holding power over the state and continued to control large expanses of national territory. Hence, despite its pro-Indigenous discourse, this administration adopted laws that forced thousands of indigenous men into mandatory unpaid labour in road building, while semi-feudal working conditions under large landowners in the highlands persisted.[4]

[4] The Law of Highway Conscription, in 1920, mandated that all men ages 18 to 60 were required to do unpaid roadwork for a certain number of days per year. Only a few could buy their way out of this obligation (Contreras and Cueto, 2009).

This regime also accelerated Peru´s opening to foreign capital and control. Leguía incurred huge debts to US banks to cover the costs of his public works, and engaged US advisors in strategic areas, while allowing widespread corruption to persist. British owners of the Peruvian Corporation were given control over the railroads in perpetuity. The Great Depression of 1929, however, affected the economy significantly. Workers and emerging urban middle classes were hit hardest by the increased cost of living and a scarcity of basic goods, leading to an increase in labour protests. In 1930, Leguía was forced to resign by a military coalition led by Commander Luis Sánchez Cerro, who subsequently won election to the presidency in 1931 by a narrow margin that was challenged by the main opposition party, APRA.

During its first 100 years as an independent nation, therefore, Peru had an economy that was primarily liberal in orientation and, after recovery from the War of the Pacific, was oriented towards a variety of primary commodity exports. National power was largely in the hands of a coastal oligarchy, supported through a prevailing consensus with highland landowners, or *gamonales*, and acting as intermediaries for foreign capital (Burga and Flores Galindo, 1979; Klaren, 2004). Large sectors of the population continued to be excluded from full civil rights, as well as from the benefits of export booms, including the indigenous people and expanding urban working classes.

Due to the expansion of cities, from the 1930s onward Peru saw the expansion of modern trade unions and of two mass-based political parties that operated more or less clandestinely: the American Popular Revolutionary Alliance (APRA) and the Socialist Party. As the political and economic power of the United States expanded significantly in Latin America after the 1930s, both parties were critical of US imperialism and of the presence of foreign corporations operating largely as enclaves in Peru. However, the APRA would eventually ally with a sector of the economic elite and US interests in the context of the Cold War, while the Socialist Party would become the pro-Soviet Communist Party after the death of its founder, José Carlos Mariátegui.

During the Depression years, the international context was less favourable for large-scale foreign investment in Peru. The contraction of external demand led governments to offer greater impulse to national industry, in the context of expanding middle classes and an internal market, and expansion of public services such as health and education (Contreras and Cueto, 2009; Thorp and Bertram, 2013). In this period, small and medium-sized mining companies with national capital began to develop more projects. However, progress towards economic diversification was limited, and foreign capitalists remained in control of large-scale mineral operations. Mass-based politics were also largely repressed or controlled, except for a brief ‘democratic spring’ (1945-48), in which a civilian president was elected in alliance with the APRA, but quickly deposed by a military coup and a new coalition, led by General Manuel Odría, that gave strong emphasis to foreign investment, especially in mining (Portocarrero, 1983).

By the end of the 1950s, however, the elite consensus for economic liberalism with foreign domination of leading export sectors began to face greater challenges. The

APRA and the abovementioned Communist Party would be joined by other nationalist and reform-oriented parties, and by more radical Left groups and guerrilla movements inspired by increasing peasant demands for land reform, as well as by the Cuban revolution and other Third World experiences. The 1963 election of Fernando Belaunde of the moderate Acción Popular (AP) party appeared to signal a new political realignment in favour of democratic reform and economic modernisation within a capitalist economy. However, this promise failed in the face of strong opposition from a pragmatic alliance between right wing, pro-oligarchic forces grouped in the Union Nacional Odriista (UNO)[5] and the APRA party leadership in Congress. By exercising veto power over public spending, the APRA-UNO alliance tied the executive´s hands. Meanwhile, peasant organisations impatient with the slow pace of land reform began to forcibly take over lands in the Andean highlands, with support from leftist guerillas, and the army was sent to brutally repress them (Klarén, 2004).

In a global context marked by increasing demand for energy and the creation of the Organization of the Petroleum Exporting Countries (OPEC), Peru´s oil reserves remained in the hands of US corporations, and became the object of considerable popular demand for more national control. Belaunde´s modernising project included an historical agreement to take back control of the country´s northern oil fields from the US-owned International Petroleum Company (IPC), known as 'The Act of Talara', which was signed in 1968. However, the lack of transparency in negotiating the deal became the breaking point for this administration. In 1968, a group within the military led by General Juan Velasco Alvarado distanced itself from oligarchic interests and took power into its own hands, installing the Revolutionary Government of the Armed Forces (Stepan, 1978; Collier, 1979).

Although this section covers a very long period of time, from 1895 to 1968, we have opted to consider it as one overall political settlement; in terms of the prolonged economic and especially political power of the landed oligarchy, its hold on key institutions, and its ability to block social and political reforms. It is also a period in which the prevailing ideas about development, held by the elites in power, largely prioritised primary exports, including minerals, and largely in the hands of transnational firms. Yet we do also point to changes in this period, in terms of the growth of a state apparatus and emergence of new political and social actors contesting for power, especially during the sixties, with alternative ideas focusing on strengthening internal markets and greater national control over key exports sectors. Such actors would become dominant after 1968.

B. Statism and accelerated social change (1968–90)

The Revolutionary Government of the Armed Forces (GRFA) initiated a dramatically distinct political settlement. It differed from previous military regimes in Peru, in that its leaders enjoyed a high level of autonomy from oligarchic interests and espoused a

[5] The UNO was a party created by former dictator Manuel Odría (President 1948-56) and linked to sugar and cotton barons. Its alliance with APRA allowed for an opposition majority against Belaunde from 1963 to 1968 (Manrique, 2009).

developmentalist agenda and a desire to dramatically reduce Peru´s dependency on foreign states and capital (Cleaves and Scurrah, 1980). Most contending political elites were ousted from power and the regime´s major reforms were imposed from the top down by military leaders and a new team of associated technocrats (McClintock and Lowenthal, 1983: 246-248; Dargent, 2015).

Ruling out elections and political parties, they proposed instead a corporatist model of political inclusion with organised participation along class lines, involving peasant communities, trade unions, progressive Catholics and former members of the APRA and the Marxist left who had been excluded from national politics. As various authors have pointed out, the GFRA eliminated the landed oligarchy as a political force, reduced the political and economic weight of foreign capital, and made enormous efforts to strengthen the state apparatus as well as its role in the economy (McClintock and Lowenthal, 1983; Cotler, 1995; Sanborn, 1991). Mining, hydrocarbons and other productive sectors were nationalised; import-substitution industrialisation (ISI) policies were pursued by encouraging domestic banking and industrial groups to expand their presence in the economy while restricting foreign ownership; and Peru sought leadership in diverse Third World and non-aligned fora.

The global context for this 'Peruvian experiment' was initially favourable, given the rise of other progressive and radical regimes in the region and the emergence of numerous South–South efforts to empower developing country commodity exporters. Peru was active in OPEC in the 1960s, and was a co-founder of the Intergovernmental Council of Copper Exporting Countries (CIPEC), along with Zambia, Zaire and Chile (Hinfelaar and Achberger, 2017). As with other countries in this study,[6] the Cold War and the global flow of 'petrodollars' gave Peru bargaining power vis-à-vis international financial institutions, and the banks made large loans against projected oil revenues, despite the authoritarian nature of the regime (Stallings, 1992; Guasti, 1985).

Ultimately, however, the military´s pursuit of social inclusion through an autocratic regime failed to meet its own objectives. It did not eliminate poverty or social inequality, and instead of eliminating social conflict, it fostered new and more powerful mobilised forms of opposition. Furthermore, as in Ghana, Peru and Bolivia, the global economic crisis of the 1970s placed an enormous strain on the country as it faced rapidly falling revenues from the mining and hydrocarbons sectors, and growing foreign debt. This situation was aggravated due to mismanagement and corruption affected in diverse sectors, and people expressed their disenchantment with the austerity measures that the regime began to introduce.

In 1975, an internal coup replaced Velasco with the more conservative General Francisco Morales Bermudez, and harsher repression of labour and popular protests ensued. Important social actors who were considered part of the political settlement under Velasco were eventually excluded by the generals under the new ruling junta

[6] See Hinfelaar and Achberger (2017); and Abdulai (2017).

(Sulmont, 1980). Strikes and protests in opposition to the junta culminated in a major national strike in July 1977 and the decision by the military to retreat from power (Sanborn, 1991). This retreat was negotiated from the top down, between the generals, leaders of APRA, and moderate right-wing parties. Although the Peruvian state emerged from this period larger in scope and less dependent on the United States and other foreign powers, it was also deeply in debt, and as a result the International Monetary Fund (IMF) and Peru´s numerous creditors would continue gaining power over the country throughout the 1970s and 1980s (Stallings, 1992).

The political legacy of the military regime was a shift towards the Left in the political spectrum, with a renovation of the APRA as a centrist force and the emergence of a host of new Marxist parties. Having failed to establish a stable form of authoritarian rule, however, the military opted to initiate a process of transition to democracy. This included an elected constituent assembly, in which leftist parties held nearly a third of the seats, which in turn produced a new constitution in 1979. The constitution reflected considerable agreement among military and civilian elites in favour of a stronger state and executive branch than in the 1960s, but also contained a broader array of rights and freedoms than the military desired.

In 1980, former President Fernando Belaunde and his *Acción Popular* (AP) party were elected back into power, forging an alliance with the more conservative *Partido Popular Cristiano* (PPC) to have a majority in congress and share cabinet posts. Yet the popularity of this centre-right alliance was transitory and plummeted as the economy slid into a worsening crisis. Continued efforts to impose austerity measures designed by the IMF and implemented by a group of liberal technocrats produced widespread protests (Dargent, 2015: 91). Despite their international ties, these technocrats (dubbed *'Grupo Dynamo'*) faced the constant challenge of negotiating with President Belaunde and the more populist wing of his party. As a result, the fundamentally statist nature of the national economy remained through the 1980s (ibid.).

Why did the transition to democracy after 1980 not result in a new and stable political settlement? Part of the answer can be attributed to external economic constraints, coupled with policy incoherence resulting from internal pressures between neoliberals and populists (Dargent, 2015). Yet the explanation also lies in the process of political negotiation that took place as the military withdrew from government. The new democracy was challenged on one hand by military leaders, who retained an enormous degree of power and impunity, and on the other by new leftist parties that continued to denounce 'bourgeois democracy' – some of them leaving open the option for armed struggle until well into the decade. The new regime was also challenged from the start by the Maoist splinter group, 'PCP-Shining Path', insurgents who operated through force and terror, building power in territories and spaces (such as universities and public schools) where the central state had long neglected the population (CVR, 2003).

In 1985, the country elected a young reformist president, Alan García of APRA, who proposed to lead Peru out of crisis, restore peace, and construct a 'more social form of democracy' with support from European socialists and other allies (Sanborn, 1991). The Marxist United Left front was the second most powerful political force in the country by this time and leaders of the two parties coincided on various policy goals. García´s initial strategy was to defy the international banks, with a moratorium on debt repayments, while negotiating with a handful of top business leaders for an economic recovery plan that involved their commitment to new investments in the country. When these leaders did not respond as expected, he turned on them and attempted to nationalise the private banks, provoking a schism in his own party and a new neoliberal protest movement (*Movimiento Libertad*) led by writer Mario Vargas Llosa and joined by some business leaders and young urban professionals. In this period, foreign investment fell to minimal levels, the country entered a dual spiral of political violence and hyper-inflation, and Peru became largely isolated from the global financial system.

C. Neoliberalism in two stages (1990–2016)

C.1 Stage I – Neoliberalism and competitive authoritarianism

In 1990, political outsider Alberto Fujimori was elected president of Peru. Running against Vargas Llosa´s strongly neoliberal platform, Fujimori initially marked a difference by promising to *not* to privatise state enterprises or undertake other market liberalisation measures, and his first cabinet included prominent figures from the moderate Left. Yet, within six months in office, he ditched his leftist allies and brought on a team of neoliberal advisors, drawn from and funded by the World Bank and other international financial institutions, as well as sectors of the Peruvian business community and the ranks of *Movimiento Libertad* (Wise, 2003). Being close to the president, these 'técnicos' progressively gained significant autonomy from congress and the competitive political system, and focused on the creation of a stronger Ministry of the Economy and other market-friendly institutions (Dargent, 2015; Orihuela, 2013).

Throughout the 1980s, the PCP-Shining Path gained presence in remote areas of the Peruvian Andes and Amazon, where poverty was widespread, public services and infrastructure were minimal and the state had little presence or authority. Through a combination of political mobilising, coercion and terror, the group gained control in large parts of the country, and by 1990 much of the country was under states of emergency, with restricted civil liberties and shared political-military commandos.

In order to pursue structural adjustment and combat the PCP-Shining Path more aggressively, and without any signification opposition, Fujimori opted to forge an authoritarian coalition with military officers and key leaders of private business, staging a 'self-coup' in 1992 that included temporarily shutting down congress, intervening in the judiciary, and censoring the major media. These measures were accepted by a majority of Peruvians living in a context of political violence and extreme economic instability.

Pressure from the Organization of American States (OAS) and international human rights organisations led Fujimori to maintain spaces of political competition, however, including a constituent congress that produced a significantly more liberal constitution in 1993, in which the state was limited to a subsidiary role in the economy.[7]

The dramatic realignment instigated by Fujimori led to what we consider a new political settlement in Peru, in which powerful elites coalesced around pro-market economics and the radical reopening of the economy to international competition. Two-and-a-half decades later, there are still few political contenders who question the decision to return the most productive sectors of the economy to private hands, and virtually none with real power that propose reestablishing state-owned enterprises in mining or other key export sectors.

Another important characteristic of the settlement that emerged in the 1990s is the centrality and political power of technocrats, who acted as ideologues and agenda setters as they drafted and implemented public policy. Although both the military and prior civilian governments had employed technical advisors, they tended to have diverse partisan loyalties, and ultimately it was the generals or the politicians who remained at the forefront of policymaking. Success with stabilisation in the 1990s, however, allowed technocrats without strong party ties to expand their influence in cabinet-level positions (Wise, 2003; Abusada et al., 2000) and to '[launch] more ambitious market reforms that transformed the state and structure of the economy' (Dargent, 2015: 98). Concentrated in the Ministry of the Presidency and the Ministry of Economy and Finance, they tended to come from a small group of private universities, and were supported by a network of new thinktanks and consulting firms (Wise, 2003: 238-39), created by private business interests with funding from the World Bank and USAID (Dargent, 2015: 139).

Neoliberal reformers argued that deregulation of labour markets would encourage employers to join or remain in the formal sector, by lowering the costs of hiring and firing workers (Chong, Galdo and Saavedra, 2007: 11-12). However, the share of informal sector labour actually expanded during this period, while trade unions were broken or discouraged. Privatisation and deregulation also created sustained problems with quality and safety in such vital sectors as public transportation and basic and higher education, and did little to expand access to social security for the majority of Peruvians (Bielich, 2009: 29; Pasco-Font and Torero, 2001).

C.2 Stage II: Neoliberalism, democracy and decentralisation

In 2000 President Fujimori fled the country and resigned from Japan after revelations of major corruption in his administration and the military reached the independent media. Yet the pattern of technocratic governance instigated during the Fujimori years survived his downfall and the return to a more democratic regime, thanks to a seriously weak and fragmented party system, debilitated trade unions and popular organisations,

[7] The Fujimori regime after 1992 has been called 'competitive authoritarianism', because elections were held without major fraud and there were spaces for political opposition in the new congress, local governments, and a sector of the media (Levitsky and Way, 2010). The 1993 constitution remained in place by democratically elected governments after 2000.

and a lack of strong ideological leadership. This power vacuum served to further empower the new class of technocrats, who ironically shared a hostility to the state with administrative knowledge thereof (Vergara and Encinas, 2016). Hence we argue that the return to democracy did not represent a totally new political settlement.

The post-Fujimori period has been characterised by sustained economic growth fostered in part by strong mineral prices and production. Yet it has also been characterised by high levels of social conflict and a limited legitimacy of the so-called 'political class' and democratic institutions (Panfichi, 2011; Crabtree, 2011). Peru´s elected presidents since 2001 – centrist Alejandro Toledo (2001-06), centre-right Alan Garcia Perez (in his second term, 2006-11) and centre-left Ollanta Humala (2011-16) – have had no real social support bases to rely on and have been unable to build them from above, despite expanding budgets and social programmes. This is reflected in public opinion polls and in the inability of their parties to run credible successors or retain an important congressional base (Dargent and Muñoz, 2012).

In this period, the power of private corporations – notably those related to extractive industries, telecommunications and banking – has been exhibited not only at the level of national policy, but across society. During the 2000s, business leadership associations and lobbies continued to be outspoken in their demands on government, and for the most part in their support for continuing with an economically liberal policy direction with priority placed on primary commodity exports. Successive Peruvian governments have strongly encouraged the movement towards corporate social responsibility (CSR) and have given incentives to private companies to provide essential public goods and services in their areas of operation (Sanborn, 2008). This has been questioned by critics, who point to the risks of giving private actors greater responsibilities for public functions and potentially undermining, rather than reinforcing, government capacity (Perla, 2012; Arellano-Yanguas, 2011).

This description suggests continuity in the longstanding history of concentration on primary commodity exports to drive economic growth and generate rents for the state. This creates asymmetries of power in favour of the world´s most powerful corporations and their national partners in Peru. Yet, in other ways, the post-2000 period represents a new stage in Peruvian politics – the longest uninterrupted period of democratic government to date, with a wider variety of domestic and international actors vying for power and new channels for local participation and contention that have placed new claims on the political agenda, including environmental regulation and respect for indigenous rights. This is undeniable, even if official discourse and policies have not been consistent. The extent of change and continuity in this period is discussed further in Section III, in regard to the role of mineral extraction and governance, and in Section IV in regard to the state and political dynamics.

III. Mineral extraction and governance over time

As we have seen, Peru´s economy has been fundamentally tied to the export of primary commodities as generators of revenue for the state, and minerals have been the leading sector for much of this history. Peru is one of the world´s leading mineral producers, with major deposits in copper, gold, silver, zinc and lead, as well as other resources. Since 1960, mining products have accounted for over half of total export value and up to a quarter of total tax revenues (see Appendix I). For most of this history, large-scale mining operations have been privately owned and dominated by foreign capital, with the exception of two decades under state-owned enterprises, in the 1970s and 1980s.

In this section, we shift from an analysis of Peru´s overall history of political settlements and change, to a discussion of the changing nature of mineral governance and extraction in each of these periods. The objective is to discuss how or to what extent the political settlements shape the governance of mining, and how this in turn shapes the prospects for future settlements.

A. Foreign capital domination (1895–1968)

At the end of the 19th century, silver mining in the central and northern highlands of Peru was mainly in the hands of national owners, and this activity helped Peru recover from the impact of the War of the Pacific (1879-83). Nevertheless, fluctuating international prices and the change of currency pattern from silver to gold eliminated the principal domestic market for national silver producers (Thorp and Bertram, 2013). Thereafter began a process of denationalisation, which coincided with the emergence of copper as an internationally demanded mineral, the production of which required major injections of capital and technology, which neither local entrepreneurs nor the state could provide (Deustua, 1995; Portocarrero, 2013).

Denationalisation was also encouraged by direct government policies and liberal-oriented national elites, and facilitated by innovations in intercontinental sea transport and the construction of railroads to the most important mining centres of the central highlands (Miller, 2011). A liberal new mining code in 1901 equalised conditions for foreign and national investors, gave investors property rights over land and subsoil resources (eliminating a 350-year-old Spanish colonial tradition of state ownership of the subsoil), and ratified a tax freeze for all export-oriented activities (Becker, 1983). This was aimed at providing security to private investors, after years in which warring *caudillos* used state power to obtain resources through expropriation (Interview 03, 2016 ; Contreras y Cueto, 2009: 208).

As a result of these measures, the US-owned Cerro de Pasco Mining Company (CPMC) accumulated significant economic and political power through the purchase of existing small- and medium-scale mines from local investors and huge expanses of land from Peruvian owners, as well as buying shares in other mining companies and smelting plants, and participating in the construction of a rail route from the mines in 1904. This enormous accumulation of power and capital by CPMC made it difficult for successive governments to regulate the firm´s activities (Klarén, 2004; Thorp and Bertram, 2013).

After a period of rapid growth of mineral production between 1895 and 1929, the bonanza came to a halt with the Great Depression (Seminario, 2014). However, production by foreign mining firms remained important to the country, going from 97 percent of total mineral exports in 1929 to 79 percent in 1939 (Thorp and Bertram, 2013). During this period, domestic capitalists began to exploit other minerals that were gaining in importance over copper: first gold and then lead and zinc. Along with commercial fishing and cotton production, this primarily medium-scale mining helped to boost economic recovery. The resurgence of domestically-owned mining was supported by the state through a series of measures, including preferential access for Peruvians to non-concessional gold deposits (until 1936), the creation of a national Mining Bank in 1941 to provide credit to Peruvian miners, and the introduction of price and import controls (Dore, 1986; Orrego 2012). During this period, Peru also saw an initial phase of expansion in artisanal gold mining along riverbanks in Cuzco, Puno and Madre de Dios (Pachas, 2012).

During the brief democratic opening (1945-48), the government also introduced a new framework for labour rights, including recognition of trade unions and more worker-favourable procedures for dismissal and retirement, which helped to strengthen the mineworkers' confederation, among other labour groups (Kruijt and Vellinga, 1983: 72-75). However, by the 1950s the expansion of domestically-owned mines was limited by the tendency of the large American firms to accumulate and retain the largest mineral deposits and vast expanses of land. While Peruvian firms' finances began to improve again in the 1940s, unfavourable price conditions for lead and zinc – the minerals most exploited by Peruvian investors –would also hold back national industry.

The 1950s marked another milestone in the dominance of large-scale, foreign-owned mining operations in Peru, linked to technological progress in the global mining industry, as well as more favourable government policies, such as a decrease in tax rates. The military government of General Manuel Odría dismantled protectionist measures introduced during the 1930s and 1940s, under pressure from business and in the interests of replacing underground mines with investment in larger, open-pit mining that was then dominating the international copper industry. Without this technology, Peruvian copper production had become less competitive (Dore, 1988).

Under the new Mining Code of 1950, two major contracts for open-pit projects were signed with US-owned companies. The first, with Marcona Mining Company (MMC), was signed in 1952 to launch the development of an iron ore mine on the southern coast. The second, with Southern Peru Copper Corporation (SPCC), was signed in 1954 to enable exploitation of a copper deposit further south, in Tacna (Toquepala). Both deals led to a new mining boom, with increased exports and significant benefits to foreign capital. By 1960, the three largest US-owned companies accounted for 73 percent of total mineral production (Thorp and Bertram, 2013). However, some medium-sized Peruvian mining companies also emerged in this period, notably Arias-Ballón, the Benavides Group and Picasso (Becker, 1983).

As mentioned in Section II, in the late 1950s, social mobilisation grew stronger around demands for agrarian reform and national sovereignty over natural resources. Land possession by mining companies in the central highlands was a primary focus for protest. The civilian government of Manuel Prado, who governed in a widely criticised alliance with the banned APRA party (the so-called '*Convivencia*'), responded timidly, creating an Institute for Land Reform and Colonisation, which focused on studies aimed at laying the groundwork for future reform. This government also promoted the creation of a steel plant in the port of Chimbote on the northern coast, with the idea of industrialising production, and launched the beginning of the commercial fishmeal industry in the same area. The most lucrative mining projects, however, remained in foreign hands, and tax rates on mining remained around 20 percent, which nationalist forces considered too low (Contreras and Cueto, 2009).

Under the more reformist government of Fernando Belaúnde, tax rates on mining were increased to 48 percent, generating opposition from influential mining interests claiming that the existing mining code guaranteed them tax stability (Hunt, 2011). At the same time, official commissions were created in parliament to investigate alleged excess profit repatriation by MMC and SPCC. These measures reflected government efforts to gain greater control over foreign capital.

During this period, there was another major expansion of mining production, led by the large-scale operations of SPCC (40 percent of total mineral production), MMC (22 percent) and the expansion of the CPMC operations (27 percent) (Thorp and Bertram, 2013). Yet, despite increased world copper prices, during the 1960s, there were no further major investments in the sector, apparently due to caution on the part of companies that held deposits in reserve in hopes that domestic political conditions would improve (íbid). Meanwhile, small-scale gold extraction in the Amazon continued to grow in this period, with greater state support since 1950 in terms of concessions and of finance through the Mining Bank (Pachas, 2012; Torres, 2013).

B. Nationalism and state ownership (1968–90)

While the GRFA also conceived mining to be important to growth as well as a source of financing for an ambitious industrialisation programme, the generals initially hoped that private investors would continue to take part (Ballantyne, 1976; Sánchez, 1981). For the most part, however, the mixed investment schemes did not encounter private sector enthusiasm (Conaghan and Malloy, 1994).

In 1969, the Junta negotiated with SPCC for a major new copper project (Cuajone), obtaining more favourable tax, trading and foreign exchange arrangements than the state had previously enjoyed. The company also returned the exploitation rights over a deposit between Cuajone and Toquepala (Quellaveco) that the government wanted to exploit to expand domestic production (Becker, 1983; interview 09, 2015). However, negotiations failed with the other two US mining companies, ending in the

nationalisations of the huge CPMC in 1974 and of MMC in 1975.[8] During the 1970s, the participation of some national investors in the mining sector did increase, as foreigners transferred shares to Peruvians to avoid being expropriated (Torres, 2013), but this was primarily in small and medium-sized mining operations, while the state remained the major large-scale operator (Becker, 1983, Glave and Kuramoto, 2007).
The military regime also brought important changes in mining governance, including the creation of the first Ministry of Mining and Energy in 1969 and a new Law of Mining in 1970, which reestablished the leading role of the state in production (Becker, 1983; Guasti, 1985). Two large state-owned enterprises, CENTROMIN and HIERRO PERU, were created by the nationalisation of CPMC and MMC, respectively. CENTROMIN would own and operate the seven mines that had belonged to CPMC, as well as its concentration plants, foundry and refinery based in La Oroya. Both would later participate in a third project, Minera Asociada Tintaya (Interview 02, 2015; Pasco-Font. 2000). MINERO PERU was also created to operate a zinc refinery, the Cerro Verde copper mine, and the still-to-be-exploited mines of Quellaveco and Antamina, while MINPECO was created as the state-owned minerals trader.

In a situation similar to that experienced by Zambia (Hinfelaar and Achberger, 2017), the global economic recession after 1973 led to a significant slowdown in mineral production, while the state appropriations left the private sector very reluctant to make new investments. This led to a decline of average annual growth in production from 9.4 percent in the 1960s to just 3.5 percent between 1970 and 1979 (Aste, 1986, McClintock and Lowenthal 1983). The pending debt crisis after 1976 and successive stabilisation programmes further limited state capacity to invest in this sector. During this period, the state actively promoted small-scale gold mining through the national Mining Bank, both in the Amazon and in the Puno region near the border with Bolivia. These are areas where efforts to eradicate ASM would take place decades later (Torres, 2013; Cano, 2015). Near the end of its term in 1978, the military government promulgated a new Law of Promotion of Gold Mining in the Peruvian Amazon, and also granted concessions to ASM organisations that had been left unemployed by the departure of foreign investors or by expropriations that were not considered profitable.

Although 1980 brought a change in political regime, governance of the mining sector did not change dramatically in the subsequent decade. A new General Mining Law was passed in 1981, with the goal of promoting more benefits for private companies and eradicating the government monopoly over the metals trade. This was not enough to revive private investment, however, and major operations remained largely under the control of state-owned enterprises. Ideologically, President Belaunde and his finance minister, Manuel Ulloa, were favourable to privatisation of this sector, but their party followers did not necessarily share that agenda. Strong resistance from public employees' and mineworkers' unions, as well as the Marxist Left parties, also made it

[8]Apparently, the military leaders initially wanted a joint venture with CPMC and a part of the stock that company held in SPCC, which was refused. The nationalisation was then presented as a political victory in a famous speech by General Fernandez Maldonado. (Becker, 1983; Sánchez Albavera, 1981).

politically risky to attempt such a move, and within a few years that government would be mired in crisis and replaced by leaders with no desire to privatise (Interviews 07, 08 and 09, 2015).

During the 1980s, mining production and exports decreased, due to a combination of low world prices and the anti-export bias of prevailing economic policies. Mining investment was also affected directly by internal armed conflict initiated by the PCP-Shining Path in the 1980s, with millions of dollars in losses due to sabotage and work stoppages, leading in some cases to the full militarisation of mining camps and operations (Comisión de la Verdad y Reconciliación 2003). The decade ended in economic and political disaster for the country as a whole, with increasing external debt, unprecedented inflation and public finances nearly bankrupt. In the mining sector, new explorations for large-scale deposits were virtually halted and state-run companies, which continued to account for 60 percent of total mining production in the 1980s, operated under the burden of generating foreign exchange for other public expenditures, and were also subject to considerable internal corruption (Fitzgerald, 1979; Glave and Kuramoto, 2007).

C. Neoliberalism and mining in two stages (1990–2016)

After 1990, both internal and external pressures made the political settlement based on state-centred development strategies unsustainable. What followed was a period in which neoliberal reforms were rapidly and radically implemented by central government technocrats, and the most productive sectors of the economy were all returned to private hands and opened to global competition. Large-scale mining in primarily foreign hands returned to a position of prominence. Major aspects of this neoliberal settlement remained in place, with the return to democracy after 2000, while new social demands and actors emerged with force, accelerated by a process of partial political decentralisation. Greater political competition and more conflict around mining operations has been manifest after the turn of the century. Hence we see the post-Fujimori period as one of realignment and modification of the mineral governance regime, while not yet constituting a distinctive new settlement.

C.1 Stage I: Privatisation and expansion in the 1990s

From most direct accounts from the 1990s, promoting the mining sector was not initially a priority for Fujimori and his advisors. Yet the international context, together with the quality of Peru's mineral deposits and its new policy environment, led the sector to account for 64 percent of the total investment received as a result of privatisations in this period, while just 13 percent of these privatising transactions were mining related (Pasco-Font and Saavedra, 2001).

The reform of the mining sector drew collaboration from experienced professionals within the state-owned mining enterprises, as well as from some private sector miners who assumed public functions (Interviews 02 and 07, 2015). At the outset, government officials also worked to resolve outstanding conflicts between private companies and the state (Interviews 08 and 09, 2015). Measures were also taken to guarantee tax and exchange rate stability and offer attractive tax incentives (Muñoz and Vega 2000). Mineral commercialisation was also liberalised and the concession system simplified (Interviews 02, 06 and 08, 2015). These measures, encouraged by World Bank advisors and domestic experts, were considered necessary to attract new investors to what was still a high-risk country.

Policymakers in this period had reduced space for negotiation with investors around purchase prices, given the risk involved and the poor shape of some of the existing assets, which would require considerable new investment to modernise. From 1991 to 2000, the privatisation of mining operations generated an estimated US$ 1.2 billion in direct income for the state (Bury, 2011; Ruiz Caro 2002: 28). And while mineral exploration activities doubled worldwide in the 1990s, they multiplied by 20 in Peru in this period (Poveda, 2007). This involved expansion not only in areas with existing mining operations, in the central and southern highlands, but also into parts of the country where people were not accustomed to large-scale mining, including areas with fragile ecosystems or thriving agricultural interests. According to the Geological, Mining and Metallurgical Institute – INGEMMET, a government agency – the total land area authorised for the granting of concession rights grew from 7.8 percent of national territory in 1991 to 12 percent in 1999. Transnational capital also renewed its predominance in the mining sector in the 1990s, alone or in partnership with national firms (Aste, 1997; Bebbington and Hinojosa, 2011). By 2000, 11 of the world´s 20 major transnational mining companies were operating in Peru (Bury, 2011).

Trade unions and professional associations saw their political and economic power recede significantly under neoliberalism, while business and business interests associations – the National Confederation of Private Business Institutions (CONFIEP), the National Society of Mining, Oil and Energy (SNMPE) and, to a lesser extent, the National Exporters' Association (ADEX) – gained in prestige and access to power. In the mining sector, transnational firms held most of the large new mining projects, such as Antamina (one of the 10 largest copper mines in the world), while some national industry leaders also had considerable political power.

In this period, World Bank and IMF staff also encouraged Peruvian policymakers to establish new environmental and social legislation that could more effectively prevent or reduce the negative impacts left behind by past extractive activity (Szablowski, 2002; Arellano-Yanguas, 2011). Instead of creating a separate authority for oversight of environmental standards in this and other industries, however, policymakers opted to incorporate enforcement of environmental norms into each line ministry. For example, an environmental office was established for the first time within the Ministry of Mines in 1992 (the General Direction of Environmental Issues in Mining – DGAAM). This produced an apparent conflict of interest in regard to mining, as the Ministry of Energy and Mines was charged both with promoting new investment, and implementing regulatory standards often resisted by the companies that invested (Charpentier and Hidalgo, 1999, World Bank, 2005).

Peru also introduced the requirement for investors to present an environmental impact assessment (EIA) for new projects during this period, as well as an environmental adjustment and management plan (PAMA) to manage legacies of past operations. However, testimonies from this period suggest that, in practice, the environmental norms established in the 1990s were driven by international pressures, but, as with other such policy innovations (including ILO 169), these were not priorities of the elites within Peru's existing political settlement, and were not implemented with the kind of institutional and political support necessary to give them teeth. Furthermore, in the 1990s, environmental conflicts around mining were not as salient as they would become in the next decade, as more mining investments moved into the operation stage.

In terms of ASM, the Fujimori administration did not adopt any new legislation or policy initiatives in the first half of the 1990s. From 1995 to 2000, however, the government took limited steps to formalise and regulate the expansion of ASM in the Amazon, including the first Registry of Artisanal Miners. However, the overall liberalisation of the mineral trade and liquidation of the state-run Mining Bank, in a context of favourable international gold prices, not only contributed to the largest expansion of this sector to that date, but also to a proliferation of informal producers and the atomisation of gold traders operating parallel to the state (Cano, 2015).

C.2 Stage II: Continuity and change in mining governance in the 21st century

The return to democracy in 2001 was followed by a new bonanza period in global mineral prices, and the entry into the production stage of several new large-scale mining operations (Glave and Kuramoto, 2007; Portocarrero, Sanborn y Camacho, 2007). From 2002 to 2012, total mineral exports increased in value from US$3.2 billion to US$27.4 billion, accounting for over half of total Peruvian exports. Mining concessions also continued to expand nationwide after 2000. By 2015, around 14.2 percent of national territory had been titled for mining rights or mining rights in process, although a far smaller share –just 1.22 percent – had been authorised for mining activity (MINEM, 2016).[9] From 2005 onward, this boom in extractive activity began to generate considerable net profits for investors, and hence enormous tax revenues. At its peak in 2007, the mining industry accounted for a third of all profits generated, a quarter of all direct taxes and half of all income taxes paid in the country (Zegarra, 2014).

In this period, ASM also gained in numbers of miners and political influence, becoming funders, powerbrokers and even candidates in subnational elections but – in contrast with the Bolivian case – without relatively stable pacts with the national level and political parties. They also provided funding to national-level politicians and parties who

[9]The share of national territory that remained off-limits for mining activity in 2015, due to various factors, including creation of national parks and protected nature areas as well as urban zoning, was estimated at 65 percent. The granting of mining rights alone does not authorize holders to engage in active mineral exploration, mine construction, or extraction, all of which require numerous steps, from negotiating purchase or lease of surface lands, to obtaining approval of EIAs – procedures that can take years to complete (MINEM 2016).

promised to defend their interests. Initially, this sector was also allied with international aid organisations, including the World Bank, that saw the formalisation of this activity as a route to inclusion (Mosquera 2006; World Bank2004). With the support of regional and local politicians, the first legal framework to formalise small-scale miners was enacted in 2002. However, the intensity of the 'gold fever' after 2005, induced by booming prices, undermined attempts by the state to establish order and encourage more sustainable practices. With political decentralisation, the authorisation and regulation of ASM was transferred to regional governments, some of which were run by prominent small and medium-scale miners, and lacked either the technical capacity or political motivation to enforce high environmental and social standards (Cano, 2015).

After 2006, central government policies surrounding ASM took a sharp turn towards an emphasis on contention and repression (Valencia, 2014; Medina, 2014). This change coincided with the negotiation of a Free Trade Agreement with the US, under which Peru committed to the creation of a new Ministry of the Environment (MINAM) that received significant support from the US, West Germany, Japan and other international donors, as well as strong pressures from international and local conservationists to do something about the 'ecological catastrophe' being created by artisanal miners, especially in parts of the Amazon. Increases in scale and intensification of extraction methods employed in ASM certainly contributed to this reaction, as well as an association of the sector with money laundering and other illegal activities (Cano, 2015). For its part, MINAM was 'colonised' by professionals from environmental NGOs and movements who formed part of global networks in which eradication of this unregulated, small-scale activity was a high priority. They thus gave this task new prominence, but with a focus on suppression rather than formalisation (ibid.).

The ASM also created tensions in some areas with larger, formal sector mining companies. In some regions there were overlapping claims for land and minerals between larger firms and artisanal miners, who were also community leaders and authorities. The emphasis on containing ASM is thus framed as favouring the claims of the larger firms. Although Ollanta Humala´s Nationalist Party received political support and alleged campaign donations from ASM, under that administration the militarisation of this effort and intensification of interdiction actions increased, while efforts at formalisation were largely abandoned (Cano, 2015).

An additional key theme of this period is that the return to democracy came with a significant increase in social conflicts related to mining activity. These involved a variety of demands, including respect for indigenous rights, claims related to environmental and social impacts, disputes over land and water resources, and demands for greater distribution of the tax revenues and other economic benefits obtained. These conflicts led Peru´s governments to introduce reforms aimed at reducing tension or responding to underlying demands associated with mining expansion. Although a detailed analysis of these policy changes and reforms is beyond the scope of this paper, what follows is a summary of the major reforms.[10]

1. Taxation and revenue redistribution and transparency

The mean rate of income tax on mining operations has been around 30 percent in Peru in the last decade-and-a-half, which is average relative to other countries with major mineral exports in South America (EY, 2014). By 2006, however, there was growing public opinion critical of the alleged windfall profits that large firms were making as a combined result of price increases and tax stability agreements negotiated under the Fujimori administration. This resulted first in the 'Mining Programme in Solidarity with the People' (PMSP), established by President Alan Garcia, which required 40 companies to implement direct social investment in their areas of operation, for an equivalent of a 2 percent windfall profit tax (MINEM, 2011). Five years later, amidst renewed conflict and public demands on the industry, the Humala administration discontinued the PMSP and implemented a mandatory contribution from mining companies (Interview 05, 2015; EY, 2014). A former military office, Humala had run as a nationalist and strong admirer of General Velasco, placing him to the left of his closest contender, President Fujimori´s daughter Keiko. Industry leaders, fearful that Humala would take more drastic action against private property, accepted this change after a series of negotiations (Interview 05, 2015). Although these fears would prove unfounded, and this administration adopted a position more favourable towards the mining industry, distrust between government and business leaders remained mutual during this period.

Meanwhile, beginning under the Toledo administration (2001–06), there was increased pressure for political and fiscal decentralisation. Due to lobbying by local government authorities and some industry leaders, congress expanded the total amount of tax revenues from mining to be transferred to subnational government coffers. As in the case of Ghana, where 10 percent[11] of mining tax revenue is transferred to subnational authorities (Abdulai, 2017), in Peru the 'mining canon' was established in 2001 to distribute a full 50 percent of all the income tax revenues captured by the central government from mining to subnational governments, to be used for public investment in the regions and districts where the mining operations take place.[12] This has meant that large sums of money were flowing to some regional and municipal governments, which were often unprepared to manage them effectively and transparently, while others with high levels of poverty and basic needs received very little. According to most analysts, in fact, this tax distribution scheme created more tension than it

[10] For more details on these measures, see Sanborn and Chonn (2015); Sanborn and Paredes (2015).

[11] Note that the Office of Administration of Stool Lands (OASL), which oversees this distribution, is allowed to retain 10 percent of it for its own costs, so 9 percent is actually transferred to subnational authorities.

[12] Since 2003, the formula for canon distribution provides 25 percent to the regional government where the operation is based, 25 percent to the provincial municipality and related districts, 20 percent to the producer district and 40 percent to all other municipalities in the region (Sanborn and Dammert, 2013).

resolved (Arellano-Yanguas, 2011; Ponce and McClintock, 2014),[13] and attempts to establish a more equitable formula for distribution of revenues to non-producing districts were not successful (Arellano-Yanguas, 2016).

Within Latin America, however, Peru has been a leader in the adoption of revenue transparency measures in the extractive industries. Considerable information about concessions, contracts and environmental impact assessments (EIAs) are available on government websites, and a diversity of watchdog NGOs focus on large mining companies, trying to bridge the communications gap. Also beginning under the Toledo administration, Peru also signed on to be a member of the Extractive Industries Transparency Initiative (EITI), and in 2011 it became the first country in the Americas to be deemed compliant with the standards of this voluntary reporting programme. Among the four countries in this study, Peru was the third to join EITI (after Zambia and Ghana); Bolivia has not yet joined. Under the EITI, a majority of large mining and oil companies in Peru agreed to open their books to an independent evaluation and publish the amounts that they pay in taxes to the state.

2. Environmental regulation

Although Peru adopted modern environmental legislation for the mining sector in the 1990s, grassroots community organisers and pressure from mainstream international actors motivated the government to prioritise these issues more fully in the 21st century. The creation of MINAM in 2008 occurred in the context of increased demands from IFIs as a condition for approving energy projects, and of the negotiation of the Free Trade Agreement between Peru and the United States (Barandarián Gomez, 2008).

Within MINAM, an important change for the industry was the establishment of the regulatory agencies with authority across all sectors, such as the Organism for Environmental Evaluation and Fiscalisation (OEFA) charged with monitoring environmental performance and SENACE, charged with reviewing and approving EIAs. The latter was established in the wake of violent protests against the Conga mining project in Cajamarca, in which citizen mobilisations together with national and international NGOs and even other public officials, questioned the legitimacy of the EIA that had been approved for the project to be implemented (Lanegra, 2015). This led to a proposed transfer in 2015 of all environmental functions from line ministries to the new agency, a notable change from the model of sectorial environmental authorities settled during the 1990s.

In general, the operationalisation of these independent agencies of environmental regulation was met by resistance from the Ministry of Economy and Finance (MEF), and the industry. Their main concern has been that environmental regulation will further

[13] The main regions dependent on mining are Moquegua (40 percent of regional GDP), Tacna (34 percent), Pasco (27 percent), Ancash (26 percent) and Arequipa (24 percent) (McKinsey, 2013).

slow investment in a period of economic downturn and will create more bureaucratic burden (La Republica, 2012). Near the end of its term, in fact, the Humala administration passed a series of decrees curtailing the ability of environmental authorities to sanction violations, while a group of mining companies went to court to resist paying a mandatory corporate contribution to the agency.[14] Hence the enforcement of rules regarding regulation of the environmental impacts of large-scale mining and hydrocarbon operations has remained a challenge for public authorities (Pulgar Vidal, 2008; De Echave and Diez, 2013).

3. Implementing ILO 169 and the right to prior consultation

Peru signed the Indigenous and Tribal Peoples Convention (ILO 169) in 1994, under the Fujimori administration, along with numerous other international norms considered to be important on the road back to international acceptance. However, it took more than 15 years, and particularly violent protest actions by indigenous peoples of the Amazon and their supporters, for congress to approve legislation designed to implement this right, which was signed into law by President Humala in 2011.[15] The Ministry of Culture and its Vice Ministry for Intercultural Affairs is tasked with supervising and guiding consultations under this framework (Sanborn, Hurtado and Ramirez, 2016). The first consultation processes began in 2013 and by the end of 2016, 33 processes had been initiated, 13 of which involved hydrocarbon concessions in the Amazon and 10 of which involved permissions for mining exploration or exploitation activities. To date, 16 processes have reached some level of agreement between the state and the indigenous peoples consulted (Ministry of Culture 2017a).

As we have written elsewhere, this has represented an important step forward for indigenous rights in Peru, as for the first time in history, the state has been required to identify who its indigenous peoples are, and to communicate with and consult indigenous peoples in transparent and culturally appropriate processes. At the same time, resistance to applying the Law of Prior Consultation to decisions related to mining activity, on the part of both the central government and private investors, contributed to the stalling of implementation of this right in the Andean highlands – where most Quechua and Aymara peoples live – until late 2015 (Sanborn, Hurtadoand Ramirez, 2016). When the first cases of consultation about mining began, the staff of the Ministry of Energy and Mines lacked the intercultural capabilities to conduct these processes in an appropriate way, while the Vice Ministry for Intercultural Affairs lacked the authority

[14] See for example: http://servindi.org/actualidad/135812 and http://larepublica.pe/impresa/economia/16893-aporte-por-regulacion-oefa-gana-nuevo-proceso-minera and http://www.actualidadambiental.pe/?p=31113

[15] In 2009, after months of strikes and protests by native Amazonian peoples over not being consulted on new legislation related to forestry and extractive investments, a confrontation broke out in the city of Bagua, in the Amazonas region, when police tried to forcibly disperse a 59-day roadblock. In what is known as the ‘Baguazo’, 23 police officers and 10 civilians were killed and hundreds wounded (Amnesty International, 2014; Barrera-Hernández, 2009). This violence spurred Humala to approve the implementation of ILO 169 as one of his first actions in office.

to guarantee compliance with the numerous agreements reached during the consultation processes (ibid).

In summary, when comparing mining governance in the 1990s and after 2000, we see continuity in the promotion of private investment, the concentration of power and decision-making in the executive, and the influence of technocrats with global ties (Arellano-Yanguas, 2016: 180). There has been change, however, in the emergence of a wider variety of actors with influence on policy debates, promoting norms and institutions related to decentralisation, revenue transparency and redistribution, environmental oversight and indigenous and rural community rights. In some cases, these changes have been the result of social mobilisation and violent protest, while in others they have come from engagement with international agencies whose agendas combine an uneasy balance of commitments to growth, private investment and socio-political inclusion, including the US government (in the context of negotiating the FTA) as well as the World Bank/IFC. However, neither pressure from outside nor from within has produced a significant shift in the development paradigm, towards a more significant diversification of production with expansion of opportunities to larger numbers of citizens and a more effective commitment to environmental sustainability.

IV. Politics, extractive governance and development in the 21st century

How can we account for the fact that neither domestic pressure nor international influence has been sufficient to significantly reduce the conflict and generate broader social consensus around the role of mining in development in the 21st century, or to sustain more significant mining governance reforms? In this section, we address this question by stressing three cross-cutting factors: state weakness and fractured politics; the power of private capital; and transnational forces. We then examine the outcomes of these dynamics for inclusive development in Peru.

A. State weakness and fractured politics

There are three variables that evidence the weakness of the Peruvian state: its limited territorial reach; autonomy from non-state actors; and capacity to deliver essential public goods and services and protect fundamental rights (Mann, 2006; Soifer, 2012). Our review of Peruvian history stresses the perpetuation of these longstanding weaknesses, as prior settlements as well as external constraints affect elite priorities and capacity for broader inclusion.

The military regime of 1968-80 tried to radically alter state capacity by achieving autonomy from oligarchic landowners and foreign interests, including US corporations. However, the junta failed to achieve its stated development goals, including building a more dynamic and national mining sector to channel the rents obtained into an industrialisation programme.

A context of multiple crises throughout the 1980s created political and ideological space for the authoritarian restructuring of the 1990s, with support from conservative sectors of the armed forces and private business. The liberal reforms of this period reduced the debt burden, and increased state capacity in areas fundamental to promoting private investment and market-led growth, without returning to dependency on any one specific country or narrow set of corporations. They did not, however, promote state autonomy from private capital per se. While they set the basis for institutional modernisation of those agencies involved with macro-economic stability, they did not do the same for the improvement of state capacity for longer-term planning and human development.

Despite the political salience of mining in each electoral process since 2001, no political party has constructed and sustained a clear position on the role of this sector in the broader economy and society. There are also no national parties with significant power that defend indigenous peoples' rights to be consulted about development policies and plans in their territories, even though most mining and hydrocarbon investments are in the Andes and the Amazon, respectively. And while some political candidates have toyed with the formalisation and inclusion of small-scale miners in a national development agenda, as of 2016 this had not become a significant concern of the governing coalition or parties to the dominant settlement.

B. The power of private capital

As discussed above, the political weight of private capital and especially of foreign investors has been significant in government decision-making for most of Peru´s post-Independence history. The reforms of the 1990s undermined the influence of certain private interest groups that emerged in the 1970s and 1980s, particularly industrialists accustomed to rent-seeking and unable to withstand international competition. Yet these same reforms empowered private business as a whole, ideologically and economically, and gave renewed priority to large-scale mining interests in particular. They also empowered technocrats, who moved between the public and private sectors with ease, and who continue to favour mining as a driver of growth.

In 21st century Peru, however, it is important to avoid treating the 'mining sector' as a unitary actor. Most of the leading transnationals in this industry are present in the country, including at least 16 of the 23 firms participating in the International Council on Mining and Minerals (ICMM), an industry association oriented towards improving standards in the industry and promoting sustainable development.[16] Most of the home offices of ICMM firms have declared support for transparency and consultation measures. However, other longstanding foreign and domestic mining companies operating in this country have strongly resisted key reforms, and their voices tend to prevail within the main industry guild, the National Society of Mining, Petroleum and Energy (SNMPE).

While the SNMPE may act as one force when negotiating with incoming governments, in recent years the power and effectiveness of this guild has come under question from its larger international members, who criticise the local leadership as being overly conservative, elitist and clubby and, as such, proving largely ineffective in promoting

[16] http://www.icmm.com/en-gb/members/member-companies

legitimacy and public support for the mining industry per se (Interviews 02, 07 and 09, 2015).[17] While guild leaders may act in the collective interests of members in the pursuit of certain policy goals, such as in the initial negotiation with each new political administration, the executives of the largest firms tend to focus more on their specific interests and build direct ties to policymakers and local authorities, rather than invest time and energy in the guild as a whole (Interviews 02 and 09, 2015).

C. Transnational actors and forces

As discussed above, Peru has historically experienced high levels of influence by external actors in its internal affairs. While powerful US corporations and their political allies saw their influence reduced in the 1970s, they were replaced by the IMF and other creditors. In the 1990s, the World Bank played an important role in diffusing policy ideas and frameworks promoting trade liberalisation, overall reduction of the state, promotion of large-scale mining, and the alignment of extractive industry governance with broader World Bank and OECD commitments.

The weight of external actors changed in the 21st century, as the debt burden was reduced significantly and as China and other non-Western actors moved into the region. Large-scale mining remains largely in the hands of transnational firms and depends on international demand. In the last two decades, however, transnational social movements and NGOs have also played a role in promoting institutional changes and challenging the power of both firms and government, in alliance with local actors.

As we have seen, mining-related mobilisation and conflict has been increasingly influential since the early 2000s. The announcement of a new mining project or the construction of a mine can create incentives for local and regional political actors to dispute access to subnational government posts and, once in office, their survival may be associated with the delivery of public goods and services and distribution of canon revenues. At the same time, local protests over environmental concerns and human rights often become linked with transnational networks of activists and with national political debates, which has led to the resignation of cabinet ministers and the destabilisation of governments. However, given the weaknesses of the political system, they have not had the kind of holding power necessary to significantly improve the capacity of the state to implement these reforms, nor to alter the overall focus on large-scale mining as an engine of growth and the lack of definition of the place of artisanal and small-scale miners.

[17] 'The National Mining Society is one of the most ineffective, inefficient and unequal organisational messes in the hemisphere' said one foreign mining executive based in Peru. 'If a mining company really wants to get something done, they sit down with the corresponding authority directly. If it is a company with more than a billion dollars' worth of investment, they can have a direct talk with the minister...' Furthermore, '…there is no clear strategy in their actions, and the studies they once promoted for the sector have been left behind' (Interview 09, 2015).

D. Outcomes for inclusive development

The alliance for export-led growth has been stable for most of this period, and in particular in a context with an economy growing fairly steadily from 2000 onward, reaching annual rates of around 6 percent from 2005 to 2013, despite the worldwide recession, and while levels of public debt and inflation were kept low (World Bank, 2016). As one of the fastest growing sectors of the economy in the 2000s, mining was a large part of this story, contributing up to 11 percent of GDP in 2007 and 2011 (World Bank, 2016). It was not the whole story, as the value of Peru´s non-traditional exports grew fivefold between 2002 and 2014, led primarily by the expansion of commercial agriculture. Yet over 60 percent of total exports in 2015 remained classified within the traditional sector (BCRP, 2016).

Although exports are vital to Peru´s small open economy, continued reliance on non-renewable natural resource exports makes it vulnerable to international price changes, which affect the economy as a whole. This became more apparent after 2013, when declining export income translated into reduced transfer of canon revenues and an overall slowing of growth to 2.4 percent in 2014 (although it rose back to 3.3 percent in 2015 and was estimated at just under 4 percent for 2016 (BCRP 2016))[18].

Along with the risks of increased dependency on global demand for minerals, analysts critical of the weight of mining in Peru´s economy tend to stress its weak links to growth in other sectors, and the low levels of direct employment it generates (Schuldt, 2013; Seminario, 2014; Ghezzi, 2015). This argument has been disputed by government technocrats and private industry leaders, who argue that mining has a stronger ripple effect and creates more indirect jobs than critics recognise (SNMPE, 2012; IPE, 2013).

In regard to taxation, total tax revenues quadrupled from 2001 to 2015, largely as a result of export-led growth. However, policymakers have had little ability or incentive to expand the country´s overall tax base, relying instead on the revenues generated from a relatively small number of large firms, with mining contributing up to 25 percent, and from a general consumption tax (IGV), which represents around 26 percent (SUNAT2017). Tax revenue as a percentage of GDP has remained around 16 percent since 2006, below the average rate of 21 percent for Latin America as a whole (World Bank, 2016).[19]

As for the use of these revenues, public investment as a percentage of GDP increased from 2.8 percent in 2002 to 5.8 percent in 2015 (MEF, 2016), and successive elected governments have invested in expanding access to education and health care, electricity, running water and sewage.[20] Social programmes targeted specifically at the

[18] Peru´s growth rate for 2016 was projected at just under 4 percent by Peru´s Central Bank in January 2017. http://rpp.pe/economia/economia/bcr-crecimiento-de-economia-peruana-en-el-2016-seria-algo-menor-a-4-noticia-1023476

[19] http://www.iadb.org/en/news/news-releases/2015-03-10/revenue-statistics-in-latin-america-and-the-caribbean,11082.html

[20] To review the historical evolution of public spending in these services, see: MEF – Ministry of Economy and Finance (2016b)

poor, including income transfers, were also expanded. Progress has been slower in improving the *quality* of these services and their equitable distribution, while social spending has remained low as a share of GDP in Peru when compared with similar economies (World Bank, 2016b).[21] Peruvian levels of spending on science and technology, critical to economic diversification, are also among the lowest in the region, reinforcing the priority on primary sector development (PRODUCE, 2014; Concytec 2016).

One of the most important successes of the post-2000 focus on growth was a dramatic reduction in poverty. While 55.6 percent of the population was officially poor in 2005, based on income measures, this dropped to 21.8 percent by 2015, while the share of people living in extreme poverty declined from 15.8 percent to 4.1 percent in the same period (Work Bank, 2016: INEI, 2016). Furthermore, in the last decade Peru has seen a modest decline in overall income *inequality,* as the Gini index declined from 0.49 in 2004 to 0.44 in 2014 (World Bank, 2016; Castro, Yamada and Oviedo, 2016).

For the most part, these important reductions in both poverty and inequality can be attributed to the 'rising tide' of overall economic growth, associated with expanding labour markets and shifts from unpaid family workers into wage employment (Cord et al., 2015; Inchauste et al., 2012; Castro, Yamada and Oviedo 2016). However, some evidence suggests that, since 2011, government social policies may have contributed more significantly to reducing inequality (Castro, Yamada and Oviedo 2016), policies that also rely heavily on a still narrow tax base. It should be stressed, however, that Peru remains a very unequal society, with Gini levels twice those of more developed countries and higher than Chile, the most unequal country in the OECD. This is not only seen in income levels, but also in the persistent gaps between urban and rural areas and between diverse regions, and the vulnerability of millions of Peruvians who have climbed into the middle class, but precariously so. Although one in three Peruvians had joined the middle class by 2012, according to the World Bank, an estimated 40 percent are considered to be vulnerable to falling back into poverty as overall growth levels subside – slightly above the average of 37.8 percent for the region as a whole (Cord et al., 2015).

The benefits from growth to date have also not overcome the country´s longstanding geographical disparities. In 2015, 45 percent of rural residents remained poor and nearly 14 percent still lived in extreme poverty, compared to 14.5 percent and just 1 percent in urban areas, respectively (INEI, 2016). Furthermore, if we use a measure of multidimensional poverty (MDP), involving diverse indicators related to education, health, housing and access to vital social services, some 60 percent of the rural

[21] For example, investment in education in 2012 represented 2.9 percent of GDP – well below levels of neighbouring countries with similar dependence on natural resource exports, such as Chile (4.6 percent of GDP), Argentina (5.1 percent), and Bolivia (6.4 percent) (World Bank, 2016b)

population in the Andean highlands remained poor in 2014 (Vasquez, 2016). This includes areas of intensive, large-scale mining activity.[22]

It is hard to assess the actual results of the huge revenue flows from the mining tax canon in producer districts and regions. Several studies conducted in producer areas argue that there has been limited positive impact on local welfare, especially among rural communities (see for example, Arellano-Yanguas 2011; Paredes et al., 2013). Others stress that canon resources have increased the relative importance of public investment, but also note development gaps between regions (Fort and Paredes, 2015).

Peru also continues to stand out for having some of the highest levels of informality in the developing world, comprising 70.9 percent of the total labour force and 61 percent of the non-agricultural labour force, according to official government data (INEI, 2016). This is partly the historical result of a predominantly primary economy, a weak state, and a lack of elite commitment to investment in human capital, translating into low levels of educational achievement and, hence, labour productivity (Loayza, 2007).

As mentioned in Section II, informality was also exacerbated as a result of the rollback of labour rights and deregulation in the 1990s (Chong, Galdo and Saavedra, 2007). While informality appears to have declined modestly – around 5 percent – since the early 2000s, and especially since 2005, it remains very high for what is now a middle-income country. The National Institute of Statistics and Informatics (INEI) concluded that the informal sector generated 61 percent of total employment, but just 19 percent of GDP in 2015 (INEI, 2016). This situation reinforces the relative narrowness of the country's tax base, as well as the weakness of its organised labour movement. While up to 40 percent of the economically active population belonged to a trade union in the 1980s, this declined to 2 percent in the late 1990s and has remained between 4 and 6 percent since 2012 (ILO 2017; Villavicencio, 2015: 344).

The persistence of this situation well into the 21st century also reflects the continuity of neoliberal ideas among the technocrats in the central government, and their strong identification with private sector elites. Although candidates may appeal to workers during electoral periods, promising increases in the legal minimum wage or improved public sector salaries, no government since 2001 has focused on labour rights once in power. Successive ministers of economy and finance have been more sympathetic to the demands of employers' associations, which regularly call for a further rollback of labour rights and wage guidelines, claiming that the costs of formalisation are too high, especially for small businesses.[23] The Ministry of Labour remains one of the least

[22] According to Vasquez (2016), using a measure of multidimensional poverty, the five poorest regions of Peru in 2014 were Huancavelica (52.63 percent), Cajamarca (49.89 percent), Amazonas (46.79 percent), Puno (45.27 percent), and Huánuco (43.99 percent). These regions include areas of intensive mining activity.

[23] See: GESTION."Excesiva regulación y altos impuestos gravan ingreso al sector formal en Perú", visite don March 25 2017, retrieved from: http://gestion.pe/economia/excesiva-regulacion-y-altos-impuestos-gravan-ingreso-al-sector-formal-peru-2111487

modernised public institutions, and authorities have limited capacity or incentive for supervising Peru´s diverse labour markets and enforcing the rules on the books. In addition, no political parties with presence in congress have an explicit working class identity or agenda.

Since 2001, Peruvian democracy has had a weak capacity for interest representation overall. On one hand, it is positive that elected governments have remained in place since 2001, the military have largely remained out of politics, and dominant elite agreements must be legitimated, at least in part, through the democratic process. Furthermore, the electorate is now very broad-based – nearly 70 percent of the total population is of voting age – and there have been advances in political and fiscal decentralisation, especially under the Toledo administration. On the other hand, the rule changes and 'anti-party' rhetoric of the 1990s left a party system that is weak, fragmented and volatile. Less than 5 percent of Peruvians belong to any party and short-lived electoral 'movements' tend to win subnational elections. The majority of members elected to Peru´s small congress are newcomers, and are not re-elected to a second term. While some analysts argue that the decline of parties and traditional interest organisations is a global phenomenon, others claim that in the Peruvian case economic informality also feeds political informality (Cameron, 1997). The weakness of mass-based representative institutions makes it harder for voters to hold politicians accountable after elections, and facilitates the persistent influence of wealthy and powerful elites.

In addition, the participation of indigenous peoples and organisations in the democratic process remains weak in 21st century Peru. Although there are now laws establishing quotas for indigenous candidates on regional and municipal party lists in areas with high shares of indigenous voters, to date the indigenous presence in elected offices remains limited, and indigenous voices are rarely present in national political arenas, where the quotas do not apply.[24] Leaders of some national indigenous organisations charge that in practice, few parties have indigenous members with decision-making power, and they have few incentives to recruit and train indigenous members (Hurtado, 2015; ONAMIAP, 2014). Efforts by indigenous organisations to organise their own parties and field candidates have also failed to gain much vote support. Instead, protests often remain the main mechanism through which indigenous demands have been heard by, and had impact on, national public opinion and dominant elites.

A major advance in recent years has been the national Law of Prior Consultation, which, despite the problems involved in its implementation, has obliged the state to

[24] Various electoral laws in Peru promote participation of historically excluded indigenous peoples, as well as women, and youths. Law 26859, for example, states that all parties must include at least 30 percent of women on their parliamentary lists, while Law 27734, passed in 2002, states that a minimum of 15 percent of candidates for regional and municipal counsellors should be of indigenous or native origins in those regions and provinces determined by authorities to have a high percentage of indigenous residents. As mentioned at the outset, while the national census does not measure ethnic or racial identities, some 15.6 percent claim an indigenous mother tongue, and an estimated 40 percent of the population claims to descend from native Andean or Amazonian peoples (Sulmont, 2012).

embark on an unprecedented effort to identify and communicate with its indigenous citizens. Mining investors today also need to obtain explicit permission from indigenous and peasant communities for mining activities on their lands, and a qualified majority of communal assembly members if their land is to be used or sold (Ley Nº 26505). These policies represent a language and practice of inclusion that is relatively new in Peru (De Echave and Diez, 2013). Yet they have not changed the main legal and property regime that has governed mining activity since the 1990s. Decisions concerning the granting of concessions remain a Lima-based central government attribute and legal frameworks for the protection of peasant communities' land have been frequently threatened by efforts to encourage more investment.

As for the environmental dimension, as mentioned above, there have been several advances in the promotion of environmental regulation during the last five years. These include the creation of institutions aimed at evaluating the environmental impact assessments presented by investors, monitoring compliance with existing norms, sanctioning violators, and simplifying administrative oversight. However, maintaining the authority and autonomy of environmental regulators is an ongoing political struggle that requires the support of other cabinet members, the media and civil society organisations, in the face of pressures by the more powerful members of the executive branch, aligned with private interests, to reduce the social and environmental protections demanded of investors.

In summary, these various dimensions of inclusive development in Peru in the 21st century should be understood in relation to the weight of past political settlements, and the potential unravelling or modification of the most recent neoliberal one. In a context of rising global prices, policymakers in the post-Fujimori era did not have incentives to significantly alter a primary export-oriented economy, promote greater diversification, reform labour markets, or improve the underlying social conditions that distort them. Investment in social programmes for the poor has been significant but insufficient to compensate for more structural challenges, and as a result, a significant section of the Peruvian population remains vulnerable to the impact of external shocks, and at risk of falling back into poverty.

V. Conclusions and final reflections

This paper began with three general questions about the Peruvian case. When have there been periods of political realignment and settlement, as reflected in the institutions and policies of the state? How have such settlements shaped the governance and exploitation of Peru´s mineral resources? And how have the relationships between dominant elites, mineral extraction and the state affected patterns of inclusive development over time?

The first question is addressed primarily in Section II, where we identify three broad periods as having *relatively* stable institutional arrangements that have been crucial for the development of economic models and the distribution of holding power among key actors. These are the very long period of oligarchic predominance (1895-1968), a second period we call statist (1968-90), and the neoliberal period, which dates from the early 1990s to the present. Although marked by diverse social and economic pressures, we argue that each period is reflected in particular patterns of state building and dominant economic models. However, in the face of global market forces, and with pressure from new ideological trends and mobilisation from excluded actors, our study discusses how each settlement lost strength and eventually became radically altered and which groups benefit and loss from these changes.

How did these arrangements shape patterns of governance and exploitation of Peru´s mineral resources? As we discuss in Section III, the oligarchical period was most strongly associated with the exploitation of land and labour for agriculture, while Peruvian elites ceded power over mineral resources to foreign (largely US-based) corporations with the necessary capital to exploit large deposits and, eventually, to build and manage large open-pit operations. For decades the *hacienda* and the mining *enclave* coexisted, and the state benefited from tax collection, while labor rights were only gradually introduced. Over time, however, the demands of urban and rural workers, peasant communities and emerging middle classes grew enough to challenge this dominant model.

Mining governance during the second settlement period (1968-90) cannot be understood without looking at this precedent. One of the main features of the Revolutionary Government of the Armed Forces was its stated commitment to reducing dependency on foreign capital, empowering a national bourgeoisie and expanding the domestic market, goals shared at the time by broad sectors of the Peruvian population, as in much of Latin America at the time. This meant a radical transformation of the ownership and management of the mining sector, as well as broad land and labour reforms. However, the goal of an alliance between the military and private Peruvian investors was not achieved, and instead most large-scale mining operations were concentrated in state-run enterprises. This radically altered the composition of ownership in the sector for two decades, but proved unsustainable, due to profound economic and political crisis in the 1980s, and was dismantled in an equally radical neoliberal shift starting in the early 1990s.

In the third period (1990-), large-scale mining shifted back into private and primarily transnational hands, and become a major driver of economic growth. A new alliance of military and civilian elites set Peru on a radically liberalising pattern of state reforms, and the resulting empowerment of the liberal technocracy maintained continuity after the return to democracy (2000-). However, the balance of power remained less stable because of the growing conflicts around expanding mining operations, and because of some of the very reforms introduced to stem such conflict, such as the mining canon. In recent years there have also been institutional innovations within the state associated with environmental regulation and politics of recognition of indigenous rights, which introduce counterweights without significantly altering the pattern of mining ownership and governance.

In Section IV we address the third question, about the relationships between dominant elites, mining and inclusive development. Here we argue that three cross-cutting factors -- state weakness and fractured politics, the power of private capital, and transnational forces -- help account for the difficulties in overcoming social conflict around the role of mining in development, and in sustaining more significant mining governance reforms. The section ends with a discussion of how these dynamics ultimately restrict the prospects for inclusive development in contemporary Peru.

Final reflections

Although the fate of mining-dependent countries such as Peru is often considered to be largely determined by international markets and capital flows, this project has focused on issues of political relationships and the interaction of domestic and transnational actors. The results of these interactions have important consequences for the governance of the extractive industries, and for the capacity of the state to achieve more inclusive and sustainable development.

In the Peruvian case, at the helm of the state we have seen both economically liberalising coalitions which give priority to primary exports, and more statist coalitions, which tried (and failed) to promote greater industrialisation. These different coalitions have significantly altered the patterns of mineral production and regulation as part of broader agendas. We have also seen private actors resist the political directives of the state, halting investments or waiting for changing political tides when policies were not in their favour. The balance of power around mining governance in Peru has been asymmetrical, but also unstable.

Through the 20th century, the most radical changes in mineral governance were undertaken under authoritarian rule, in which the dominant elites had little incentive or commitment to negotiate with other groups in society, especially if they were weak and dispersed. The democratic opening in 2001 appeared as a favourable scenario to change this pattern and to modify the ways in which mining itself is governed. As we have seen, on various levels, Peru has made strides in this century towards overcoming its historical 'resource curse', taking advantage of rising global demand for minerals and other commodities, and achieving sustained economic growth for nearly two decades, as well as an implementing an unprecedented degree of decentralisation of the revenues generated.

Yet, as we have also discussed, the implementation of extractive governance reforms has been largely in response to conflict and aimed at contention, and difficult to sustain in practice. Some of these reforms created or empowered local interests prone to corrupt or authoritarian forms of behaviour, and some have generated new conflicts. The mining canon, for example, has become not only a source of revenue for local governments, but also something that is considered an acquired right by local and regional actors. Yet the weakness of subnational governments and local political organisations inhibits their ability to invest these resources effectively, build alliances, and serve as a counterweight to central executive power. This is also reflected in the fact that policymaking towards large- and medium-scale mining is concentrated in the national government, while the only functions transferred to subnational government in this regard involve regulating artisanal mining. In recent years, decentralisation has also coexisted with diverse schemes of public-private partnership, which aim to reduce the infrastructure gap in Peru, but have been criticised for potentially undermining efforts to strengthen subnational government institutions, curb corruption, and marginalise still incipient efforts at citizen deliberation over public spending.

In this context of 'fractured politics' (Crabtree, 2011), technocrats have remained fundamental to operating the central state in Peru, and this has contributed to a higher degree of stability and responsibility in macroeconomic policymaking than in past eras (Dargent, 2015). However, they do not have the kind of party affiliations and holding power that their counterparts in Chile and elsewhere have. Furthermore, the power of technocrats has not been consistent across the state, and their lack of political experience and skills leaves them ill-equipped to prevent or manage social conflict, especially around mining. Yet it is often the frustration on the part of those who live outside of Lima and feel left out of this most recent 'Peruvian miracle' that fuels such conflict, which tends to be channelled through more violent means, and to be met with considerable violence from the state as well.

The lack of stronger and more representative parties and civil society organisations in Peru, exacerbated by the political violence of the 1980s and the attack on representative institutions in the 1990s, has limited the quality of democracy, as well as the ability of elites to agree on models of longer-term, inclusive development. The economy remains unable to create more effective counter-cyclical policies, promote greater productive diversity, and build more decent employment. As a result, it remains highly vulnerable to external markets and the newly emergent and in large part informal middle classes remain vulnerable to falling back into poverty. The need to promote new mineral production to sustain these revenues – to offset the effect of declining world prices – has also led policymakers to backslide on environmental and social safeguards, and to resist implementing new rights, especially those of indigenous peoples.

The fact that the general liberal economic direction of the 1990s has continued through this century does not mean there is broad social consensus around it, nor the drive by ruling elites to expand extractive activity nationwide. The combination of sustained growth and targeted social policy partially contributed to the important reduction in poverty levels. But this did not serve to effectively 'include' more citizens in alliances, pacts or coalitions able to overcome the country´s historical political instability and fragmentation. In class, ethnic and regional terms, there has been limited change in the main parties to Peru's dominant political settlements.

In current Peruvian academic and policymaking circles, there is growing recognition of the limits of development centred on macroeconomic growth alone, and of the need to focus more on the development and quality of institutions (Ghezzi and Gallardo, 2013).

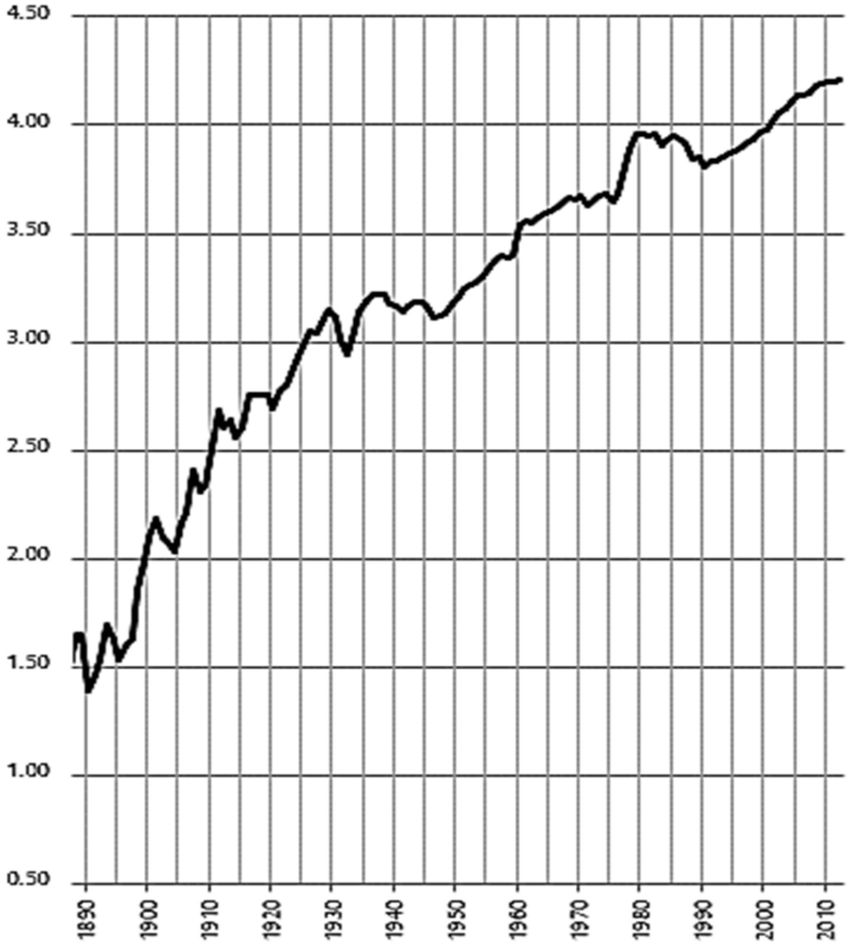
There is less awareness, however, of the power dynamics that lie behind institutions or the challenges to building political alliances and coalitions to change them. The challenges faced by Peru, like many other mineral exporters, include the diversification of the economy and the reduction of informality, as well as more equitable distribution of public investment and services. This demands not only technocratic policy decisions, but broader state reform as well, that can be promoted and sustained by political and economic elites. In this paper, we have identified the origins of what Arellano-Yanguas (2008) calls a 'dual bureaucracy' within the Peruvian state, in which certain sectors and agencies linked to market opening and macroeconomic stability have benefitted from reforms oriented towards professionalisation and modernisation, while other longstanding social ministries (labour, health, education), and new ones created due to international pressure or social conflict, such as the ministries of the environment and of culture, still lack the power to defend policies not popular with primary export interests.

In this sense, we find that even after nearly two decades of uninterrupted democracy, high levels of political instability and fragmentation have inhibited the development of effective institutions and longer-term policies in Peru. To date there are still few powers within the state that can serve as checks and balances on the executive and particularly the ministries that promote mining-led growth. The absence of organisations that represent interests beyond the local sphere, limits the effectiveness and legitimacy of institutions created to improve mineral governance, regulate environmental impacts, and protect human rights. Instead, the response of recent governments to increased social conflict around mining has been characterised by short-term measures and the arbitrary use of force.

The persistent legacy of the 1970s military regime, and of the neoliberal reforms of the 1990s, have also left an important sector of Peruvian elites adverse to any serious effort at longer-term national planning on the part of the state. This ideological inheritance, combined with political instability, also helps to explain the lack of elite commitment that underlies limited capacity to promote a professional civil service, or implement more ambitious strategies for promoting economic diversification. To enact measures that more broadly modernise the state and put it more at the service of inclusive development requires politicians and technocrats who are committed to this goal over the long term, and able to resist the short-term interests of those who benefit from the model at hand.

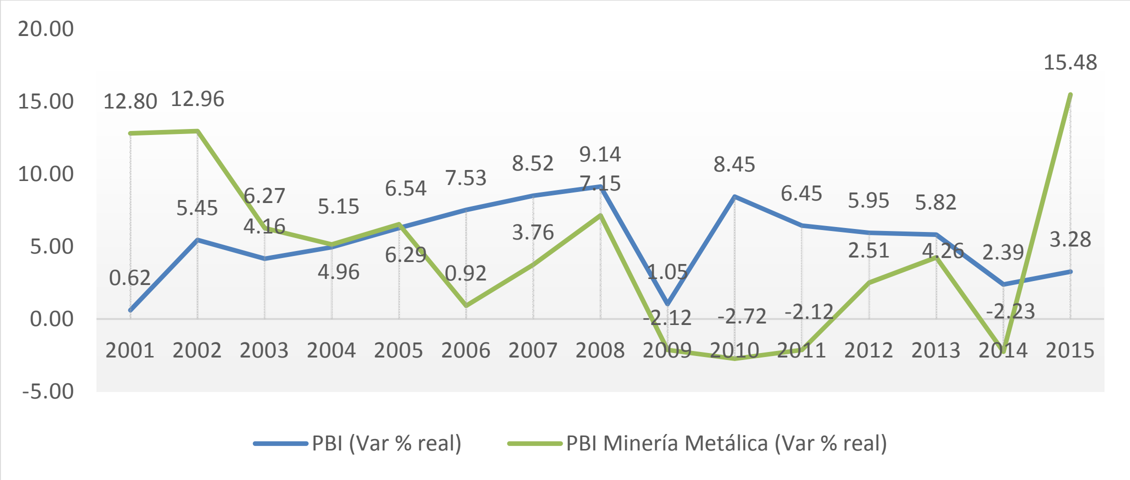
Appendix I. Mining in the Peruvian economy and society

1. Peru: Mining share of GDP 1890-2012
(Millions of *nuevos soles* 2007, in logarithms)



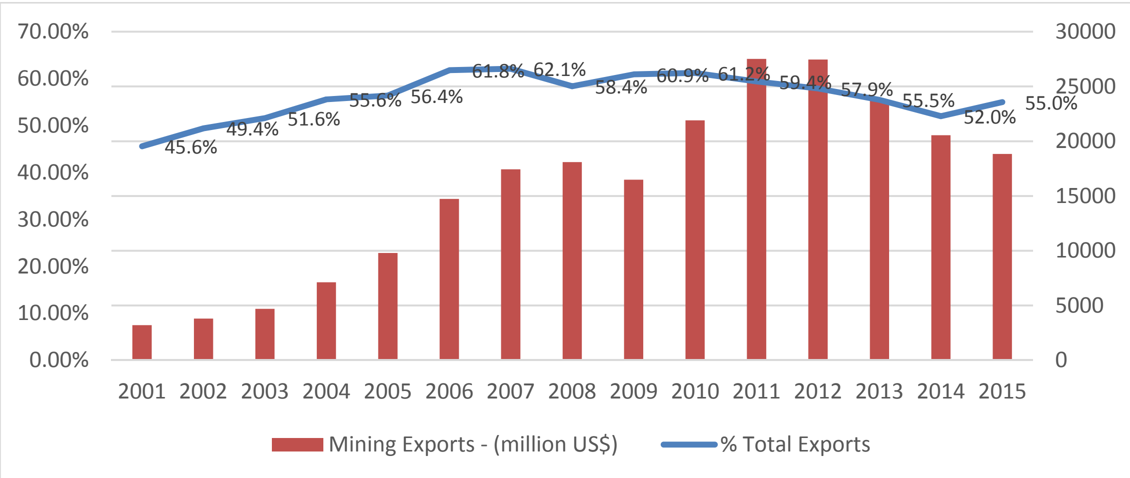
Source: Seminario (2015).

2. Peru GDP and mining GDP variation (2001-15)



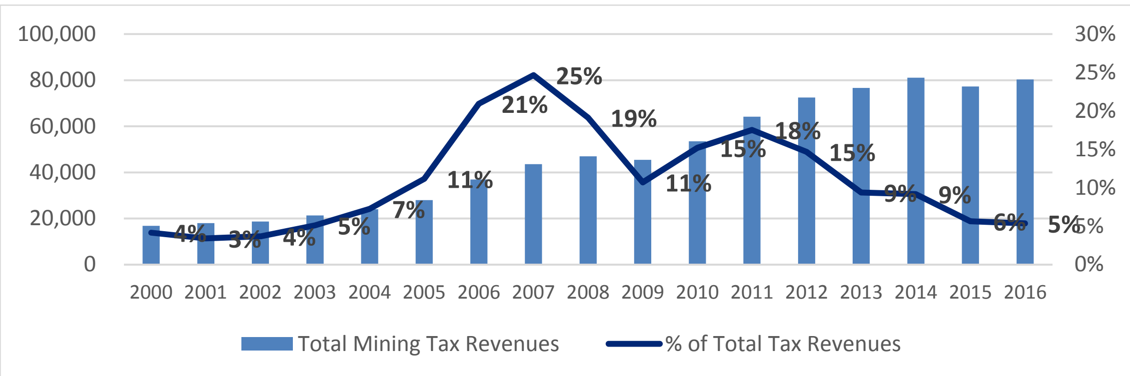
Source: Banco Central de Reserva del Perú. Series Estadísticas (2017).

3. Mineral exports in value (US$ million) and share of total exports (2001-15)



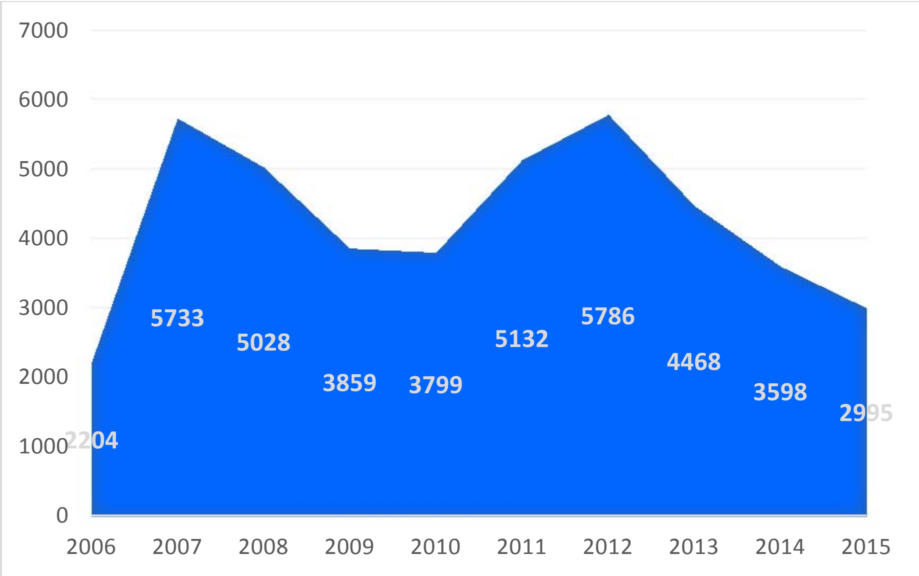
Source: Banco Central de Reserva del Perú. Series Estadísticas (2017).

4. Total tax revenues and share from mining (2000-16)



Source: SUNAT,(2017). In millions of nuevos soles.

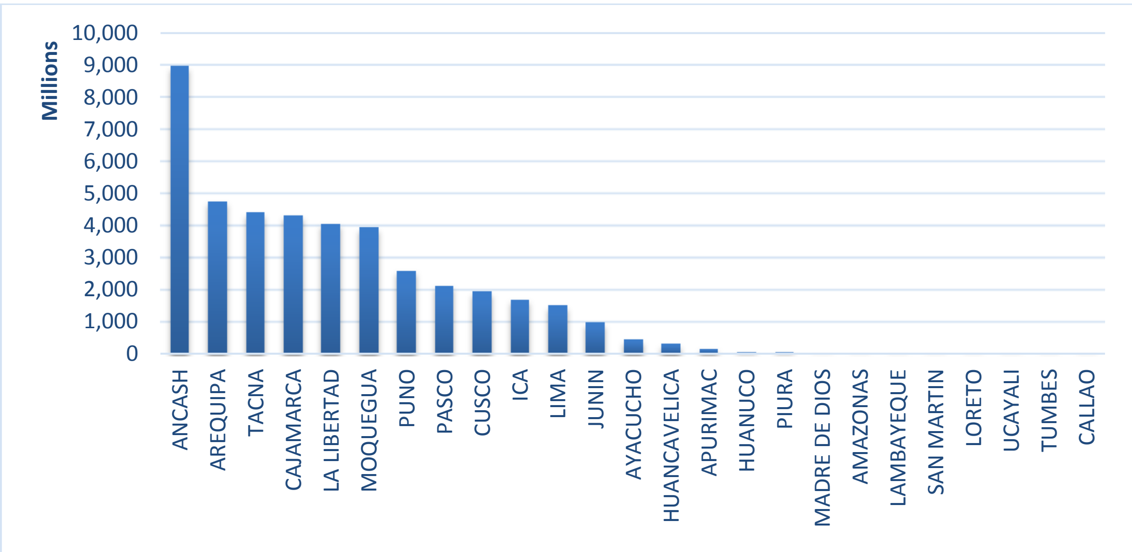
5. Total transfers to regions 2006-15
(mining canon, royalties and concessions payments)



Source: MINEM – Ministry of Energy and Mines (2016). In millions of nuevos soles.

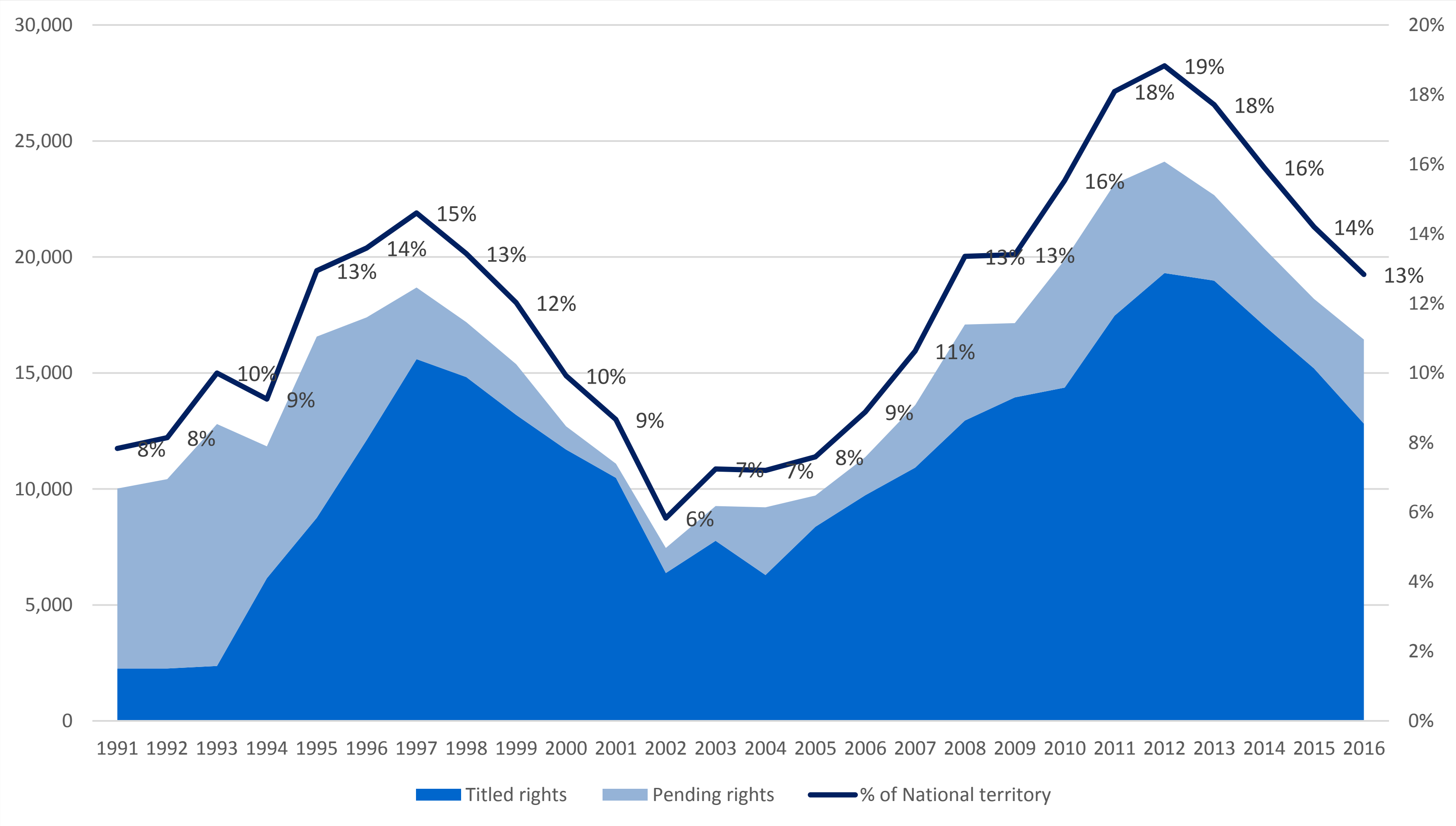
6. Total transfers to regions, 2006-15 (nuevos soles)

(mining canon, royalties and concessions payments)



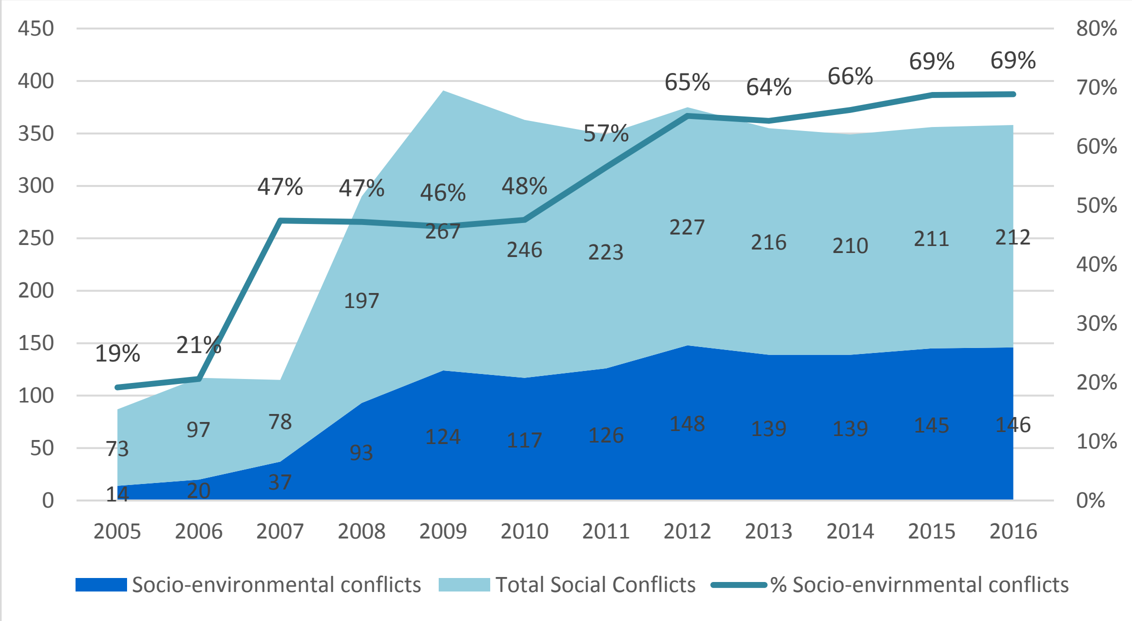
Source: Ministry of Energy and Mines (2016).

7. Evolution of mining rights and share of national territory (1991-2016)



Source: INGEMMET (accessed 2017), Glave and Kuramoto (2007).

8. Total social conflicts and socio-environmental conflicts reported by the Ombudsman (2005-16)*



Sources: Ombudsman. Monthly Report of Social Conflicts (2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016).
*Total conflicts registered by December.

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