Is Peru progressing towards an Open Access Order society?

Doorstep Conditions, Social Capabilities and Resilience to Economic Shrinking in Peru (1970-2018)

By

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Abstract: From 1970 to 2018 Peru has transitioned between periods of high and low frequency of shrinking. This thesis performs a qualitative analysis on quantitative trends and determines that the improvement of social capabilities was determinant to develop resilience to economic shrinking. Moreover, it finds that the most critical capability for breaking the shrinking cycle was the social stability capability. Additionally, the thesis concludes that, through resilience to shrinking, Peru is progressing towards the achievement of the doorstep conditions necessary to transition from a Limited Access Order society to an Open Access Order society.

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-A Dios, por darme la vida y permitirme luchar por mis ideales. Por darme los dos regalos que más amo, mi patria y mis padres.

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A mi patria, por formar mi identidad.

To my motherland, for shaping my identity.

Extracto de mi	**A piece of me**
¿Cómo escribirle a mi patria?	How could I write to my own country?
Con que derecho	With what right
Con que alegría	With what happiness
Con que dolor	With what pain
¿Cómo despedirme de mi suelo?	How can I say goodbye to my soil?
¿Cómo ocultar estando lejos ese sueño?	How can I hide my only dream when being far away?
El de aterrizar de nuevo	The one of landing once again
donde reposa mi corazón	in the only place where my heart can rest
Hay tantas cosas que quiero preguntarte patria mía	There are so many things I want to ask you my dear country
¿Se hace patria en tu tierra?	Can you only build patriotism in your own land?
¿Se hace patria desde fuera?	Can you build patriotism while being away from home?
¿Se hace patria desde el profundo interior?	Is the most important thing to build patriotism from deep within?
Hay tantas cosas que quiero pedirte patria mía	There are so many things that I want to ask from you my dear country
Una de ellas… Perdón.	One of them is for… forgiveness.

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List of Acronyms

AC	Andean Community
BCRP	Central Reserve Bank of Peru
	(Spanish: Banco Central de Reserva del Perú)
CBI	Central Bank Independence Index
DP	Peruvian Ombudsman
	(Spanish: Defensoría del Pueblo del Perú)
ETD	Economic Transformation Database
GDP	Gross National Product
GGDC	Groningen Growth and Development Centre
INEI	National Institute of Statistics and Informatics
	(Spanish: Instituto Nacional de Estadística e Informática)
LAO	Limited Access Order
MIPYME	Micro, Small and Medium Size Enterprises
	(Spanish: Micro, Pequeña Y Mediana Empresa)
MPD	Madisson Project Database
MRTA	Tupac Amaruc Revolutionary Movement
	(Spanish: Movimiento Revolucionario Tupac Amaruc)
OAO	Open Access Order
OEC	Observatory of Economic Complexity
PRODUCE	Ministry of Production of Peru
	(Ministerio de la Producción Perú)
SA	South America
SP	Shining Path
	(Spanish: Sendero Luminoso)
TRC	Truth and Reconciliation Commission
UCDP	Uppsala Conflict Data Program
WDI	World Development Indicators
WID	World Inequality Database

1. Introduction

Background

North, Wallis, and Weingast (2009) consider that violence is an innate characteristic of human interaction and that societies use different forms of violence to control social orders. They postulate that, with the aim to control violence, primitive societies developed institutions and thus transitioned into modern societies. Moreover, they propose that modern societies can have two societal orders, the Limited Access Order (LAO), and the Open Access Order (OAO). They refer to LAO societies, as those where elites ensure that rents are redistributed among their own group by restricting social and economic access. On the contrary, they describe OAO societies, as those that promote open competition to access political and economic structures. Additionally, North et al. (2009) argue that OAO societies have reached a higher development stage than LAO societies and propose that transformation from a LAO society into an OAO society involves two major characteristics: major institutional changes and resilience to shrinking.

Regarding shrinking, researchers like Broadberry and Wallis (2016; 2017) and Andersson (2018) state that for a country to be economically successful, resilience to economic shrinking could be more important than average growth. Furthermore, to explain what affects economic shrinking, Andersson and Palacio (2017) proposed a social capabilities approach. The Social Capabilities approach emerged from Abramovitz (1986: 388) postulate which states that, despite being technologically backward, a country could reach rapid growth potential if it is socially advanced. Likewise, Andersson (2018) argues that, rather than concentrating on short-term growth rate, improving social capabilities is better for encouraging economic development. As well, Andersson and Palacio (2017) suggest that, under globalization, countries with stronger social capabilities have better catch-up potential. Nevertheless, the role of social capabilities has been generally neglected in economic development (Andersson and Palacio, 2017), partially due to a lack of methodology on how to define or evaluate social capabilities (Abramovitz, 1986; Temple and Johnson 1998).

Therefore, Andersson and Palacio (2017) developed a framework that considers four social capabilities: 1) *structural transformation*, 2) *economic and social inclusion*, 3) *state´s autonomy*, and 4) *state's accountability*. Additionally, Andersson (2018) included *social stability* as the fifth social capability. Moreover, Andersson, Axelsson and Palacio (2021) integrated the social capabilities framework with the theories of North et al. (2009) and propose that improving social capabilities can generate the necessary doorstep conditions to strengthen resilience to shrinking and gradually transition from LAO society into an OAO society.

Peru provides an interesting scenario for the empirical application of the social capabilities' framework. From GDP per capita data obtained from the Madison Project Database (Bolt and van Zanden, 2020), it can be observed that, during the 1980s, Peru was one of the countries in South America (SA) with the highest frequency of shrinking and the lowest average GDP per capita. However, since the 1990s Peru has been one of the South American countries with the most resilient and fastest growing economies. In fact, between 1990 and 2018 Peru had the second highest average growth rate in SA. Moreover, between years 2004 and 2015, Peru lifted 9.3 million people out of poverty (World Bank Group, 2017). The recent societal and economic improvements in Peru have been referred to as the "Peruvian miracle" (Mendoza, 2013; Santos and Werner, 2015). Therefore, Peru's rapid development process has motivated the analysis performed in this thesis.

1.2. Aim and Scope

The Social Capabilities framework has been used in research to analyse how social capabilities relate to resilience to shrinking at an international level, regional level, and country level (Andersson, 2018; Andersson and Andersson, 2019; Andersson et al., 2021; Schedvin, C, 2020; Von Borries, 2018; Von Borries, 2019). Despite some of the research has focused on Latin America, no previous research has specifically focused on Peru. As Amsden (1989) argues, there is no general pattern to effectively engage in catching up. Similarly, Thorbecke and Ouyang (2016: 239-240) state that convergence depends on country specifics. Consequently, using Andersson (2018) *social capabilities* framework and resilience to shrinking theory, the aim of this research is to provide a better understanding of the specifics

of the Peruvian development process. Through a qualitative analysis of quantitative trends, this research aims to examine if there has been an evolution of *social capabilities* in Peru and if Peru has progressed towards the achievement of *doorstep conditions*. Moreover, by providing data for countries in the Andean Community (AC) of nations, this research also aims to analyse where is Peru currently standing among its regional context.

Concerning the 1970-2018 time frame, after analysing the GDP per capita data from the Madison Project Database (Bolt and van Zanden, 2020), it can be noted that, since 1950 Peru had 16 years of economic contraction, however only 4 of them occurred before 1970, while the remaining 12 occurred after 1970. Therefore, by analysing social capabilities and resilience to shrinking between 1970 and 2018, the intent is to cover most of the modern economic shrinking episodes.

1.3. Research Question and Subquestions

This thesis will answer the following two principal research questions:

- *Has resilience to economic shrinking led Peru to progress towards the achievement of the necessary doorstep conditions to become an OAO state?*
- *Have social capabilities impacted resilience to shrinking in Peru?*

And the following research subquestions:

- *How have social capabilities evolved over time in Peru?*
- *Is there a social capability, that has been more relevant to develop resilience to economic shrinking in Peru?*
- *At what stage of social capabilities development is Peru currently standing in comparison to the other countries in the Andean Community (AC) of nations?*

1.4. Main results and outline

This thesis proposes that improving *social capabilities* in Peru has led to resilience to economic shrinking, sustained economic growth and, consequently, to progress towards achieving the necessary *doorstep conditions* to transition from a LAO society to an OAO society. Moreover, the thesis highlights that the *social stability* capability in Peru has been the basis to further develop other *social capabilities* and to consequently develop resilience to economic shrinking.

Furthermore, addressing the "Baguazo" event under the context of the 2008 world financial crisis, the following thesis proposes that the relation between *social stability* and economic shrinking is not unidirectional but bidirectional, meaning that not only the lack of *social stability* causes economic shrinking, but that economic crises can also increase *social instability*. In addition, the comparison between the social capabilities' indicators of Peru with those of the Andean Community countries, indicates that on average both Peru and Colombia have reached a higher social capabilities' development stage than that of Ecuador and Bolivia.

In particular, the most critical aspect to achieve *social stability* in Peru was the ending of high terrorism activity, which occurred when the leader of the main terrorist group -Abimael Guzman, from the Shining Path- was captured. After capturing Guzman, the Peruvian government obtained vast support from the population and was able to introduce a new constitution. This constitution provided *autonomy* to the central bank of Peru, which as a result introduced strict monetary and fiscal policies that provided financial stability to the country. Moreover, with the gained *social stability* the government promoted economic openness and new investments thus generating economic *inclusion*, industrial growth, and *structural transformation* of the economy. After sustained economic growth during the 1990s and 2000s the obtained profits were redistributed revitalizing the government´s *accountability* and generating social *inclusion*.

The thesis is organized as follows, chapter 2 presents a literature review and theoretical framework, chapter 3 describes the data and its sources, chapter 4 describes the methodology, chapter 5 develops an empirical research, and chapter 6 provides the conclusion. Chapters 2, 3, 4, and 5 are further subdivided in sections that address economic shrinking, *social capabilities*, and *doorstep conditions*.

2. Theory

2.1. Literature Review

Following North et al. (2009)'s postulate that resilience to shrinking is a major characteristic of development, Broadberry and Wallis (2016) used data from the thirteenth century to show that increased continuous economic performance was principally obtained by reducing the frequency of shrinking instead of increasing the growth rate. Consequently, they state that describing good economic performance not only requires a theory of growing, but also one for shrinking. On a later research, Broadberry and Wallis (2017) analyse the forces that affect shrinking and consider structural change, technological change, demographic change, and incidence of warfare as the main proximate factors. On this investigation, Broadberry and Wallis (2017) conclude that institutional change is the "key ultimate factor behind the reduction in shrinking".

Contributing to the understanding of why countries experience economic shrinking, Andersson and Palacio (2017) proposed a social capabilities framework that includes *structural transformation*, *inclusion*, *state´s autonomy* and *state´s accountability* as the main dimensions. On their research, they argue that without improvement in these dimensions "inequality may increase and might in turn lead to stagnating growth and slim prospects for global income convergence". Elaborating on their work, Palacio (2018) created a social capability index and using a sample of 27 countries across Africa, Asia, and Latin America, he provided support to the argument that *social capabilities* are related to income growth. As well, Andersson (2018) investigated the process of catching up in the developing world between 1951 and 2016. On this research, he added the generation of social arrangements for conflict resolution -*social stability*- as one of the social capabilities' dimensions of his previously developed framework.

Furthermore, Andersson and Andersson (2019) applied the social capabilities framework to study economic development in Africa. They investigated how Cote d'Ivoire and

Senegal social capabilities evolved during the Development Era (1930-1940). Through their research they highlight how limited access to economic opportunities prevents sustainable economic growth and social progress. Likewise, Schedvin (2020) analysed the five countries with the highest level of GDP per capita in Sub-Saharan Africa. However, Schedvin (2020) research delivered inconclusive results, most likely due to data access and endogeneity issues.

With regards to the Latin American region, Von Borries (2018) used the case of Chile to analyse the role of social capabilities when catching-up in natural resource rich developing countries. He concluded that countries should concentrate their efforts on constructing a more autonomous state rather than broadly focusing on inequality reduction. As well, Von Borries (2019) elaborated an empirical investigation for Latin America between years 1970 and 2016. On this research he found mixed support to Andersson (2018) framework. He concludes that three social capabilities -*state's autonomy*, *state's accountability* and *social stability*- had a positive relation with resilience to economic shrinking and that two capabilities -*inclusion* and *structural transformation*- had a negative relation.

Additionally, Andersson et al. (2021) researched the role of social capabilities in Indonesia between 1950 and 2015. They concluded that *state´s autonomy*, measured by macroeconomic policy making, and *state´s accountability*, measured by food security, were critical to reduce economic shrinking. Particularly, they highlighted that Indonesia was able to open up more opportunities for private enterprises by loosening up the connection between macroeconomic policy making and elites. Moreover, they proposed that social capabilities have had a predominant role in Indonesia's achievement of the necessary doorstep conditions to transition from a Limited Access Order society into an Open Access Order society.

2.2. Theoretical Approach

2.2.1. Economic Shrinking

Andersson et al. (2021: 1) define economic shrinking "as a year when per capita growth is less than zero, i.e. when GDP per capita from one year to another shrinks". In addition, Broadberry and Wallis (2007) describe that if an economy has at least three consecutive years of negative GDP per capita growth, the economy is experiencing a shrinking episode. Moreover, following Hausmann, Rodriguez and Wagner (2006) approach, Von Borries (2019) defines a shrinking cycle as a period that starts with the year when a GDP per capita contraction is experienced, and ends with the year when GDP per capita equalizes or surpasses that of the year preceding the contraction.

Concerning Peru, Llosa and Panizza (2015), conclude that the economic depression that took place in Peru between the 1970s and the 1980s, was due to a combination of factors including a fragmented and weakened political system, external shocks, an absence of industrial policies to encourage the generation of innovative productive activities, and a deficient entrepreneurial capacity. Furthermore, Castillo and Rondan (2009) address the external impact of the 1998 Russian crisis and the 2008 world financial crisis, but highlight that Peru was able to attenuate external shocks through accumulation of international reserves, investments in the exchange market, and robust fiscal policies. Moreover, reports of the Central Reserve Bank of Peru (BCRP, 1991, 2002) address natural disasters and political uncertainty as other causes for shrinking.

2.2.2. Social Capabilities

Following the previous work from Andersson and Palacio (2017), Andersson (2018), and Palacio (2018); Andersson and Andersson (2019) defined each *social capability* as follows: *structural transformation* relates to the degree of structural change that a country has experienced and how it has engaged in more productive sectors; *inclusion* relates to the access or distribution of social and economic opportunities among the population; *state´s autonomy* relates to the capacity of the government to maintain its interests while maintaining its

connection to society and ensuring goals and policies; and *state's accountability* relates to the ability of the government to provide public goods. Moreover, Andersson and Palacio (2017) developed a conceptual framework that also includes the links and dynamics of the four aforementioned *social capabilities* (See Figure 1). In addition, Andersson (2018) added the *social stability* capability and defined it as the capacity to allocate resources to encourage development policies instead of dissipating them to solve conflicts. Concerning the practical application of the social capabilities' framework, previous studies have used multiple metrics to measure the five social capabilities dimensions (See Table 1).
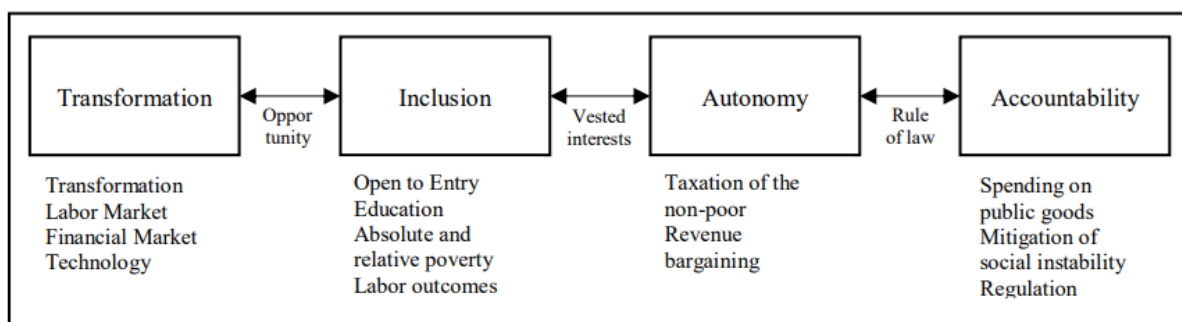
Figure 1. Social Capabilities' Framework (Andersson and Palacio, 2017)
Source: Andersson and Palacio (2017)

Table 1. Social Capability metrics used in previous studies
Source: Author's elaboration. Considering metrics used in Andersson and Palacio (2017), Palacio (2018), Andersson (2018), Von Borries (2018), Von Borries (2019), Andersson and Andersson (2019), Schedvin (2020), and Andersson et al. (2021)

Social Capability metrics used in previous studies	
Social Capability	**Metrics**
Structural Transformation	Agriculture labor share
	Value added (per sector)
	Agriculture productivity
	Formal employment share
	Share of wage employment
	Share of private employment
	Urbanization rate
	Urban concentration
	Economic Complexity Index
	Exports Diversification Index
	Exports Quality Index
Inclusion	Gini Index
	Unemployment rate
	Poverty head count ratio
	Access to education
	Income distribution
	Human Capital Index
Autonomy	Tax revenue (% GDP)
	Tax revenue composition
	Inflation rate
	Central Bank independence index
	External aid
	External debt
	Real exchange rate
State's Accountability	Government social expenditure
	Government expenditure on education
	Government expenditure on health
	Health or educational outcomes
	Democratization and suffrage trends
	Child mortality rate
	Access to electricity
	Infrastructure (roads in km)
	Food security (budget allocation to agriculture)
Social Stability	Country risk index
	Ethnic fractionalization
	Linguistic fractionalization

Several works have addressed the relationship between the different social capabilities and development. Concerning ***structural transformation***, Kuznets (1973) postulated that a high rate of *transformation* is one of the characteristics of modern economic growth. Moreover, with regards to *structural transformation* in developing countries Bah (2011) argues that 1) *transformation* follows a different path than that of developed countries, that 2) there is great heterogeneity across developing regions, and that 3) it is possible to experience significant *structural transformations* during times of economic stagnation or economic contraction.

Regarding the economic component of ***inclusion***, Sarma and Pais (2011) found that financial *inclusion* and human development have a close relation. Furthermore, concerning social ***inclusion*** and the effects of inequality, Bourgignon (2004), suggests that -for a specific country at a particular point in time- it is not only the average growth rate of income what fully determines poverty outcomes, but also the changes in income distribution.

Furthermore, Andersson (2018) proposes that ***state's autonomy*** can be analysed through a country's ability to tax the non-poor while maintaining commitment of powerful actors to accomplish development goals. In addition, Andersson et al. (2021) use management of inflationary pressure to empirically measure *autonomy*. Regarding inflation, Barro (1995) performed a study with data from 100 countries and found that an increase of 10 percentage points in inflation causes a reduction of 0.2 to 0.3 percentage points in GDP and a reduction of 0.4 to 0.6 percentage points in the ratio of investment to GDP. Moreover, Garriga (2016) emphasizes that central bank independence is essential for stability because governments can increase inflation through the use of central bank loans to fund their expenditures.

In relation to ***state's accountability***, Andersson (2018) suggests to proxy accountability with the ratio of social spending to GDP or to total governmental spending. On this respect, Barbiero and Cournede (2013) concluded that raising government expenditure on health and education increases long term GDP growth. Nevertheless, Tiongson, Davoodi, and Asawanuchit (2003) found that spending on health and education tends to be inefficiently targeted; however, they highlight that superior education and health outcomes are obtained in countries that engage in pro-poor spending.

Finally, with respect to **social stability**, Solimano (2004) argues that conflict flourishes in countries that combine social exclusion, a fragile state, and a mediocre economic performance. Moreover, after studying 52 armed conflicts, Collier and Hoffler (2002) determined that the rate of GDP growth, the composition of GDP, and the level of GDP had a

significant effect in the likelihood of a country to engage in civil war. Similarly, Çınar (2017) performed a study involving 115 countries and concluded that -in comparison to high income countries- the negative impact of terrorism in economic growth in low income countries is three times higher.

2.2.3. Doorstep Conditions

North et al. (2009) argue that to evolve into an Open Access Order (OAO) society, Limited Access Order (LAO) societies need to achieve certain doorstep conditions. North, Wallis, Webb and Weingast (2007) suggest that these doorstep conditions allow for interpersonal exchange; and identify three of them: 1) *Rule of law for elites* 2) *Support for perpetually lived organizations*, and 3) *Centralized and consolidated control of violence*. Regarding *rule of law for elites* North et al. (2007) point out that at an initial stage LAO societies tend to develop impersonal rights that are only enforced among elites. However, they assert that when LAO mature, rights can spread to a wider spectrum of society, and consequently services and goods are "based on relatively objective, impersonal, and impartial criteria". With respect to *support for perpetually lived organizations*, they state that to achieve this condition organizations must continue existing without the presence of the people who founded them. Moreover, they propose that *perpetually lived organizations* require a perpetually lived state that can in turn offer perpetual support. Concerning the *centralized and consolidated control of violence,* they emphasize that control of violence should only be enforced by specialized organizations like the police and the military forces. Moreover, they state that these specialized organizations need to be regulated and must abide to constitutional rights that protect their citizens.

3.Data

3.1. Economic Shrinking

Frequency, volatility, and amplitude of shrinking are calculated from annual GDP per capita obtained from the Maddison Project Database (MPD) (Bolt and van Zanden, 2020).

3.2. Social Capabilities

3.2.1. Social Stability

Deaths caused by organized violence -terrorism in the case of Peru- were obtained from the Uppsala Conflict Data Program (UCDP). Number of strikes and number of workers involved in strikes were obtained from the National Institute of Statistics and Informatics (INEI). Number of social conflicts and number of deaths and injured in social conflicts were obtained from the Peruvian Ombudsman Office (DP; Spanish: Defensoria del Pueblo de Peru) yearly reports. Internal conflict and external conflict Country Risk Index (CRI) indicators were obtained from the International Country Risk Guide (ICRG).

3.2.2. Autonomy

Tax revenue as a percentage of GDP and inflation measured by consumer prices (annual percentage) were obtained from the World Bank World Development Indicators (WDI) (World Bank, n.d.a) database. Central Bank Independence (CBI) indexes were obtained from Garriga (2016).

3.2.3. Structural Transformation

Primary, secondary, and tertiary sectors's GDP contribution to total national GDP was calculated after obtaining the contribution of each productive activity from the Central Reserve Bank of Peru (BCRP; Spanish: Banco Central de Reserva del Peru) database. Primary,

secondary, and tertiary sectors's employment share was calculated after obtaining employment share as a percentage of total employment from each productive activity. Employment share data was obtained from the Groningen Growth and Development Centre (GGDC) Economic Transformation Database (ETD). Value of exports, and foreign direct investment in the agricultural sector, were obtained from the INEI. Finally, the Economic Complexity Index was obtained from the Growth Lab at Harvard University (2019).

3.2.4. Inclusion

The GINI index was obtained from the Standardize World Income Inequality Database (SWIID) by Solt (2020). Poverty headcount ratio -at $5.50 a day on 2011 PPP- was obtained from the WDI. The $5.50 level is chosen because Peru follows under the upper-middle income country category. The World Bank defines upper middle-income countries as those with a GNI per capita between $4,046 and $12,535 (World Bank, n.d.b). The other poverty headcount ratio levels have been set by the world bank at $1.90 and $3.20 a day; however, these levels respectively refer to extreme poverty and lower-middle income countries.

As well, the NBI indicator was obtained from the INEI. Through this indicator people with at least one NBI are considered poor and people with two or more NBI are considered extreme poor. Regarding economic *inclusion*, the number of micro, small, and medium size enterprises per year (MIPYME; Spanish: Micro, Pequeñas y Medianas Empresas) and MIPYMEs registrations and bankruptcies were obtained from the INEI (2015, 2018, 2020) business demographics reports.

3.2.5. Accountability

Overall expenditure as a percentage of GDP, health expenditure as a percentage of GDP, infant mortality rate, neonatal mortality rate, educational enrolment, HIV infection rates and Malaria infection rates were obtained from the WDI. Peru's government spending in education and health were obtained from the INEI. Moreover, long term Malaria and HIV incidences for Peru were obtained from the INEI.

3.3. Doorstep Conditions

3.3.1. Rule of law for the elites

Information regarding legal processes of ex Peruvian presidents was obtained from multiple press and legal sources including: Anarte (2019), Castedo (2020), Correo (2018), Corte Suprema de Justicia de la Republica (2001), DW (2019), El Comercio (2019), El Pais (2001, 2019), Sanchez Pico (2019), and Semana Economica (2018).

3.3.2. Support for perpetually lived organizations

Part of the analysis of the *support for perpetually lived organizations* doorstep condition is made through the implementation of long-term institutional reforms. To evaluate effectiveness of decentralization reforms, national poverty rates in Lima and in the rest of Peru are obtained from the INEI. Moreover, to evaluate effectiveness of social *inclusion* and poverty reduction reforms, the general budget executed by the government in social inclusion, poverty, and extreme poverty reduction programs was obtained from the INEI, while the poverty headcount ratio at $5.50 and the poverty gap were obtained from the WDI.

3.3.3. Centralized and consolidated control of violence

Concerning drug trafficking, number of police interventions, number of persons detained, seized cocaine in kilograms, and number of regions with at least one narco-terrorist action were obtained from the INEI.

3.4. Limitations

GDP growth data is available from 1961 to 2019. Therefore, for the selected time frame -1970 to 2018- there are no limitations to obtain economic shrinking's frequency, volatility, or amplitude. Nevertheless, social capabilities data presents some limitations on availability over

time (See Table 2). Moreover, when performing comparisons between Andean Community (AC) countries, some indicators present limited data or no data for each individual country. For example, there is no available WDI data for tax revenue as a percentage of GDP for Ecuador. As well, the available Gini index data for all countries does not cover the same period of time. Gini index data for Colombia is available from 1970, for Peru from 1972, for Bolivia from 1992, and for Ecuador from 1994 (See Table 3). Furthermore, data used in the doorstep conditions discussion also presents limitations on availability over time (See Table 4).

Table 2. Peru Social Capabilities Indicators
Source: Author's elaboration

Peru Social Capabilities Indicators				
Social Capability	**Indicator**	**Source**	**Availability**	
			From	**To**
Social Stability	Deaths caused by organized violence	UCDP	1989	2018
	Number of strikes and number of workers involved	DP	1992	2018
	Number of social conflicts	DP	2007	2018
	Number of deaths and injured in social conflicts	DP	2007	2018
Autonomy	Tax revenue as percentage of GDP	WDI	1972	2018
	Inflation measured by consumer prices (annual percentage)	WDI	1990	2018
	Central Bank Independence Index	Garriga (2016)	1970	2016
Structural Transformation	Productive sector's contribution to GDP	BCRP	1970	2018
	Employment Share as a percentage of total employment	GGDC - ETD	1970	2018
	Value of exports	INEI	2000	2018
	Agricultural sector foreign direct investment	INEI	2000	2018
	Agricultural sector traditional and non-traditional exports	INEI	2000	2018
Inclusion	GINI index	SWIID	1972	2018
	Poverty headcount ratio at $5.50	WDI	1997	2018
	Unmet Basic Needs (% of Population)	INEI	2009	2018
	Number of MIPYMEs and MIPYMEs Average growth rate	INEI	2013	2018
	MIPYMEs registrations and bankruptcies	INEI	2013	2018
Accountability	Overall expenditure as a percentage of GDP	WDI	1972	2018
	Health expenditure as a percentage of GDP	WDI	2007	2018
	Infant mortality rate	WDI	1970	2018
	Neonatal mortality rate	WDI	1970	2018
	Educational enrolment	WDI	1995	2018
	HIV incidences in Peru	INEI	2007	2018
	Malaria incidences in Peru	INEI	2007	2018
	Spending on education	INEI	1994	2018
	Spending on health	INEI	2007	2018

Table 3. Andean Community Social Capabilities Indicators
Source: Author's elaboration

Andean Community Social Capabilities Indicators				
Social Capability	**Indicator**	**Source**	**Availability**	
			From	**To**
Social Stability	Internal Conflict and External Conflict Country Risk Index indicators	ICRG	1984	2016
Autonomy	Tax revenue as percentage of GDP	WDI	1985	2018
	Inflation measured by consumer prices (annual percentage)		2003	2018
	Central Bank Independence Index	Garriga (2016)	1970	2016
Structural Transformation	Agriculture employment share	MPD	1990	2018
	Economic Complexity Index	OEC	1995	2018
Inclusion	Gini Index	SWIID	1970	2018
	Poverty headcount ratio at $5.50	WDI	1997	2018
	HIV infection rates	WDI	2018	2018
	Malaria infection rates	WDI	2018	2018
	Life expenctacy	WDI	2018	2018
Accountability	health expenditure	WDI	2000	2018

Table 4. Support data for doorstep conditions achievement
Source: Author's elaboration

Support Data for Doorstep Conditions achievement				
Doorstep Condition	**Support Data**	**Source**	**Availability**	
			From	**To**
Support for perpetually lived organizations	Poverty in Lima and the rest of Peru	INEI	2009	2018
	Poverty reduction budget	INEI	2011	2018
	Poverty headcount ratio and poverty gap	WDI	2011	2018
Centralized and consolidated control of violence	Drug trafficking number of interventions,	INEI	1988	2018
	number of persons detained, and seized cocaine paste in Kilograms			
	Number of narco-terrorist actions per region	INEI	2011	2018

4. Method

Following previous social capabilities research (Andersson, 2018; Andersson et al., 2021; and Von Borries, 2018), the thesis will make use of quantitative data to produce an analytical narrative of the evolution of resilience to shrinking, social capabilities, and doorstep conditions. The five social capabilities that will be included in the study are *structural transformation, inclusion, state´s autonomy, state´s accountabilit*y, and *social stability.* Likewise, the three doorstep conditions that will be included in the study are *rule of law for elites*, *support for perpetually lived organizations, and centralized and consolidated control of violence*. The narrative will put special focus on what occurred during the shrinking years and the progression of social capabilities and doorstep conditions after the reduction in frequency of shrinking.

Moreover, to provide regional context, there will be a comparison with countries that belong to the Andean Community (AC) of nations. The reasons behind choosing these countries in South America are that 1) they possess a similar GDP per capita 2) they have geographical proximity and 3) they have strong social, cultural and historical commonalities. The comparison between countries will mainly address the relative position of Peru regarding social capabilities metrics in the region.

For analysing resilience to shrinking between 1970 and 2018, the period from 1980 - the year of the first terrorist action- until 1992 -the year when the leader of the main terrorist group was captured- will be defined as the period of "high terrorism activity". During this period, Peru had 7 shrinking occurrences and experienced one of the highest frequencies of shrinking of its entire history. Likewise, during "high terrorism activity" Peru experienced a shrinking cycle that lasted for 23 consecutive years. This shrinking cycle, started in 1982 and was one of the longest in its entire history. It was only in 2005 that Peru recovered and for the first time was able obtain a greater GDP per capita than that of 1981. Moreover, after the "high terrorism activity" period only 2 years of economic shrinking were experienced.

Furthermore, regarding *doorstep conditions, centralized and consolidated control of violence* is extensively discussed through the *social stability* capability. Therefore, the *doorstep condition* empirical discussion section will have a major focus on providing evidence of

achievement for 1) *Rule of law for elites* and 2) *Support for perpetually lived organizations*. However, the thesis will also provide additional evidence for 3) *Centralized and consolidated control of violence*. *Rule of law for elites* will be analysed through the legal processes opened against Peruvian ex-presidents. *Support for perpetually lived organizations* will be analysed by describing maintained independence of the Central Reserve Bank of Peru (BCRP) and institutional reforms to perpetuate *inclusion* policies. *Centralized and consolidated control of violence* will be analysed by providing evidence on further accomplishments of the Peruvian army against narco-terrorism.

5. Empirical Research

5.1. Economic Shrinking

During the 1970s and the 1980s Peru's frequency of shrinking was considerably above the South American (SA) and Andean Community (AC) of nations average. In fact, except for Argentina and Venezuela, Peru was the country that experienced the highest frequency of shrinking in one decade (50% between 1980 and 1990). As well, during the 1980s, the magnitude of shrinking episodes in Peru was the highest (See Figure 2). Moreover, with 12 shrinking occurrences, Peru is the country in the AC that has experienced the most shrinking occurrences since 1970. Despite these occurrences, during the 1990s Peru´s frequency of shrinking reduced from 50% to 30%. At 30% Peru started to approximate the SA average at 26.7%. Later in the 2000s Peru´s frequency of shrinking (at 10%) dropped below the SA average (at 15.6%) but remained above the AC average. Finally, between 2010 and 2018, Peru´s frequency of shrinking (at 0%) dropped below both the SA and AC averages (17.8% and 6.7% respectively) (See Figure 3).
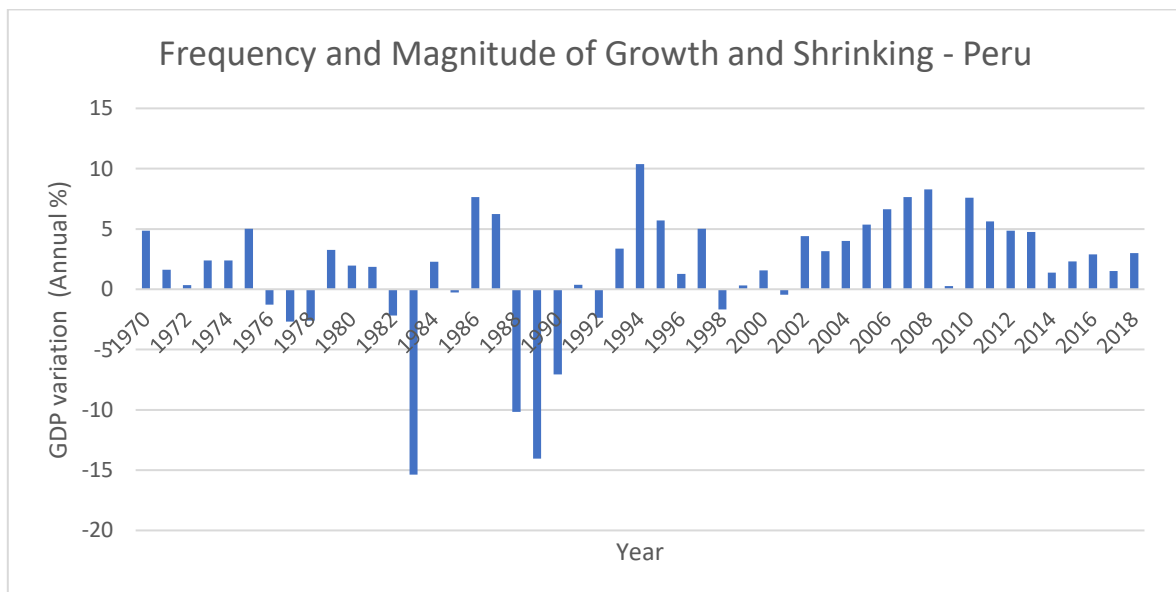

Figure 2. Frequency and Magnitude of Growth and Shrinking - Peru
Source: Author´s elaboration with Bolt and van Zanden (2020) data
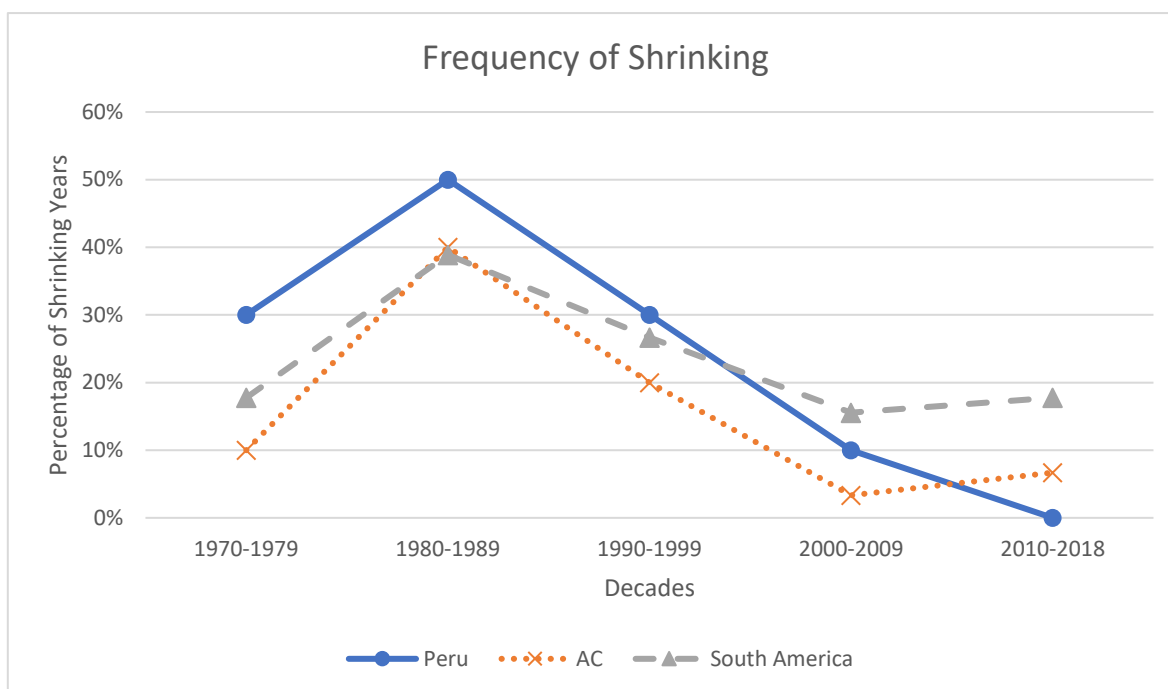
Figure 3. Frequency of Shrinking. Peru, AC and South America
Source: Author´s elaboration with Bolt and van Zanden (2020) data

The negative impact of the period of high terrorism activity (1980-1992) can be evidenced when comparing it to both, the decade preceding the first terrorist act in 1980, and the years following the capture of Abimael Guzman -the leader of the Shining Path- in 1992. From 1980 until 1992, Peru experienced 7 years of economic shrinking. In contrast, from 1970 to 1979, Peru experienced 3 years of shrinking. After 1992, Peru had no shrinking episodes for four consecutive years. In fact, there were only 2 shrinking episodes between 1993 and 2018. The first one which occurred in 1998, with a GDP per capita contraction of 1.7%, and the second one in 2001, with a slight GDP per capita contraction of 0.5%. In comparison with both the preceding and following periods, the period of high terrorism activity had the highest single year contraction, the highest volatility, the highest frequency of shrinking, and the lowest -and only negative- average annual GDP per capita growth rate (See Table 4).

Table 5. Economic Shrinking Indicators
Source: Author´s elaboration

Economic Shrinking Indicators			
Period	1970-1979	1980-1992	1993-2018
Number of Years	10	13	26
Highest GDP Contraction	-2.7	-15.4	-1.7
Highest GDP Growth	5	7.6	10.4
Amplitude	7.7	23	12.1
Volatility (Standard Deviation)	2.8	7.3	2.9
Years of negative growth	3	7	2
Frequency of Shrinking	30.00%	53.80%	7.70%
Average GDP contraction	-2.20%	-7.40%	-1.10%
Average annual growth rate	1.30%	-2.40%	3.80%

It is worth noting that despite all the economic contractions before and during the high terrorism activity period were directly related to *social stability* issues, the economic contractions following the years of high terrorism activity were not. The Central Reserve Bank of Peru (BCRP) (1999) explains that the economic contraction of 1998 was mainly caused by 1) the Russian international crisis that caused a fall in the terms of trade and a reduction on capital flux to emerging markets, and 2) the "El niño" phenomenom, an unpredictable climate pattern that in 1998 produced vast natural disasters causing infrastructural damage and a reduction on fishery and agricultural exports. Likewise, the BCRP (2002) explains that the economic contraction of 2001 was mainly caused by 1) continuous reductions in capital influxes that followed the 1998 contraction and 2) the uncertainty of the 2001 presidential elections.

5.2. Social Capabilities

5.2.1. Social Stability

Before terrorism

Even though there was no terrorism in Peru during the 1970s, this decade also was marked by some serious social stability episodes. Actually, just before the beginning of the decade there was a coup d'etat performed in 1968 by General Juan Velasco Alvarado. The year of the coup (1968) and the year following the coup (1969) were years that experienced

shrinking episodes. Nevertheless, in 1970, GDP per capita started to recover and grew consistently for 6 years. Additionally, in 1975 another coup d'état performed by General Francisco Morales-Bermudez took place. Similarly, to the economic impact produced by the 1968 coup, economic shrinking was experienced in all the three years that followed the 1975 coup. However, after staying in power for five years, General Morales-Bermudez called for democratic elections on May 17th, 1980.

During terrorism

The possibility to transition into a more stable democracy was hindered on the same day of the elections on May 17th, 1980 when the Shining Path (SP) performed its first act of terrorism. As a way of confronting the government, the terrorist group publicly burned the electoral amphorae and the electoral rolls in the town of Chuschi in Cangallo, Ayacucho (Rivera, 2020) (See maps in Appendix A). The SP self-proclaimed this act as the beginning of the armed struggle (Rios and Sanchez, 2018). For the SP, class struggle was the axis determining their actions and armed struggle was its highest form (Degregori, 1990: 158). Abimael Guzman, the leader of the SP, considered violence to be a crucial manifestation of conflict and a primary motor for social and physical dynamism (Portocarrero, 2015:22). For the SP hate was a "logical and spontaneous response to oppression" and their objective was to "annihilate the exploiters in order to allow the victory of the exploited" (Portocarrero, 2015: 24).

The first terrorist act in Chuschi was later followed by a series of violent actions that did not only undermined the foundations of social interaction but also damaged economic foundations by generating a massive capital flight (TRC, 2003a: 301-328). Moreover, a new terrorist group -the Movimiento Revolucionario Tupac Amaruc (MRTA)- vindicated its first military action in 1984 (Oreamuno, Acevedo, and Galli; 2005). During the terrorism phase, Peru was so violent that the Truth and Reconciliation Commission of Peru (TRC) estimates that 69,280 people were killed. Moreover, the TRC states that the number of deaths during the internal conflict overcomes all the deaths caused by all external and civil wars in the entire history of Peru as an independent country (TRC, 2003b).

After Abimael Guzman was captured, the leader of the SP declared the surrender of the terrorist group in October 1993 (Ezcarzaga, 2001). Posteriorly, the members of SP divided in two groups, the "accordist" (Spanish: acuerdistas) who followed Guzman's call to lay down

arms, and "to pursue" (Spanish: proseguir) who ignored the surrender and asked their militants to continue the armed actions (Ayala, 2013). The "to pursue" group gave origin to smaller and focalized structures, which violent actions are far from achieving the magnitude and reach of the destabilizing actions of the 1980s and beginning of the 1990s (Rios and Sanchez, 2018). The remnants of the SP have abandoned their ideological motivations and -through the use of their operational capacity- are now engaged in criminal activities like drug and human trafficking (Diaz, 2015).

This new scenario has led analyst to address the SP actions as narco-terrorist rather than just terrorist actions (Annoni and Villena Del Carpio, 2018; Moreno, 2016). The SP remnants are hard to prosecute because, on top of their alliance with drug cartels, they are concentrated in rugged territory in the middle of the Peruvian jungle. These geographical conditions, together with their high mobility, provides them protection against the police and military forces of Peru. Despite narco-terrorism has not been completely defeated, deaths caused by terrorism activity had a dramatic decrease after the capture of Abimael Guzman in 1992 (See Figure 4).
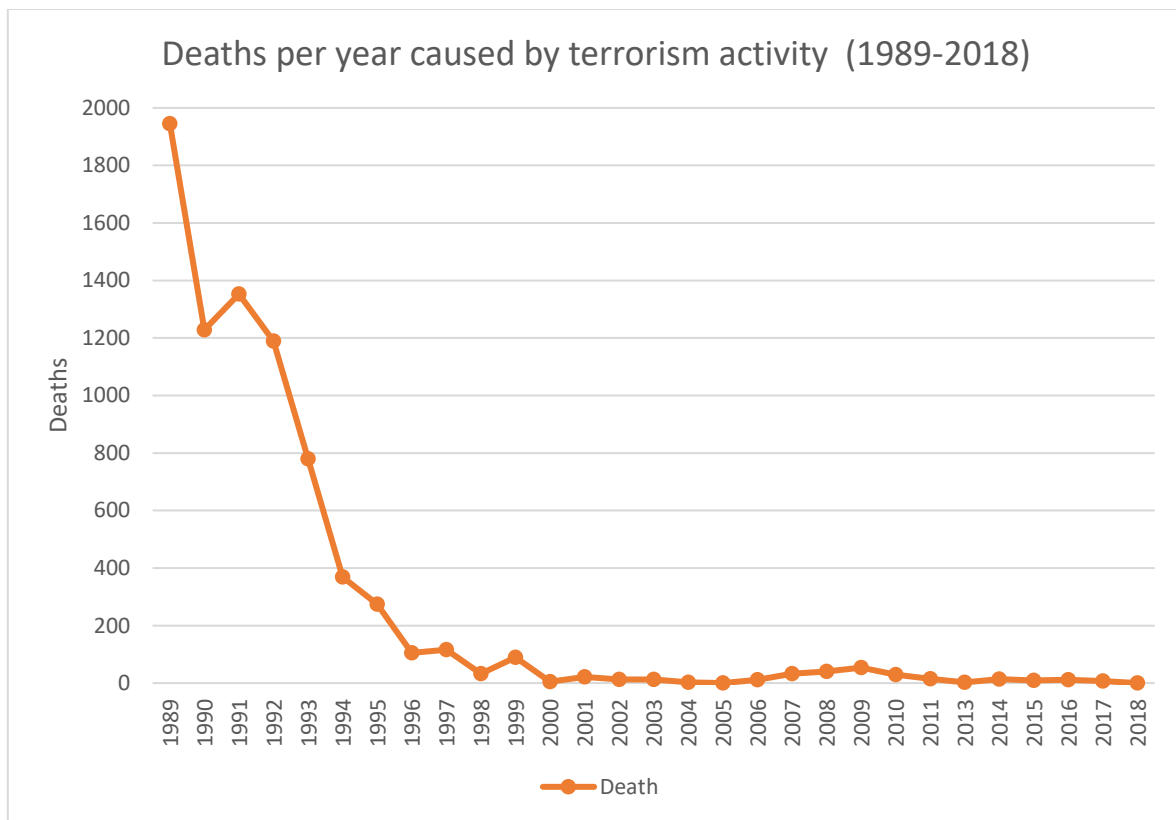

Figure 4. Deaths per year caused by terrorism activity (1989-2018)
Source: Author´s elaboration with UCDP (n.d.) data

The MRTA never reached the level of violence of the SP, in fact the TRC declares that the SP was responsible of 54% of the reported deaths during the internal conflict, while the MRTA was responsible of 1.5% of the deaths (TRC, 2003b). Moreover, the MRTA leader Victor Polay Campos, was also captured in 1992. After Polay was imprisoned, the MRTA actions drastically decreased and were mainly relegated to propaganda activity (Ariel, 2015). However, on December 17th, 1996, the terrorist group performed the most destabilizing terrorist action since 1992, when they captured the embassy of Japan during the celebration of emperor Akihito's birthday (Degregori, 1997). At the embassy of Japan, the MRTA initially took 600 hostages and later demanded an exchange with 465 MRTA inmates (Ariel, 2015).

The hostage crisis lasted for more than four months. Despite there were some negotiation attempts, the Peruvian government was not willing to negotiate the release of the MRTA members in jail; similarly, the MRTA group who captured the embassy was not willing to decline this request (Milet, 1997). During the negotiation, most of the hostages were released but the MRTA kept 72 high profile hostages from the national and international political and economic spheres. The negotiations never reached mutual consensus, and on April 22nd, 1997 the Peruvian government decided to carry out a military incursion to rescue the hostages in the embassy. The Peruvian army was successful and rescued all the hostages except for one who died from a crossfire bullet. As well, during the operation 2 commandos and all the 14 members of the MRTA died (Burga Coronel, 2012). After this event, the MRTA terrorist group was completely eliminated.

After terrorism

Besides focalized narco-terrorist activity, *social stability* in Peru has been mainly affected by social conflicts and worker strikes. Nevertheless, there is also a progression in the reduction of the number of strikes and the intensity of social conflicts. In fact, number of strikes decreased from 219 in 1992 to 54 in 2018 (See Appendix B). Moreover, from 2007 to 2018, the number of social conflicts has remained relatively constant but there has been a decrease in the intensity of violence that can be evidenced by a decrease in the number of deaths in social conflicts (See Figure 5).
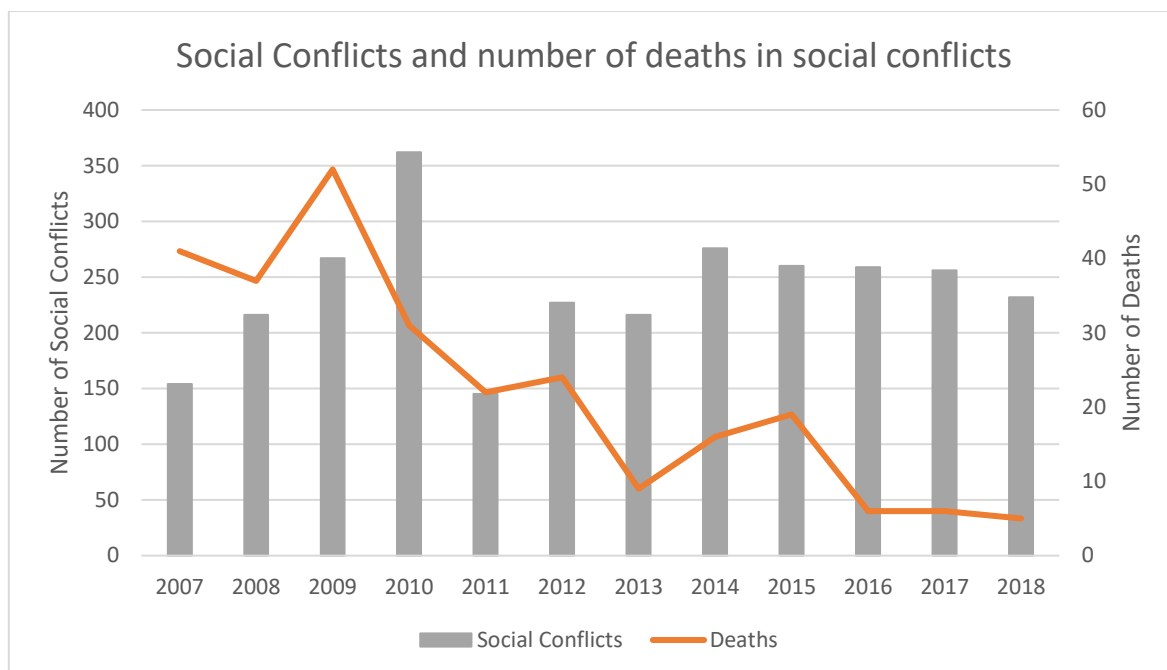
Figure 5. Social conflicts and number of deaths in social conflicts
Source: Author´s elaboration with DP (2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019) data.

As show in Figure 5, year 2009 was the year with the highest number of deaths produced in social conflicts. This was not an isolated event, as 2009 was also the year in which Peru was most severely affected by the 2008 world financial crisis (See Figure 6). Despite the Peruvian economy did not experience a contraction, its average GDP growth dropped from 8.28% in year 2008 to 0.27% in year 2009. Regarding the world financial crisis, Seoane, Taddei, and Algranati (2013) mention that, as a response to economic uncertainty, there was an intensification of extractivist policies in Latin America. Under this context the government of President Alan Garcia (2006-2011), issued a series of decrees that allowed for the exploitation of resources from indigenous territories in the Peruvian Amazon. The emission of these decrees triggered the "Baguazo", the worst episode of political violence after the defeat of terrorism (The Associated Press, 2009).
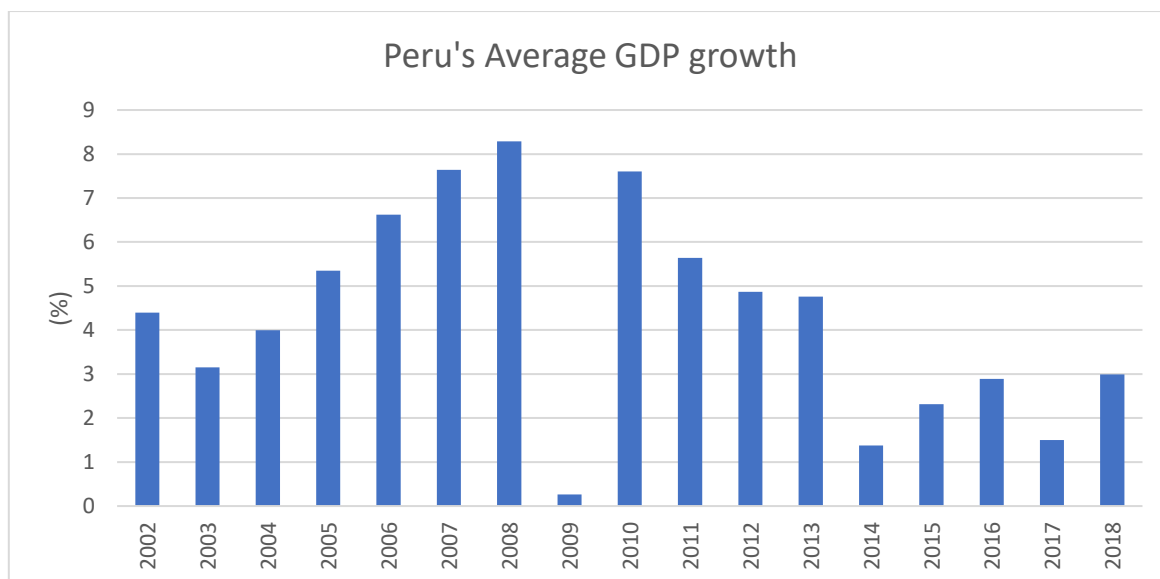
Figure 6. Peru's Average GDP growth (2002-2018)
Source: Author´s elaboration.
After calculating average GDP growth from Maddison Project Database (2020)

The indigenous territories that were affected by the emitted decrees, are protected by the 169 International Labour Organization (ILO) treaty; which through Article 6, subsection a, stablishes that governments shall "consult the [indigenous] peoples… whenever consideration is being given to legislative or administrative measures which may affect them directly". Moreover, according to the fourth final and transitory provision of the political constitution of Peru, the 169 ILO treaty has constitutional status in Peru (Political Constitution of Peru, 1993). Nevertheless, in an intent of extracting the resources present in indigenous territories and reactivating the economy, the Peruvian government violated the treaty by not consulting indigenous populations about the emission of the decrees.

As a response, the indigenous communities protested by blocking one of the main roads that conducted to their territory. After a period of failed negotiations, the Peruvian government sent a heavily armed police contingent to unblock the road. The consequences were fatal, with 33 Peruvian losing their lives, ten civilians and twenty-three policemen (Amnesty International, 2014). Through its sequence of events, the "Baguazo" exemplifies that not only social instability has a negative impact on economic performance, but that unfavourable economic scenarios can also lead to higher social instability. Thus, this thesis proposes that the relation between social stability and economic performance is bidirectional rather than unidirectional.

Social Stability in the Andean Community (AC)

To compare social stability in the AC, the internal conflict and external conflict Country Risk Index (CRI) indicators from the International Country Risk Guide (ICRG) are used. Concerning the internal conflict indicator, Peru had the worst indicator in the AC during the years of high terrorism activity, however after 1992 the internal conflict indicator started to improve overcoming that of Colombia after 1993[1], that of Ecuador in 2015, and only remaining below that of Bolivia (See Figure 7).
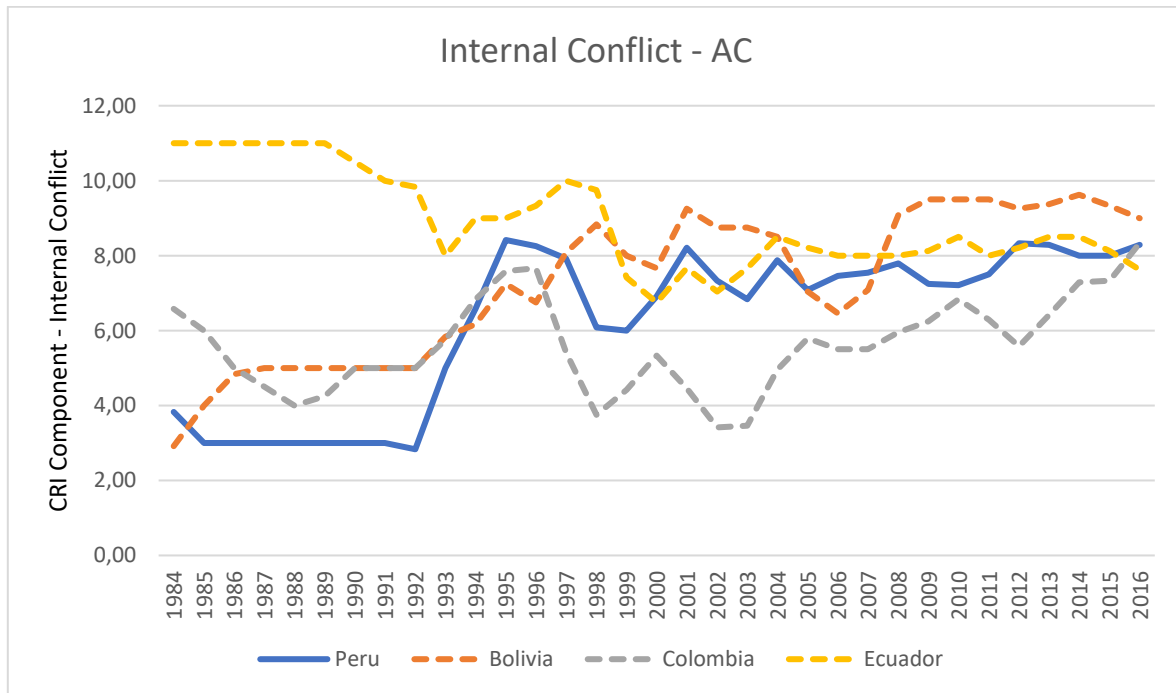
Figure 7. Internal Conflict - AC
Source: Author´s elaboration with ICRG (n.d.) data

Concerning the external conflict indicator, both Peru and Ecuador reached their worst level in 1995 during the Cenepa conflict between the two nations. The Cenepa conflict was localized, lasted for less than a month, and never reached a full-scale war (Fouskas, 2010: 35). It is hard to determine the real intensity of the conflict due to conflicting official information provided by both countries. Ecuador officially recognizes the deaths of 33 soldiers, while Peru recognizes the deaths of 60 Peruvian soldiers, but claims 330 deaths on the Ecuadorian side; moreover, non-governmental sources estimate the total number of deaths of both sides to be between 120 and 500 (BBC, 2008). The Cenepa conflict was the last external conflict that Peru

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[1] Only in year 2016 the Internal Conflict CRI indicator of Colombia (8.33) is slightly higher than that of Peru (8.29)

has experienced. Consequently, since 1995, Peru's external conflict indicator progressively improved, finally overcoming all the external conflict indicators of all the AC countries (See Figure 8).
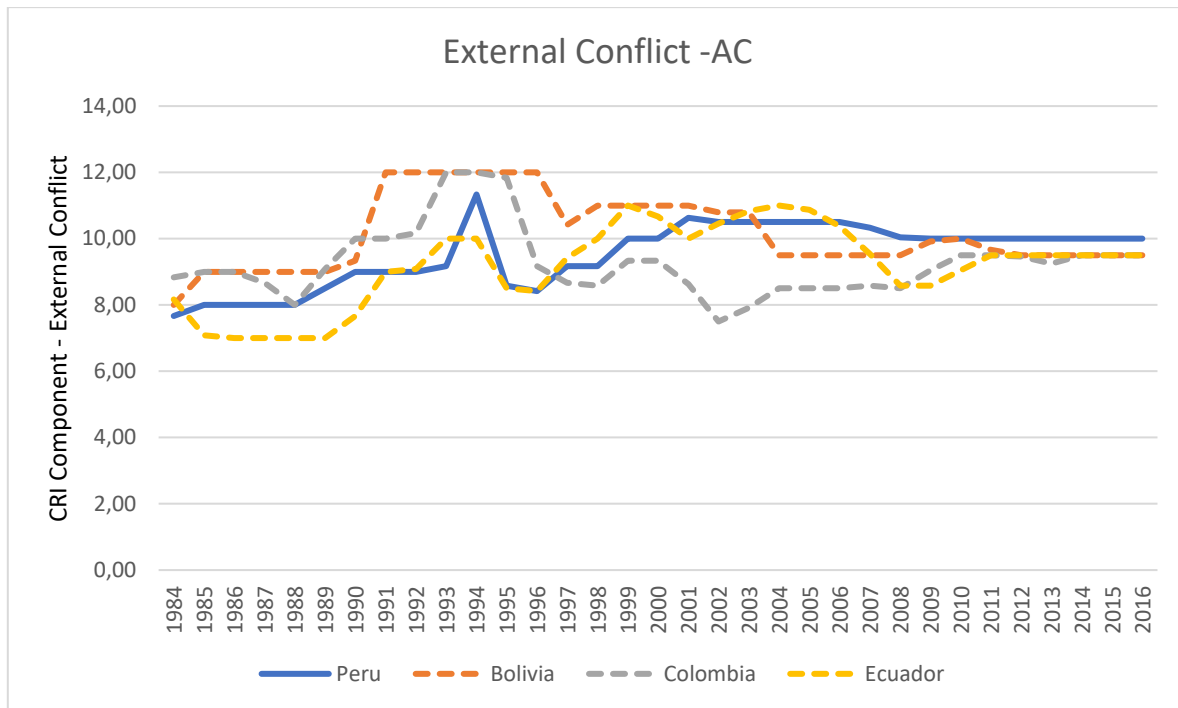
Figure 8. External Conflict - AC
Source: Author´s elaboration with ICRG (n.d.) data

5.2.2. Autonomy

Tax revenue as a percentage of GDP reached its highest level on 1980 when the first act of terrorism was produced, later it progressively declined to its lowest point in 1989. Nevertheless in 1990 it started to experiment a continuous increase that reached 14.3% tax revenue as a percentage of GDP (World Bank, n.d.a) (See Appendix B). A crucial milestone in Peru's institutional reform was the implementation of a new constitution in 1993. Article 84 in the Peruvian 1993 constitution states that "the Central [Reserve] Bank is a legal person under public law… [and that it has] autonomy within the framework of its Organic Law". With this new provided *autonomy*, the BCRP placed strict monetary and fiscal policies that allowed for a gradual inflation reduction (Loayza, 2008; Orrego, 2016; World Bank Group, 2015: 3-11)

In fact in 1990, a few years before the new constitution was introduced, Peru's consumer prices inflation reached an all time record of 7481.7% (World Bank, n.d.a).

Moreover, in August of the same year the monthly inflation rate reached 397% provoking the prices to double every 13 days (El Comercio and IPE, 2017). As a consequence, the peruvian economy presented a high dolarization degree and, in order to reduce inflation, the BCRP decided to adopt a nominal anchor and a exchange rate regime (Armas, Grippa, Quispe and Valdivia, 2001).

Evidencing its commitment to achieve price stability, the BCRP placed an explicit inflation goal since 2002 (Armas and Grippa, 2008). The goal is to maintain inflation in a range between 1 and 3% (IPE, 2012). Since the goal was put in place, Peru has been able to maintain its inflation around the target, averaging an inflation rate of 2.7% (World Bank, n.d.a). The only exception on maintaining the inflation target was produced during the 2008 world crisis when inflation reached 5.8%: however after the 2008 crisis, inflation was controled again (See Figure 9).
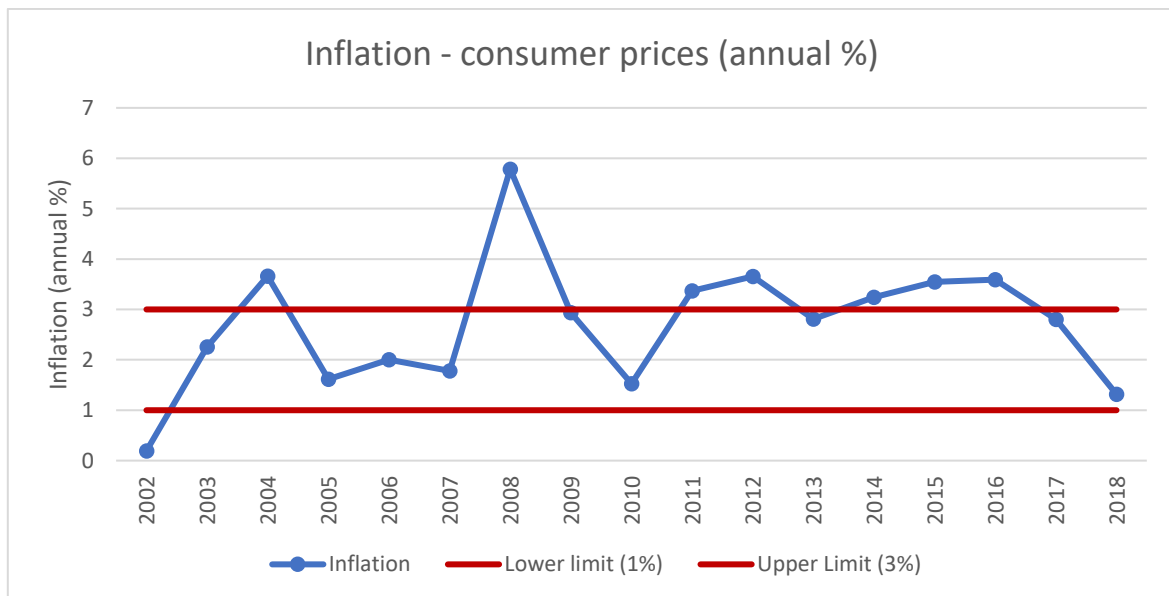
Figure 9. Inflation - consumer prices (annual %)
Source: Author´s elaboration with WDI data

Autonomy in the Andean Community (AC)

With regards to tax revenue as a percentage of GDP in the AC, there is no World Development Indicators data available for Ecuador. For the years when data is available for Bolivia and Colombia both countries have a lower tax revenue as percentage of GDP than Peru. Between 1985 and 2007, Bolivia has an average tax revenue of 11.2% while Peru has one of

12.9%. Moreover, between 2008 and 2018, Colombia has an average tax revenue of 14.2% while Peru has one of 15.3% (See Figure 10).
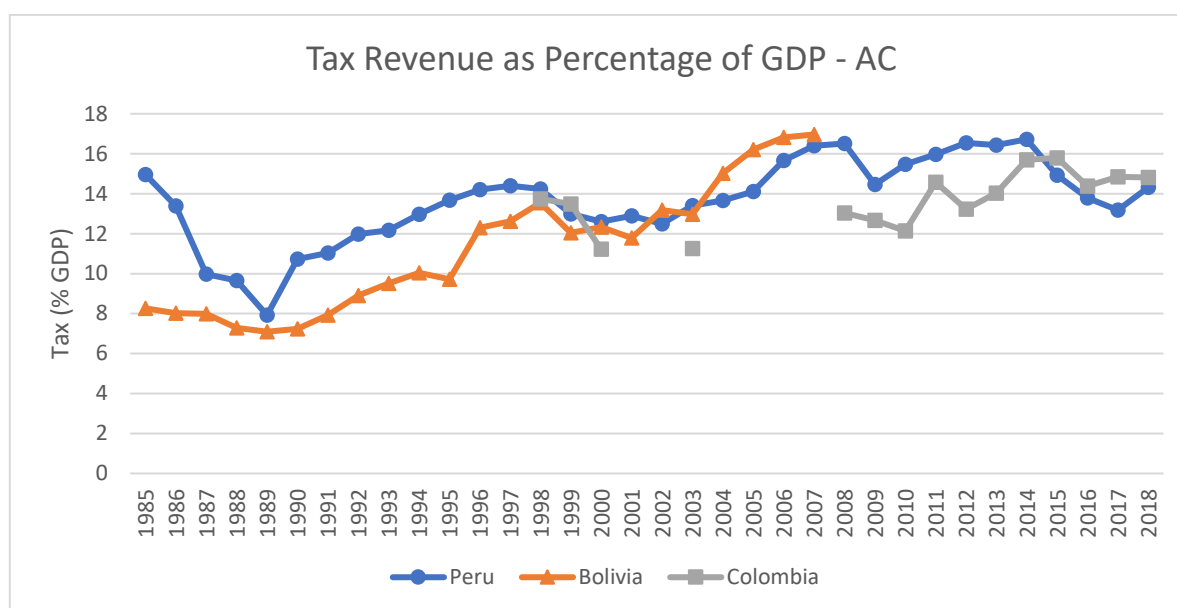
Figure 10. Tax Revenue as a Percentage of GDP - AC
Source: Author´s elaboration with WDI data

Concerning inflation, in addition to Peru's 1990 inflation crisis there were other inflation crises in the AC. In 1985, inflation reached its highest point in Bolivia at 11749.6%. Another inflation crisis hit Ecuador in 2000 when it experienced an inflation of 96.1%. Nevertheless, except for Bolivia in the 2008 world crisis, inflation in the AC has remained below 10% after 2003. In fact, Peru is the country in the AC that better controlled its inflation during the world crisis. Moreover, between 2002 and 2018, Peru has maintained the lowest inflation rate in the region (See Table 5). As well, concerning central bank independence, Peru is the country that has the highest Garriga's (2016) CBI index (See Table 6).

Table 6. AC Inflation - Consumer Prices (Annual %)
Source: Author´s elaboration with WDI data

AC Inflation - Consumer Prices (Annual %)				
2003-2018	**Peru**	**Bolivia**	**Colombia**	**Ecuador**
Max	5.8	14.0	7.5	8.4
Min	1.3	2.3	2.0	-0.2
Range	4.5	11.7	5.5	8.6
Average	2.9	5.3	4.6	3.6
2008 Financial Crisis	5.8	14.0	7.0	8.4

AC CBI Indexes		
Rank	Country	CBI index (2016)
1	Peru	0.7977
2	Bolivia	0.797
3	Colombia	0.6933
4	Ecuador	0.4709

5.2.3. Structural Transformation

To perform *structural transformation* analysis the GDP contribution of each productive activity is grouped into primary, secondary and tertiary sectors. The mining and hydrocarbons activity is separated from the sectors' grouping because it accounts for a large part of the peruvian GDP and it could affect the analysis of the trends. After grouping the contributions, it can be noticed that between 1970 and 2018 the different sectors contribution as a percentage of total GDP has been relatively constant with percentage variations no greater than four percentage points (See Appendix B). Nevertheless, concerning employment shares of each sector there has been a considerable labour transition from the primary sector to the tertiary sector. In fact, from 1970 to 2018, the labour share of the primary sector dropped by 26.9% while the tertiary sector employment share increased by 30.1% (See Figure 11).
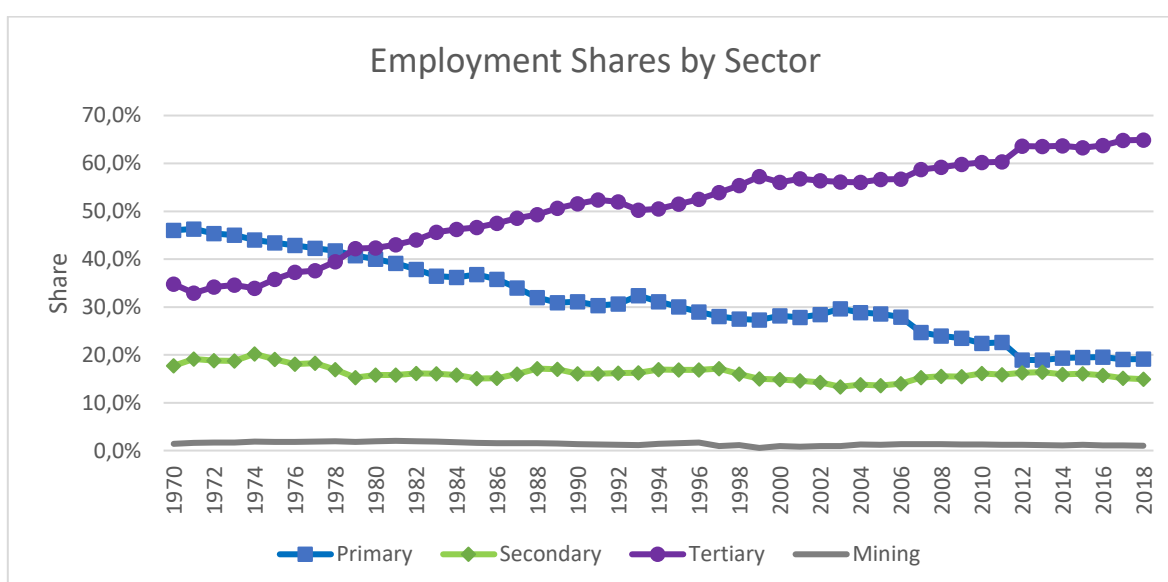

Figure 11. Employment Shares by Sector
Source: Author´s elaboration with de Vries, Arfelt, Drees, Godemann, Hamilton, Jessen-Thiesen, Kaya, Kruse, Mensah and Woltjer (2021) and Timmer, de Vries, de Vries (2015) data.

In particular, the agricultural sector's contribution towards total GDP has maintained relatively constant, only dropping by 1.2% (BCRP, n.d.). Nevertheless, in absolute terms, the agricultural sector GDP grew by 276% (BCRP, n.d.). The fact that the agricultural sector GDP has increased at such high rates while maintaining its contribution to total GDP, and dropping its employment share, is an indicator of the increasing productivity in the sector (See Figure 13). In fact, from 2007 to 2015 the sector's Total Factor Productivity averaged a 2.1% yearly increase (Agriculture Global Practice, Environment Global Practice & World Bank, 2017: 57). Furthermore, to measure the real impact of agriculture on Peruvian GDP, an analysis performed on year 2007 showed that, when traditionally measured, the aggregated value of agriculture was of 7.3% but when considering the multiplier effects of agricultural primary productive activities, it rose to 11.3% (Agriculture Global Practice, Environment Global Practice & World Bank, 2017: 48).
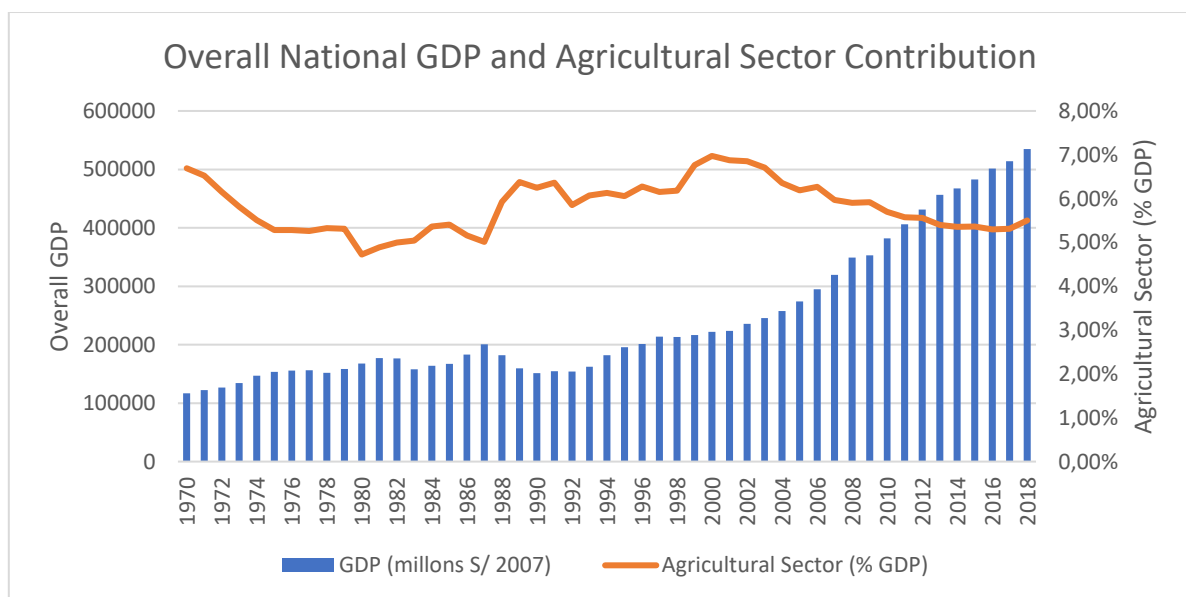
Figure 12. Overall National GDP and Agricultural Sector Contribution
Source: Author´s elaboration with BCRP (n.d.) data

In addition, the agricultural sector in Peru, has experienced an increment in the value of exports which went from $683.5 millions (FOB) on year 2000 to $7033.4 millions (FOB) on year 2018 (INEI, n.d.). This increment has mainly been driven by non-traditional exports (See Figure 14). Moreover, international markets competition has further pushed the agricultural sector towards acquiring new technologies (Huarachi, Larrea, Vargas, Heredia, and Yamakawa, 2010). Furthermore, foreign direct investment in the sector doubled from $44.40 million USD on year 2000 to $82.95 million USD on year 2018 (INEI, n.d.).
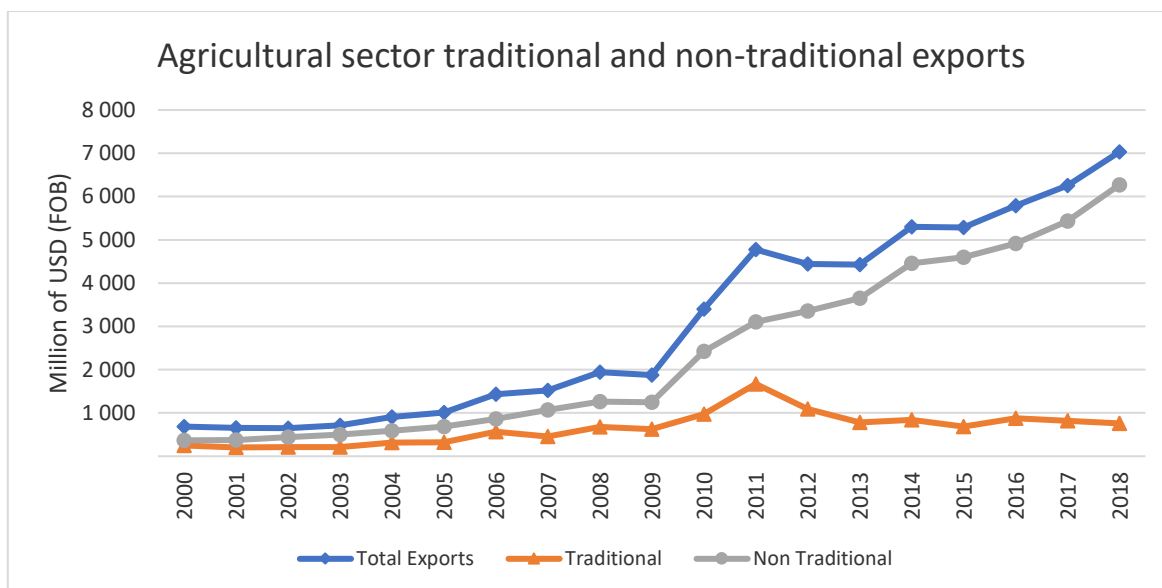
Figure 13. Agricultural sector traditional and non-traditional exports
Source: Author´s elaboration with INEI (n.d.) data

Additionally, being a sector that disproportionately employs a large number of poor people in Peru, the agricultural sector has generated a comparatively greater income increase for the poor and has had a greater impact in the reduction of extreme poverty (World Bank, 2016; Agriculture Global Practice, Environment Global Practice and World Bank, 2017). Actually, between 2004 and 2017, the average real income of the economically active population employed in the agricultural sector increased by 76.9% for salaried workers and 28.7% for independent workers (BCRP, 2018).

Structural Transformation in the Andean Community (AC)

Concerning *structural transformation* in the AC, agriculture employment share has followed very similar patterns in Peru and Colombia with both having around 19% employment share. Ecuador's agriculture employment share is marginally higher at 24.9% and Bolivia is the highest with 27.7% (See Figure 15). Moreover, Peru has the second-best Economic Complexity Index in the region, surpassing that of Bolivia and Ecuador and remaining below that of Colombia (See Figure 16).
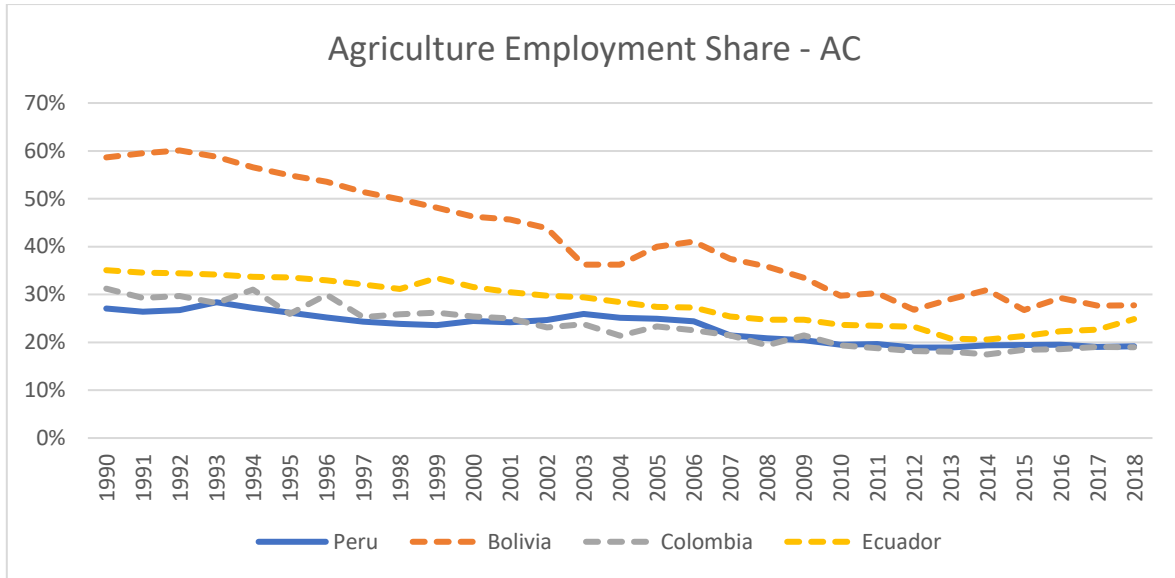
Figure 14. Agriculture Employment Share - AC

Source: Author´s elaboration with de Vries, Gaaitzen, Arfelt, Drees, Godemann, Hamilton, Jessen-Thiesen, Kaya, Kruse, Mensah and Woltjer (2021) and Timmer, de Vries, de Vries (2015) data.
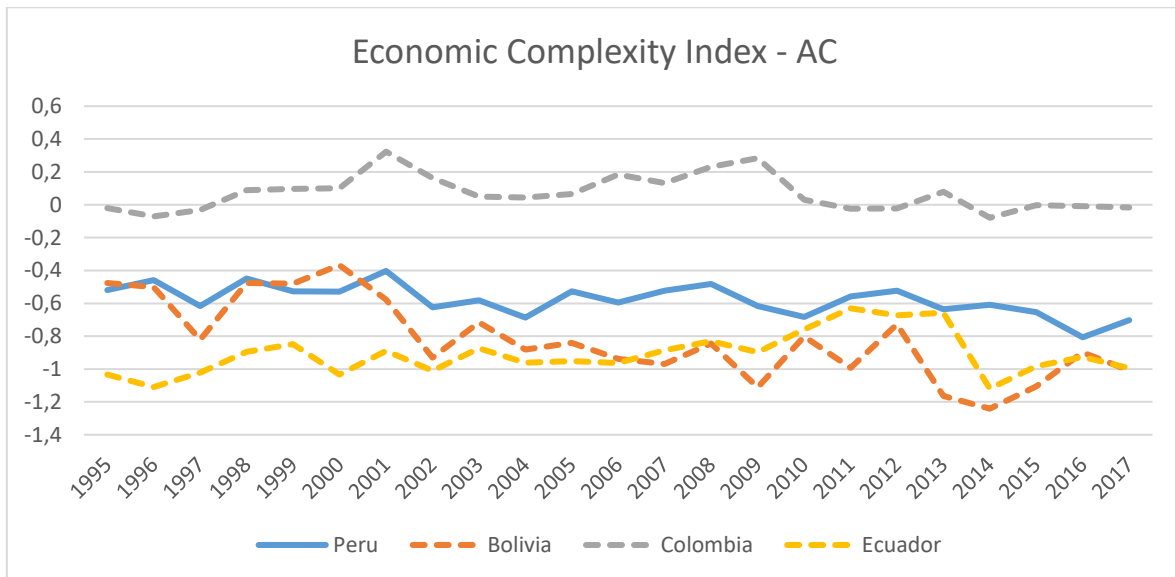
Figure 15. Economic Complexity Index - AC
Source: Author´s elaboration with OEC (n.d.) data.

5.2.4. Inclusion

Social Inclusion

Between 1972 and 2003 inequality -measured by the GINI Index- only varied by 0.6 percentage points fluctuating between 56.5 and 57.1. However, from 2003 to 2014 it

experienced a constant decrease going from 56.8 to 48.1 (See Figure 17). As shown in Figure 17, the decrease in inequality occurred after a period of sustained economic growth that started after the end of high terrorism activity in 1992. Moreover, economic growth in Peru has been pro-poor. Between 1997 and 2005, the poverty head count ratio at $5.50 a day, only varied by 5.3 percentage points fluctuating between 55.3% and 50%. However, after 2005 it decreased by 30.2 percentage points reaching a poverty headcount ratio of 22.3% in 2018 (World Bank, n.d.a). As well, among 2004 and 2013, the bottom 40% of the households experienced a per capita income increase of 6.8% against the 4.4% national average (World Bank Group, 2015: 20).
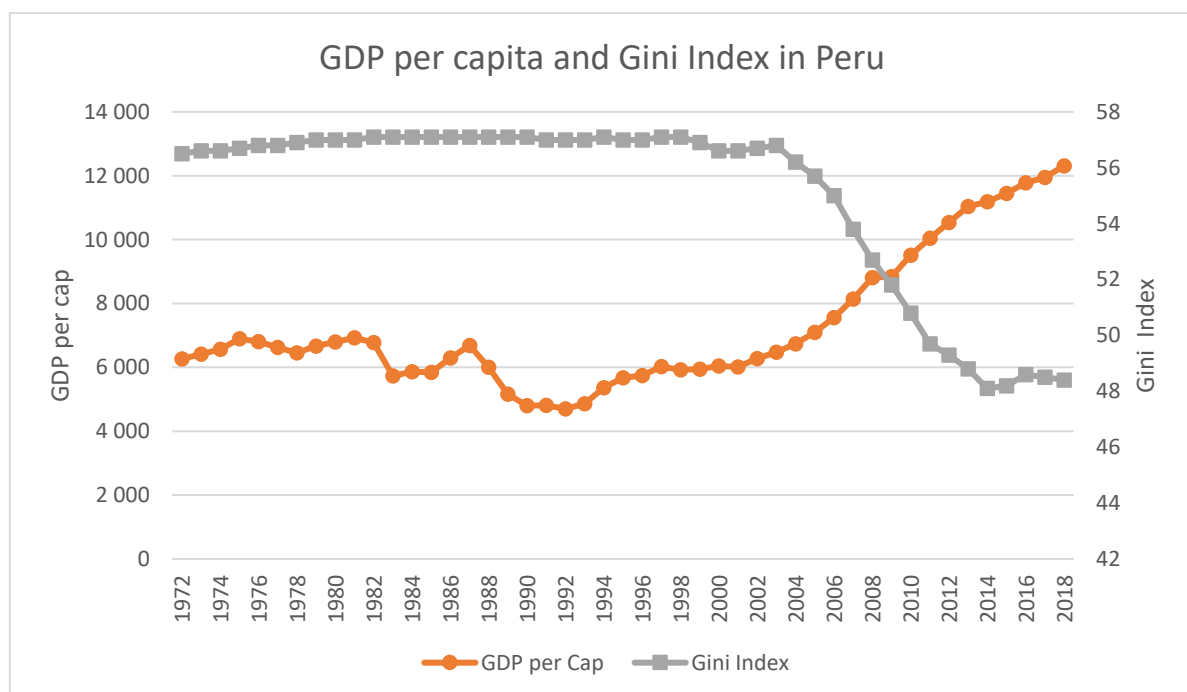
Figure 16. GDP per cap and Gini Index in Peru
Source: Author's elaboration with b and WDI data.

Moreover, through a decomposition of the variation in monetary poverty, Granda (2016) noted that two thirds are explained by the growth factor, and the remaining one third is explained by inequality reduction. In addition, Peru has not only experienced a reduction in the economic dimension of poverty, but it has also undergone a reduction in non-monetary poverty. Actually, Peru has reduced its multidimensional poverty index value from 0.053 on year 2012 to 0.029 on year 2018 (OPHI & UNDP, 2020: 4,45).

Likewise, Peru has developed the Unmet Basic Needs indicator (NBI; Spanish: Nesecidades Basicas Insatisfechas) to analyse poverty of households. The NBI indicator contemplates if households have high economic dependency, have unschooled children, live in overcrowded conditions, have deficient physical characteristics, or lack sewage (MEF, n.d.). If a household has at least 1 NBI it is considered to be poor, while if it has from 2 to 5 NBI it is considered to be extremely poor. As with other poverty measures, Peru has also reduced the percentage of people with Unmet Basic Needs. In 2009, 26.8% of the population had at least one NBI, while in 2018 the percentage declined to 16.6%. Similarly, during the same period, the percentage of population with two to five NBI declined from 6.7% to 3.6% (INEI, n.d.) (see Figure 18).

Figure 13. Percentage of population with Unmet Basic Needs
Source: Author's elaboration with INEI (n.d.) data.

Economic Inclusion

Economic *inclusion* can be evidenced by the implementation of effective institutional reforms that aim to promote the creation of new enterprises and to increase the average lifetime of existing ones. In Peru the micro, small and medium size enterprises (MIPYMES; Spanish:

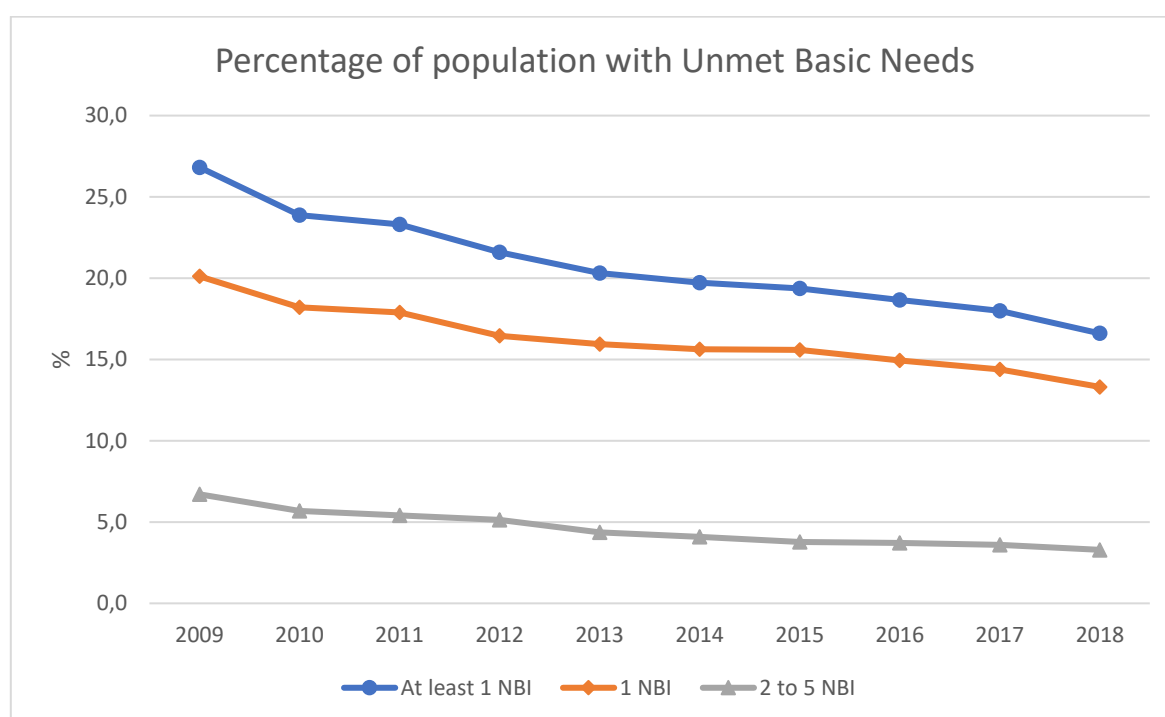Micro, Pequeñas y Medianas Empresas) account for 99.6% of the market and employ around 59% of the Economic Active Population (PRODUCE, n.d.). As Leon (2017) exposes, in order to promote the development of MIPYMEs, the Peruvian government has reinforced institutions like the Development Financial Corporation (COFIDE; Spanish: Corporacion Financiera para el Desarrollo) which in 1992 started operating as a second-tier bank providing financial services to first-tier institutions.

Furthermore, in 2002, COFIDE created a development found that provides credit and financial services to microenterprises that are going through the process of becoming formal enterprises (COFIDE, 2017). Additionally, COFIDE has an Inclusive Development Program for Rural Businesses (PRIDER; Spanish: Programa Inclusivo de Desarrollo Empresarial Rural), which provides support to enterprises in the rural areas of the Peruvian mountains and the Peruvian jungle (COFIDE, n.d.). Additionally, Leon (2017) highlights the importance of the creation of the Agrarian Bank (Spanish: Banco Agropecuario), which objective is to support the agrarian sector development and promote the commercialization and exports of agrarian products. Likewise, the Peruvian government promulgated laws and decrees favouring MIPYMEs, like Law 30524, which was promulgated in 2016 and prorogues payment of General Sales Tax for micro and small size enterprises, or Decree 1399 which creates a special fund to impulse and strengthen MIPYMEs.

Moreover, from 2013 to 2018 the number of MIPYMEs has grown at an average annual rate of 8.81% (PRODUCE n.d.) (See Appendix B). This growth has been possible due to the positive balance between the number of new registered enterprises and the number of enterprise bankruptcies (See Figure 19). During the same period, the number of bankruptcies decreased by an average trimestral rate of 3.21% (INEI, 2015, 2018, 2020). Despite the increasing number of enterprise registrations, the overall reduction of enterprise bankruptcies is an indicator of the increasing average lifetime of enterprises.
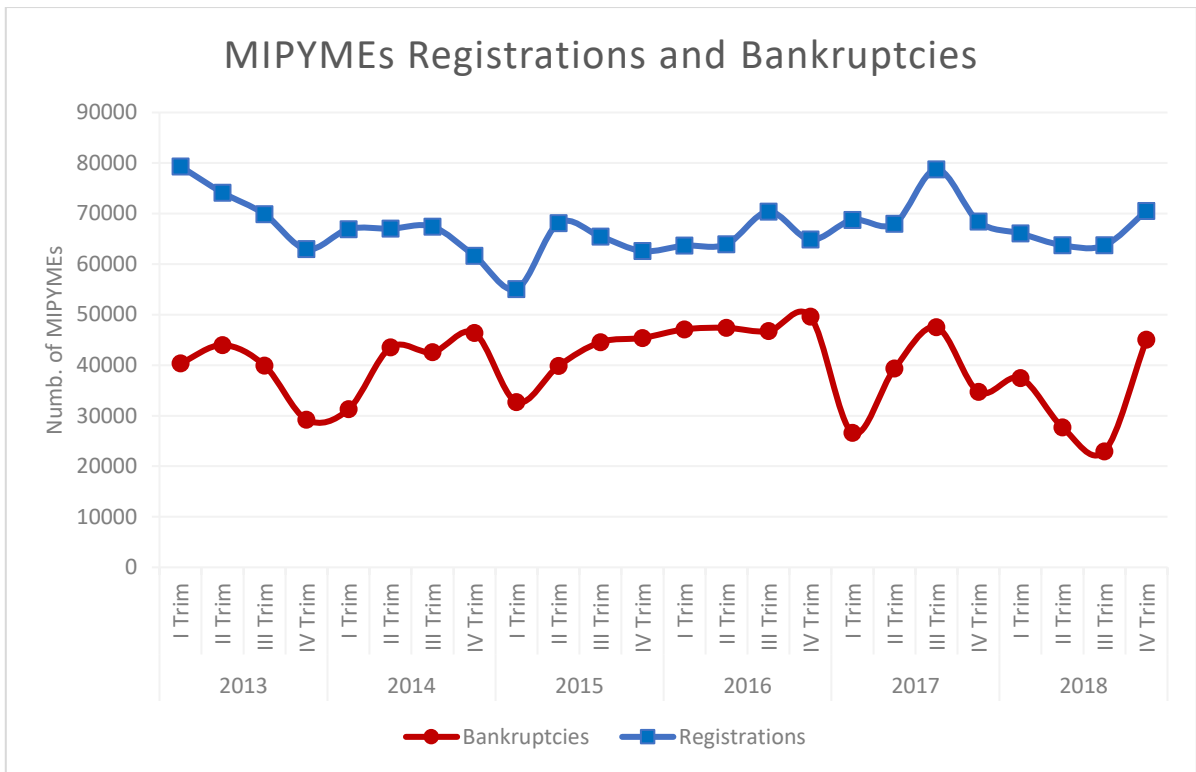
Figure 18. MIPYMEs Registrations and Bankruptcies
Source: Author's elaboration. Adapted from INEI (2015, 2018, 2020)

Inclusion in the Andean Community (AC)

Regarding inequality measured by the Gini index, Peru has experienced the highest reduction in the AC, but its Gini index still remains above that of Ecuador and Bolivia (See Figure 20). Nevertheless, despite the wider disparities in Peru, it should be noted that the poverty head count ration in Peru is the lowest in the AC (See Figure 21).
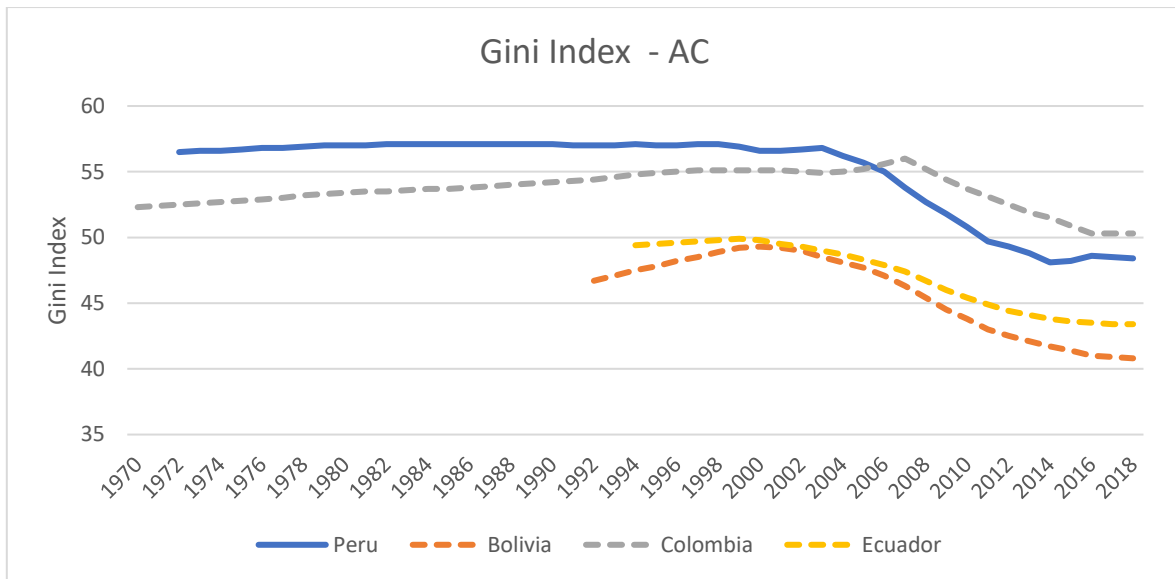
Figure 19. Gini Index - AC
Source: Author's elaboration with Solt (2020) data
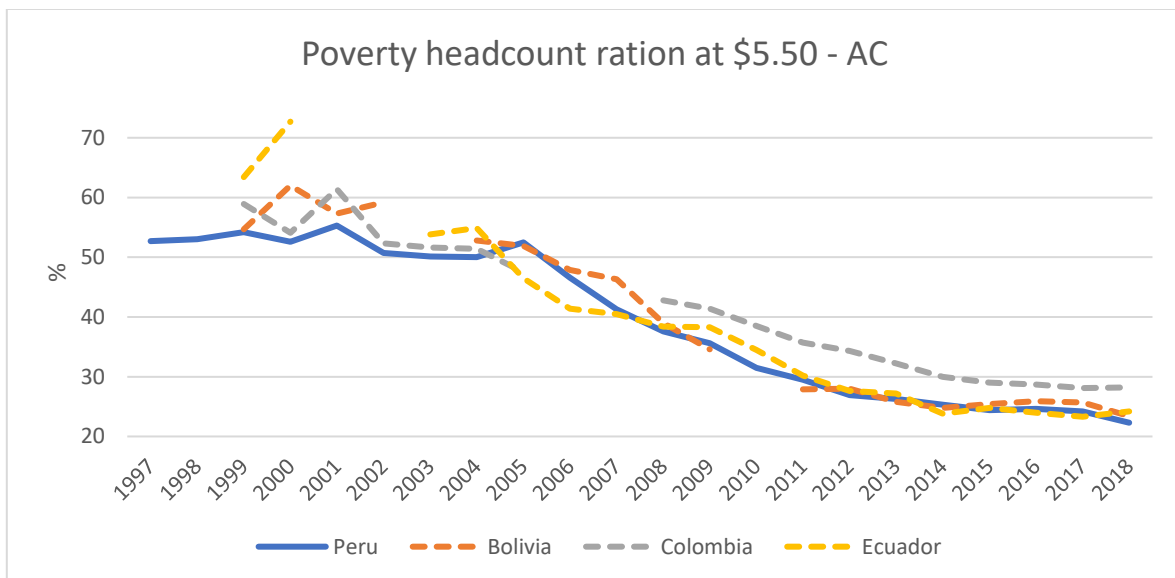
Figure 20. Poverty headcount ration at $5.50 - AC
Source: Author's elaboration with WDI data

5.2.5. Accountability

Between 1972 and 2018, overall expenditure as a percentage of GDP has increased by 7.1 percentage points (World Bank, n.d.). Particularly, expenditure in the educational sector increased by 479.51% from 1995 to 2018 (INEI, n.d). Moreover, during the same period, net

school enrolment in primary and secondary education respectively increased by 10.7% and 37.1% (See Table 8).

Source: Author's elaboration with WDI data

Net School Enrolment (1995-2018)			
Educational Stage	**Year**		**Variation**
	1995	**2018**	
Primary	84.9%	95.7%	10.7%
Secondary	52.2%	89.3%	37.1%

Furthermore, expenditure in the health sector increased by 207.9% between years 2007 and 2018 (INEI, n.d.). During that time frame Malaria cases dropped by 11.6% while HIV cases dropped by 7.1% (INEI, n.d.). Additionally, between 1970 and 2018, infant and neonatal mortality rates, respectively dropped by 8.47% and 3.79%. Likewise, life expectancy went up from 54.9 to 76.5 years (See Figure 22).
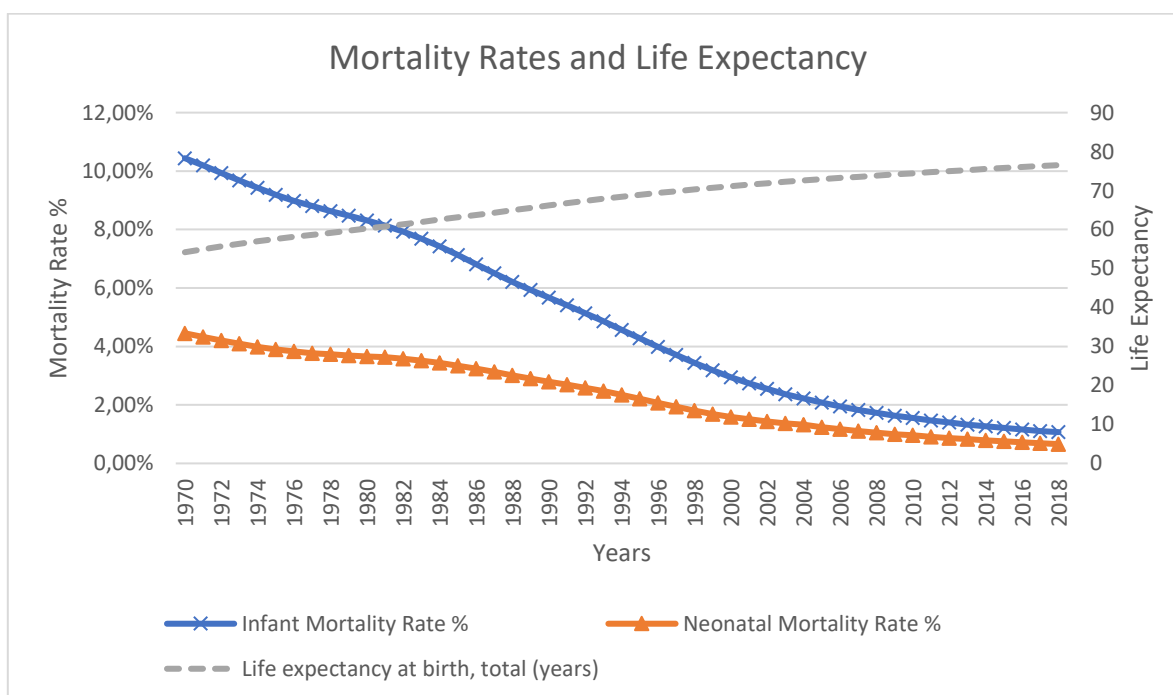
Figure 14. Mortality Rates and Life Expectancy
Source: Author's elaboration with WDI data

Accountability in the Andean Community (AC)

Regarding educational enrolment, Peru is the country in the AC with the highest net enrolment rate for both primary and secondary education (See Table 9). As well, in 2018, HIV -between ages 15 to 49- had an incidence below 0.5 cases (per 1000 inhabitants) in all countries in the region (World Bank, n.d.a). Likewise, the malaria incidence in all the AC countries was below 10 cases (per 1000 inhabitants) (World Bank, n.d.a). In 2018, life expectancy in Colombia, Ecuador and Peru was between 76 and 77 years, while infant mortality incidence in the three countries was between 10 and 12 cases (per 1000). Bolivia shows lower health indicators with a life expectancy of 71 years and an infant mortality incidence of 21.2 cases (per 1000) (World Bank, n.d.a).

Table 9. Educational Enrolment Net (2018)
Source: Author's elaboration with WDI data

Educational Enrolment Net (2018)					
Primary			**Secondary**		
Rank	Country	%	Rank	Country	%
1	Peru	95.7%	1	Peru	89.3%
2	Colombia	92.6%	2	Ecuador	84.7%
3	Bolivia	92.9%	3	Colombia	77.5%
4	Ecuador	90.9%	4	Bolivia	76.6%

5.3. Doorstep Conditions

5.3.1. Rule of law for the elites

North et al. (2007), state that the judiciary system works differently in Open Access Order societies (OAO) than in Limited Access Order societies (LAO). They explain that in OAO societies the judiciary system provides impersonal services, and all citizens are treated equally against the law; in contrast, in LAO societies elites are privileged and have an impartial

judiciary system where the application of law can depend on personal connections, power, and bribes. *Rule of law for elites* can be evidenced in Peru by the judgment and imprisonment of its former presidents. In Peru, the level of *autonomy* reached by the judiciary system has allowed it to start some of the legal processes even while some of the presidents were still holding office.

In Peru, all presidents since 1985, except for the transitionary president Valentin Paniagua (2000-2001), have faced or are currently facing legal prosecutions (See Appendix C). The case of Paniagua is particular, since he was not elected by the people but transitionally assumed the presidency in year 2000 after President Alberto Fujimori fled the country due to a high scale corruption scandal.

Soon after Fujimori fled the country in November 2000, an international arrest warrant against him was issued in September 2011. Fujimori was later arrested in Chile in 2005 and, after an extradition process he was sent to Peru in 2007. After arriving to Peru, he was tried and in 2009 he was sentenced to 25 years in prison for the extrajudicial executions of Barrios Altos and La Cantuta[2]. This sentence sets an international historic precedent, as this was the first time an ex-president is extradited, judged in his country, and declared guilty under human right violation charges (Jara, 2008). Previously in Latin America Marco Perez (president of Venezuela between 1953-1958) and Luis Garcia (president of Bolivia between 1980-1981) were extradited but processed for different crimes; moreover Slobodan Milosevic (President of Serbia between 1989-1997) and Charles Taylor (President of Liberia between 1997-2003) were judged by international courts (Jara, 2008).

Moreover, all the Peruvian presidents who exerted power after the transitionary government of Paniagua, are currently being tried for crimes related to the international Odebrecht corruption scandal. Odebrecht is one of the largest construction companies in Brazil, and its corruption scandal started when Braksem -one of Odebrecht subsidiaries- recognized, in a plea agreement with the United States department of justice, that it had paid more than $789.5 million in bribes to multiple countries in exchange of overpriced public-works that in the case of Peru allowed them to obtain rates of return of up to 393% (Durand, 2019). Despite

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[2] In the Barrios Altos neighbourhood 15 people were executed during a "pollada", a private social gathering to obtain funds. In La Cantuta University 9 students and 1 teacher were subtracted from the university dorms and later executed. The perpetrators of these executions claim that the motivation was to eliminate presumed terrorist; all the executed persons did not have a trial (Corte Suprema de Justicia de La Republica, 2001; Lovon, 2018)

10 Latin American countries were involved in the confessions made by Braksem, besides Brazil, Peru and Panama are the only countries that have prosecuted heads of states (Fernandez-Estofanero, 2018; Zysman-Quiros, 2020)

In relation the Odebrecht prosecutions, a preventive prison arrest warrant was issued for ex-president Alejandro Toledo (2001-2006) in February 2017. Following, an extradition request issued in May 2018 to the USA government, Toledo was arrested in American territory in July 2019. Similarly ex-president Ollanta Humala (2011-2016) was preventively arrested in July 2017 but was able to obtain conditional freedom in April 2018. As well, a preventive arrest warrant was issued for ex-president Alan Garcia (2006-2011) in April 2019. However, Garcia committed suicide when the police arrived to his house to capture him. Furthermore, the cases of the last two presidents, Pedro Pablo Kuczynski (2016-2018) and Martin Vizcarra (2018-2020), provide an even stronger evidence for *rule of law for the elites* because they started to get investigated while they were still presidents.

Kuczynski had been elected for the 2016 – 2021 presidential period, however he started being investigated in December 2017. The currently open investigation is for bribery and money laundering in two public-works contracts won by Odebrecht while he was minister of economics during the government of ex-president Toledo (DW, 2019). In the middle of this corruption scandal, the Peruvian congress was planning to impeach president Kuczynski, but he resigned in March 2018 before his impeachment took place. Later in April 2019, Kuczynski was preventively arrested. When Kuczynski resigned, Martin Vizcarra -the vice-president at the time- assumed the presidency. Vizcarra claimed that his government was going to perform a frontal fight against corruption and enjoyed high popularity. However, despite having vast support from the population, an investigation against him was opened in October 2020. The investigation is for presumably receiving more than $600,000 in exchange of awarding two public-works while he was regional governor of Moquegua (Castedo, 2020). Vizcarra was supposed to rule until the end of the 2016 – 2021 presidential period, however he was impeached and vacated in November 2020. On the same month, the Peruvian judiciary system issued against him a prohibition to leave the country.

Not long after, in April 2021 Vizcarra run for congress. With 70,000 votes he became the most voted candidate for the Peruvian congress. The congressmen in Peru have parliamentary immunity. Therefore, if he assumed as a congressman his legal process would be in danger. Nevertheless, the Peruvian congress voted in favour of impeding him from

exerting any public function for the next 10 years. Despite he can appeal this decision, if his appeal fails, he will not be able to assume as a congressman, he will not have immunity, and his trial will continue.

A situation when *rule of law for elites* weakened but proved to be solid, was when in December 2017, Kuczynski gave a presidential pardon to Alberto Fujimori. This pardon was given in the context of a first impeachment attempt against Kuczynski. Presumably, the presidential pardon was given as part of a negotiation for favourable votes to avoid Kuczynski´s impeachment. However, in October 2018, the Supreme Court of Peru declared the pardon's inapplicability - because it did not apply for crimes against humanity- and reordered the capture of President Alberto Fujimori (Correo, 2018).

5.3.2. Support for perpetually lived organizations

North et al. (2007) state that continued existence of an organization without the people who founded it is a good sign of organization perpetuity. Moreover, they contend that organization perpetuity requires state perpetuity, since temporal states are not able to provide perpetual support to an organization. Perpetuity of organizations in Peru can be evidenced not only by the creation and continuity of organizations, but also by the capability of organizations to maintain institutional reforms over the years. This is the case with independence provided to the Central Reserve Bank of Peru (BCRP).

Independence to the BCRP came into effect with the implementation of the 1993 constitution. Since 1993 until 2018, there have been 7 presidents, all of them from different political parties and different political ideologies. For example, Ollanta Humala (2011-2016), who was a retired military commander, was originally considered a left-wing nationalist (Cameron, 2007) and Pedro Pablo Kuczynski, who was a banker, was considered to be right-wing (Schepers, 2016). Despite the political parties that ruled the country had different ideologies, the maintained independence of the BCRP represents an important sign of perpetuity of organizations.

Concerning the social aspect, the redistribution efforts of the Peruvian government have not only been temporary but the governments have intended to achieve a certain degree of perpetuity through the creation of new institutions. For instance, as a response to centralization -the concentration of resources in Lima, the capital of the country- the government of President

Toledo (2001-2006) implemented the first regional elections[3] in 2002. With the election of new regional authorities, all regions in Peru now have independent political institutions that oversee the health, education, and productive activities sectors (Gobierno del Peru, n.d.). Despite centralization persistence; from 2009 to 2018, there has been a 10.9 percentage point reduction in the poverty gap between Lima and the rest of the country (INEI, n.d.) (See Figure 23).
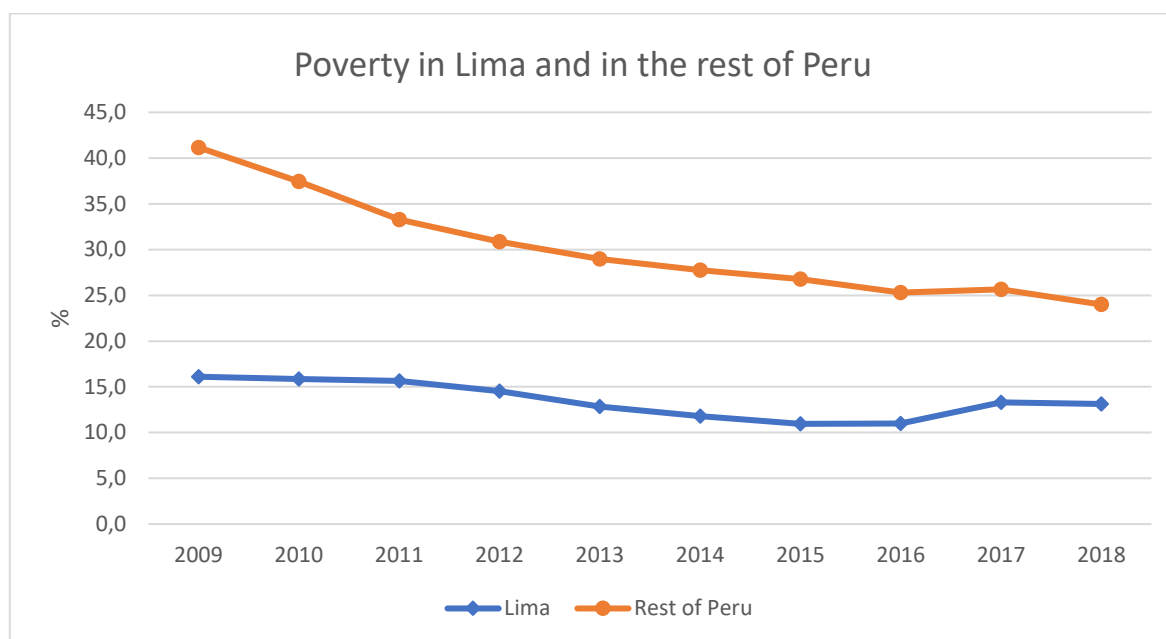
Figure 15. Poverty in Lima and in the rest of Peru
Source: Author's elaboration with INEI (n.d.) data
Figure PO1

Furthermore, in October of 2011, the government of President Ollanta Humala (2011-2016) created the Ministry of Development and Social Inclusion (MIDIS; Spanish: Ministerio de Desarrollo e Inclusion Social) (Law 29792, 2011). The goal of the MIDIS is to "improve the quality of life… by promoting the exercise of rights, access to opportunities and capacity development while coordinating with the various entities from the public and private sector and the civil society" (MIDIS, 2014: 3). Since the MIDIS creation, all the existing social programs of the country have been ascribed to the new ministry. Moreover, the MIDIS has created new social programs like Pension 65, which provides money allowances to the elderly who are living under poverty conditions (Supreme Decree 081-2011-PCM, 2011) and Qali

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[3] Peru is subdivided in 24 departments and 2 provinces with special regimes. Since 2002, there have been elections to elect regional authorities for these circumscriptions (Law 27683, 2002)

Warma, a food program for children who study in public schools (Supreme Decree 008-2012-PCM, 2012). Furthermore, from 2011 -the year when the MIDIS was created- to 2018, the budget for poverty reduction and inclusion increased by 82.5%. As well, during the same period the poverty head count ratio -at $5.50 a day- and the poverty gap, respectively decreased by 7.2 and 3.8 percentage points (See Figure 24).
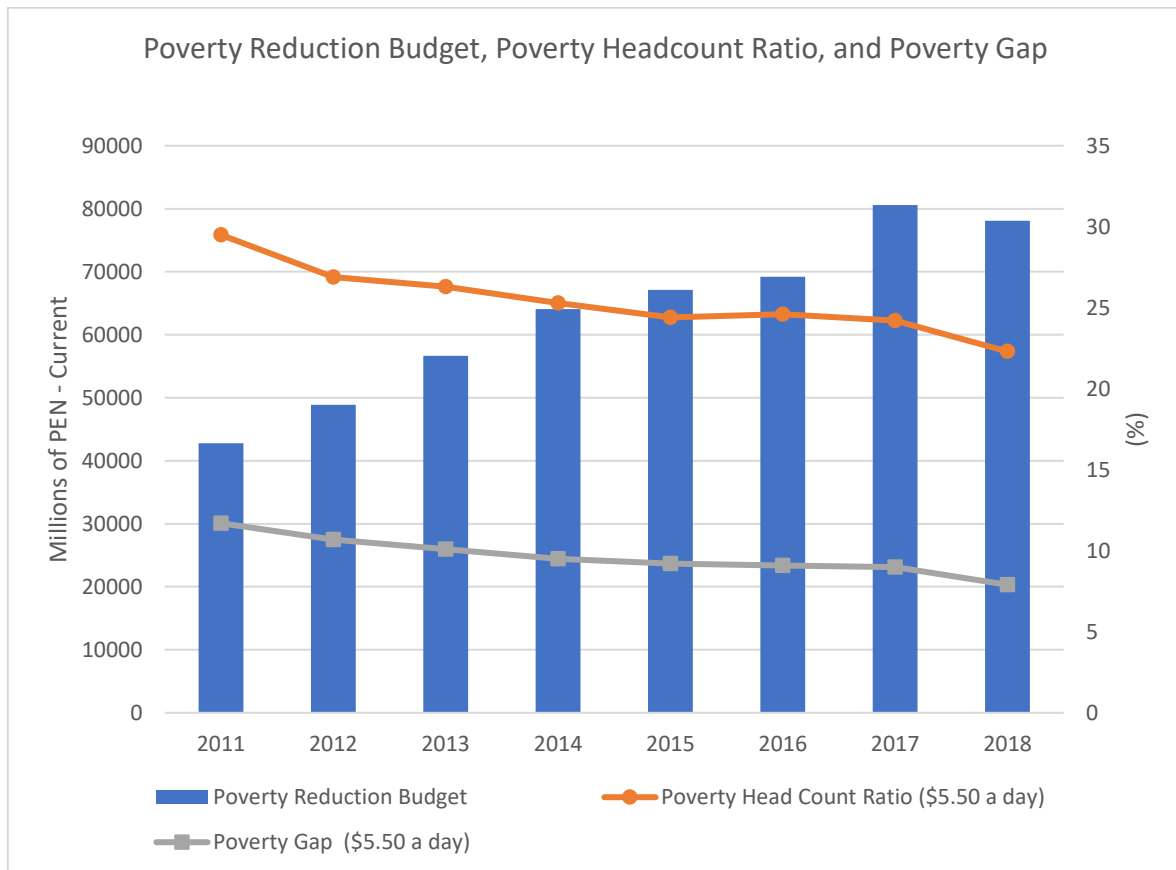
Figure 16. Poverty Reduction Budget, Poverty Headcount Ratio, and Poverty Gap
Source: Author's elaboration with INEI (n.d.) and WDI data

5.3.3. Centralized and consolidated control of violence

The *centralized and consolidated control of violence* doorstep condition is strictly related to the *social stability* capability, which considerably improved after the leader of the Shining Path was captured. Nevertheless, there are still some terrorist remnants that are mainly involved in drug trafficking activities. After the armed conflict of 1995 between Peru and

Ecuador, the military forces of Peru have concentrated their efforts in the fight against narco-terrorism. Regarding drug-trafficking activities, it can be noted that from 1988 to 2018 there has been a progressive increase in the number of interventions, the number of criminals detained, and the amount of seized cocaine paste (See Figure 26). As well, the Peruvian military has been able to surround the narco-terrorists and force them to retreat to the most remote areas of the Peruvian jungle. In fact, in 2011, at least one narco-terrorist action took place in 16 out of the 25 regions that exist in Peru. In contrast, in 2018 narco-terrorist actions only took place in 4 out of the 25 regions of the country (See Figure 27).
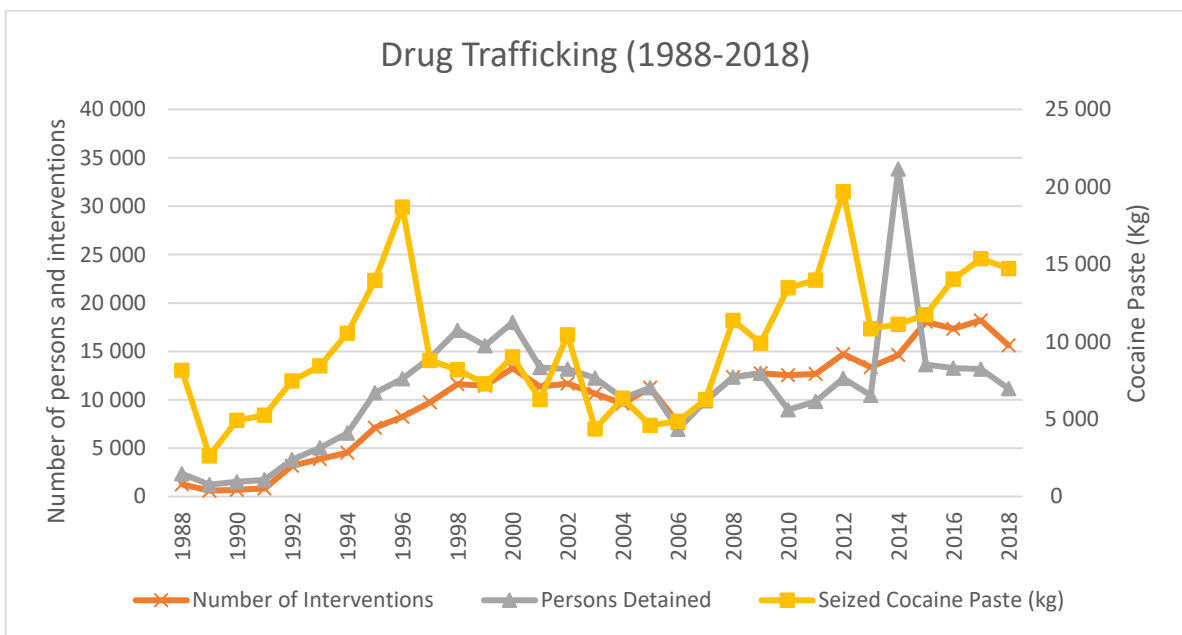
Figure 17. Drug Trafficking (1988-2018)
Source: Author's elaboration with INEI (n.d.) data
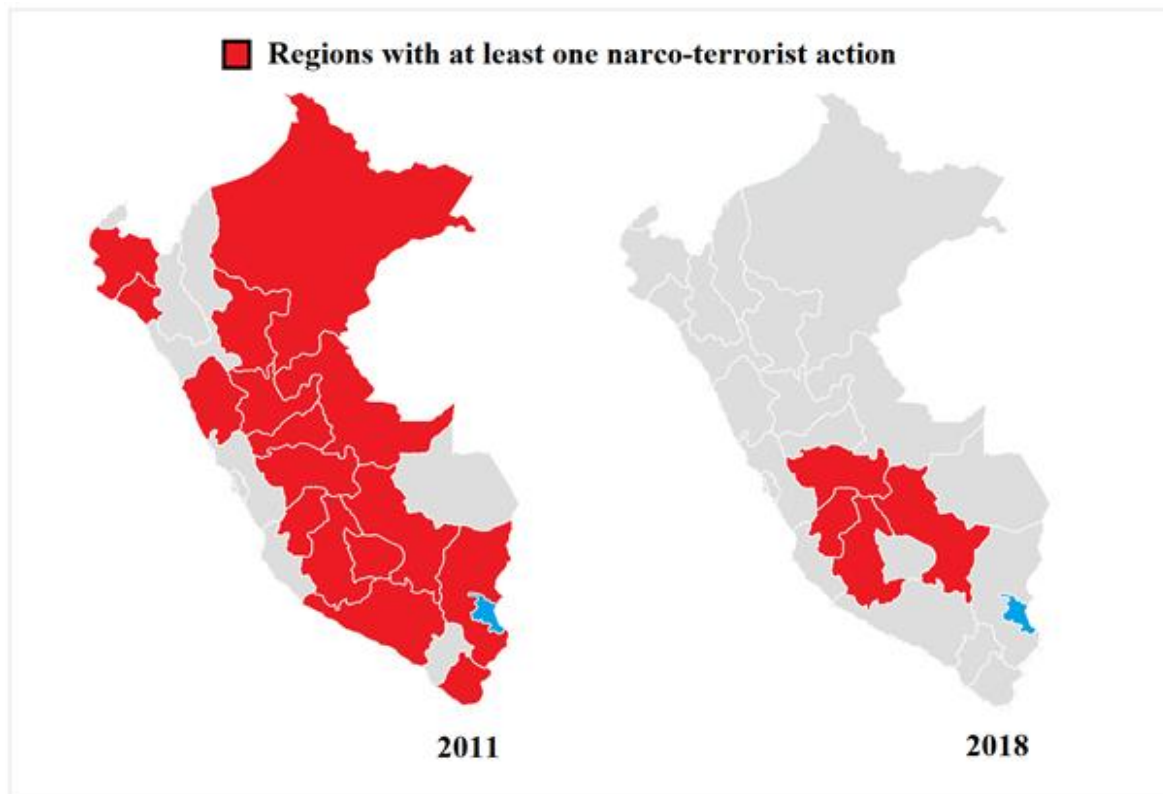
Figure 18. Regions with at least one narco-terrorist action
Source: Author's elaboration with INEI (n.d.) data

Moreover, North et al. (2007) assert that *centralized and consolidated control of violence* in an Open Access Order society follows specific constitutional rules that control violence against citizens. In this respect Peru has also made progress. While Fujimori was ruling, no military personnel was judged for crimes committed during the internal fight against terrorism. However, after he fled the country, military personnel started to get tried and sentenced for human rights violations. Even Fujimori himself was sentenced to 25 years of imprisonment due to the extrajudicial assassination of terrorist suspects in Barrios Altos and La Cantuta (Supreme Court of Justice of the Republic of Peru, 2009).

A recent example on the control of state violence used against citizens, was during the Peruvian protests of 2020 which surged after ex-President Martin Vizcarra got impeached. While the police were trying to supress the protest, two civilians died. As a result, the protest became more intense, and the interim president Manuel Merino resigned after being in power for only 6 days. Moreover, one of the first measures of the new president Francisco Sagasti, was to destitute the General commander of the Peruvian police and retire 18 active generals (Gestion, 2020). Likewise, legal investigations were opened against the ex-president Manuel

Merino, the ex-prime minister, the ex-minister of interior, and the police generals involved in the deaths of the two protesters (Canal N, 2020; Peru21, 2020).

6.Conclusions

The thesis concludes that the improvement of *social capabilities* has positively impacted resilience to economic shrinking in Peru. It identifies that the *social stability* capability has been the basis to break the shrinking cycle and to further develop other *social capabilities*. Moreover, through analysis of the "Baguazo", it proposes that the relation between social stability and economic performance is not unidirectional but bidirectional. Meaning that not only *instability* affects economic shrinking but that economic crises also impact social stability. Through comparison against other Andean Community (AC) countries it finds that, in comparison to Bolivia and Ecuador, both Peru and Colombia are at a higher *social capabilities'* development stage. In addition, it concludes that the attained resilience to economic shrinking has led Peru to progress towards the achievement of the necessary doorstep conditions to transition from a Limited Access Order (LAO) society to an Open Access Order (OAO) society.

To perform this study, the thesis analyses the 1970-2018 time frame and divides it in three different periods. The thesis identifies that the period with the highest frequency of shrinking is directly impacted by the *social stability* capability. This period is referred in the thesis as the period of "high terrorism activity" and is defined to take place between 1980, the year when the first terrorist action took place, and 1992, the year when the leader of the Shining Path (SP) was captured.

Moreover, by analysing the decade before high terrorism activity (1970-1979) and the years following the end of high terrorism activity (1993-2018) this thesis identifies that economic growth in Peru has not been progressively linear but that, after experiencing an average GDP per capita growth of 1.33% (1970-1979), it experienced an average contraction of 2.40% (1980-1992), and a posterior growth of 3.81% (1993-2018). These average GDP per capita variations are directly correlated with respective frequencies of shrinking of 30% (1970-1979), 53.85% (1980-1992), and 7.69% (1993-2018).

Based on a description of events and supported by quantitative data, the thesis determines that developing *social stability* was critical to break the economic shrinking cycles. In addition, it concludes that *social stability* was the basis to further develop the other *social capabilities*. Moreover, in addition to 7 economic contractions, the "high terrorism activity" period (1980-1992) also experienced the onset of a shrinking cycle that lasted for 23 years.

Despite not having the same *social instability* intensity, the decade between 1970 and 1979 was marked by a coup d'état in 1974 that was subsequently followed by three years of economic contraction in 1975, 1976 and 1977.

In contrast, after the period of high terrorism activity ended in 1992, there were only 2 economic contractions. Both contractions were minimal, in 1998 the GDP per capita contracted by 1.68%, and in 2001 it contracted by 0.46%. Despite these contractions were also part of the 23-year shrinking cycle that began in 1982, none of these contractions were directly related to social stability issues (BCRP, 1999, 2002). Additionally, if analysed individually, it can be pointed out that the economy recovered rather fast. It took one year for the economy to recover after the 1998 contraction, and two years for it to recover after the 2001 contraction. In fact, after the 2001 contraction, the Peruvian economy experienced the highest yearly average GDP growth in a decade since the 1950s (INEI, 2017).

Furthermore, after achieving resilience to shrinking through improvement of the *social stability* capability, the thesis provides evidence that Peru was able to further develop the other *social capabilities*. After capturing the leader of the SP in 1992, the government of Peru obtained popular support and increased *autonomy*. A new constitution that came into effect in 1993, provided independence to the Central Reserve Bank of Peru (BCRP), and consequently, the BCRP alleviated inflation through the introduction of strict monetary and fiscal policies.

Likewise, with improved *social stability*, investment risks were reduced, the country attracted more funds, and the government promoted economic *inclusion* by opening the economy and privatizing state companies. These new economic policies allowed Peru to engage in sustained economic growth marked by *structural transformation*. The *structural transformation* in Peru can be evidenced by increased labour productivity and a reduction of employment share in the primary sector.

Moreover, economic growth in Peru has been pro-poor and socially *inclusive*. Monetary poverty, non-monetary poverty, and the Gini Index were considerably reduced after the growth experienced in the 1990s and the beginning of the 2000s. Likewise, improvements on state's accountability are reflected by increased spending to reduce poverty and promote inclusion, increased spending on education and health, increased education enrolment rates, decreased mortality rates, increased life expectancy, decreases in HIV and Malaria incidences, and an increase on average life expectancy. In summary, Peru has shown a progression in all the five social capabilities in this analysis. Also, through comparative analysis among countries in the

Andean Community of nations, it can be concluded that -for the chosen metrics- both Peru and Colombia have attained a higher *social capabilities* development stage than that of Bolivia and Ecuador (See Appendix D).

Additionally, in the context of *social capabilities* and resilience to shrinking, the thesis analyses the attainment of the three doorstep conditions identified by North et al. (2007). Concerning *rule of law for the elites*, it emphasizes that the obtained *autonomy* of the Peruvian judicial power allowed it to prosecute powerful elites like ex-presidents. Even while some of them were still holding office. With regards to *support for perpetually lived organizations* it shows that the Central Reserve Bank of Peru has maintained its independence despite different political parties -with different ideologies- have ruled over the country. As well, it shows the intention to perpetuate *inclusion* through the creation of new institutions like the regional governments and the Ministry of Development and Social Inclusion. Finally, relating to the *centralized and consolidated control of violence* doorstep condition, the thesis shows that Peru has achieved further progress in *social stability* with an increased control on narco-terrorist activities. As well, it shows that the *centralized control of violence* has been followed with higher demands for protection of citizen rights.

To conclude, in line with Andersson (2018), this thesis suggests that the Peruvian government would have a higher benefit from focusing on strengthening social capabilities rather than on short-term growth. Thus, it recommends the Peruvian government to develop policies that promote further development of social capabilities. Particularly, the thesis emphasizes the critical role of *social stability* in the Peruvian process and recognizes that there are still some remnants engaging in narco-terrorist activities. Thus, it recommends that the Peruvian government should put special focus on preventing the growth of narco-terrorism and drug trafficking activities. Taking into consideration the large number of casualties that occurred during the period of high terrorism activity, it suggests that the Peruvian government should not only focus on eliminating narco-terrorism through the use of force but that it should place an even stronger emphasis on promoting *inclusion*, reducing poverty and inequalities, increasing education, and facilitating economic openness in the areas where narco-terrorism is still present. Peruvian government *accountability* is critical to maintain peace and continue progressing on the path to become an *Open Access Order* society.

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Appendix A – Political Map of Peru and Chuschi's Location

Figure 19. Political map of Peru
Source: National Geographic Institute

Chuschi's Location

Figure 27. Chuschi's Location (place of first terrorist action)
Source: Author´s elaboration

Appendix B – Additional Capabilities Graphs

Social Stability
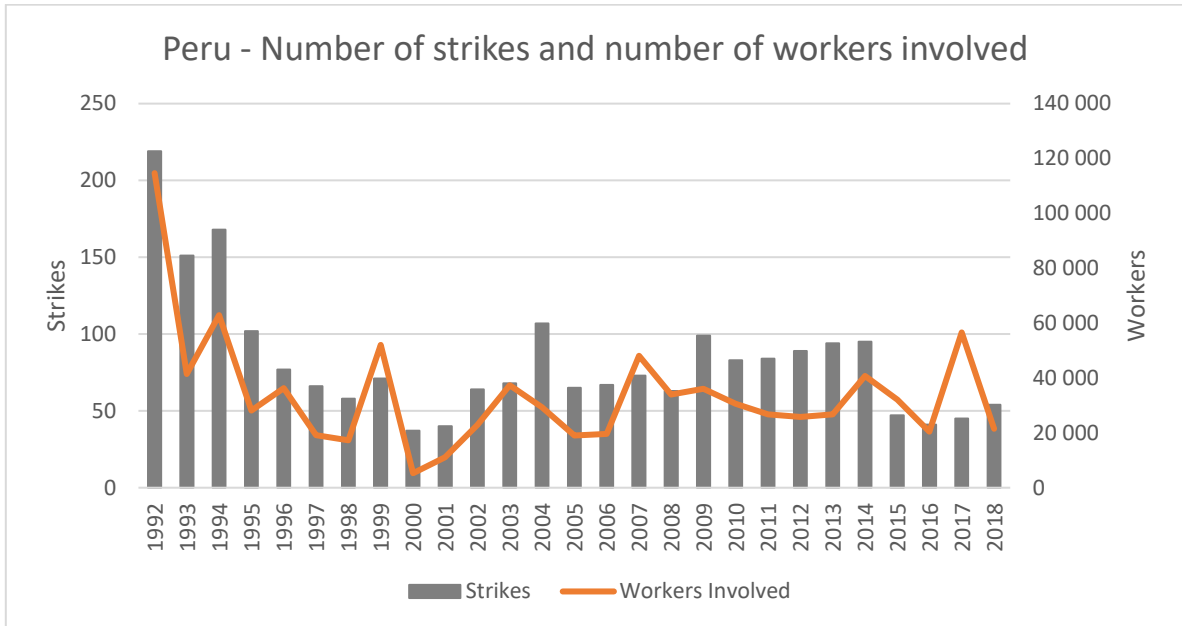
Figure 28. Peru - Number of strikes and number of workers involved
Source: Author's elaboration with INEI (n.d.) data

Autonomy

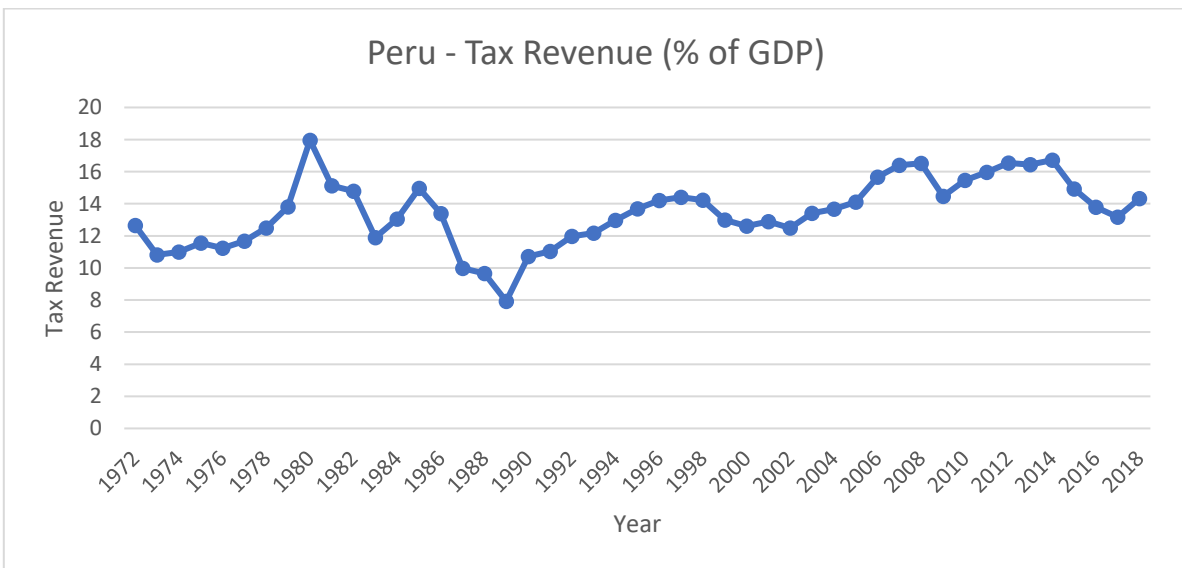*Figure 29. Peru - Tax Revenue (% of GDP)*
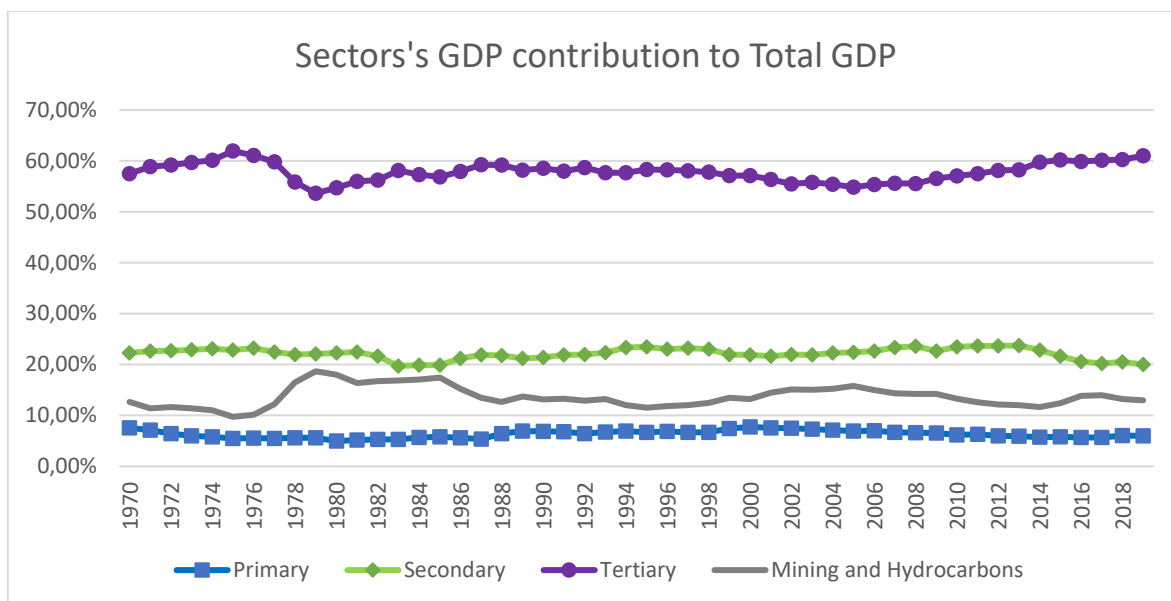Source: Author's elaboration with INEI (n.d.) data

Figure 30. Sectors's GDP contribution to Total GDP
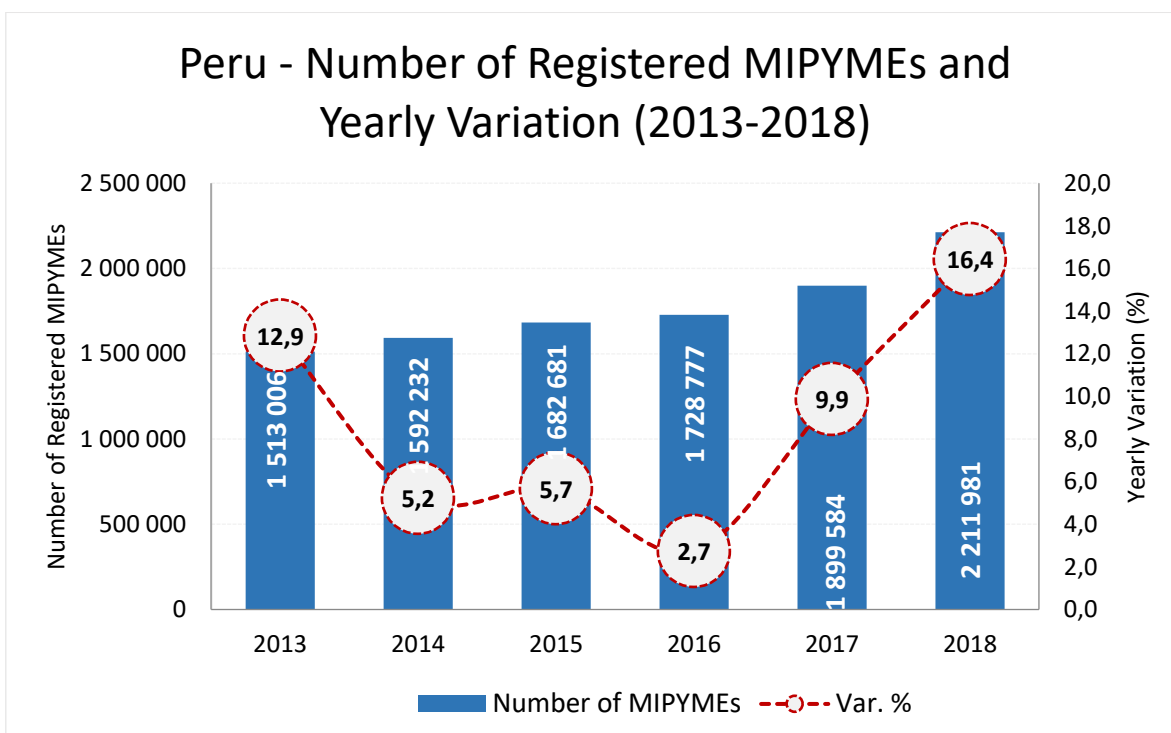Source: Author´s elaboration with BCRP (n.d.) data

Inclusion

Figure 31. Peru - Number of Registered MIPYMEs and Yearly Variation (2013-2018)
Source: Author's elaboration. Adapted from INEI (n.d.)

Appendix C – Legal Processes of Peruvian Presidents

Table 10. Legal Processes of Peruvian Presidents (2001-2018)

Source: Author's elaboration with information from Anarte (2019), Castedo (2020), Correo (2018), Corte Suprema de Justicia de la Republica (2001), DW (2019), El Comercio (2019), El Pais (2001, 2019), Sanchez Pico (2019), Semana Económica (2018)

Legal Processes of Peruvian Presidents (2001 – 2018)								
Alberto Fujimori (President 1990-2000)			**Alejandro Toledo (2001-2006)**			**Alan Garcia (2006-2011)**		
Year	**Month**	**Event**	**Year**	**Month**	**Event**	**Year**	**Month**	**Event**
1990	July	Beginning of presidency						
2000	November	End of presidency						
			2001	July	Beginning of presidency			
2005	November	Detained in Chile						
			2006	July	End of presidency	2006	July	Beginning of presidency
			2007	February	Preventive arrest warrant			
2007	September	Extradited to Peru						
2009	April	Sentenced to 25 years of prison						
						2011	July	End of presidency
2017	December	Presidential pardon release						
						2018	April	Preventive arrest warrant
								Suicided before arrest
			2018	May	Extradition request			
2018	October	Ordered back to prison by Supreme Court						
			2019	July	Arrested in the USA			
		In Jail - Sentenced			***Under arrest - Currently under extradition trial***			***Suicided after arrest warrant***

Table 11. Legal Processes of Peruvian Presidents (2011-2021)
Source: Author's elaboration with information from Anarte (2019), Castedo (2020), Correo (2018), Corte Suprema de Justicia de la Republica (2001), DW (2019), El Comercio (2019), El Pais (2001, 2019), Sanchez Pico (2019), Semana Económica (2018)

Legal Processes of Peruvian Presidents (2011 – 2021)								
Ollanta Humala (2011-2016)			**Pedro Pablo Kuczynski (2016-2018)**			**Martin Vizcarra (2018-2020)**		
Year	**Month**	**Event**	**Year**	**Month**	**Event**	**Year**	**Month**	**Event**
2011	July	Beginning of presidency						
2016	July	End of presidency	2016	July	Beginning of presidency			
2017	July	Preventive Prison	2017	December	Investigation opened			
			2018	March	End of presidency	2018	March	Beginning of presidency
2018	April	Conditional freedom						
			2019	April	Arrested			
						2020	October	Investigation opened
							November	End of presidency
								Prohibition to leave the country
						2021	February	Investigation opened
							April	10 year inhabilitation for any public function
Conditional freedom - Currently being tried			*Under arrest - Currently being tried*			*Conditional freedom - Currently being tried*		

Appendix D – Andean Commpounity Social Capabilities Metrics

Table 12. Andean Community Social Capabilities Metrics
Source: Author's elaboration

Social Capabilities Metrics	Period	Peru		Bolivia		Colombia		Ecuador	
		Rank	Value	Rank	Value	Rank	Value	Rank	Value
Social Stability									
Internal Conflict CRI indicator	2016	3	8.29	1	9	2	8.33	4	7.63
External Conflict CRI indicator	2016	1	10	2	9.5	2	9.5	2	9.5
Autonomy									
Average Tax Revenue as percentage of GDP	1985-2007	1	12.9	2	11.2	-		-	-
Average Tax Revenue as percentage of GDP	2008-2018	1	15.3	-	-	2	14.2	-	-
Average Inflation - Consumer Prices (Annual %)	2003-2018	1	2.9	4	5.3	3	4.6	2	3.6
Central Bank Independence Index	2016	1	0.798	2	0.797	3	0.693	4	0.471
Structural Transformation									
Agricultural Employment Share (%)	2018	2	19.15	4	27.73	1	18.99	3	24.86
Economic Complexity Index	2017	2	-0.7	4	-1.01	1	-0.02	3	-0.99
Inclusion									
Gini Index	2018	3	48.4	1	40.8	4	50.3	2	43.4
Poverty headcount ratio at $5.50 (%)	2018		22.3		23.4		28.2		24.2
Accountability									
Primary net enrolment rate	2018	1	95.7	3	92.9	2	92.6	4	90.9
Secondary net enrolment rate	2018	1	89.3	4	76.6	3	77.5	2	84.7
Health expenditure as percentage of GDP	2018	4	5.24	3	6.3	2	7.64	1	8.13