**Peru: Echoes Of A Glorious History**

**The government is expanding fiscal stimulus to counter decline in resource revenues**

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With long walls and impressive structures built with polished stone on the terraced mountain side, Maccu Picchu is unlike any other city before it or since.

Protected by high mountains on all sides, this citadel of the Inca emperors was lost to the world for centuries until it was rediscovered in the late 19th century. Even the Spanish, who conquered the Inca Empire towards the end of the 16th century, were oblivious to its existence. Breathtaking in its scale and the genius of its builders, Maccu Picchu survives in splendid isolation today as a world heritage site.

In many ways Maccu Picchu symbolizes modern Peru. The region was home to human settlements as far back as 10,000 years and later became the political power center for the entire South American continent during the Inca period. Despite it’s nearly two century long history as an independent nation, Peru has mostly remained aloof and unrevealed to the world. Yet, that maybe about to change as the best performing economy in Latin America seeks its place under the sun.

**ANCIENT GLORY THAT RIVALS ANY OTHER**

The Norte Chico region, north of modern day Lima, was home to the first known complex culture in the Americas and one of the oldest known civilizations in the world. Also known as the Caral-Supe civilization, the Norte Chico civilization is estimated to have thrived between 5,000 and 3,000 years ago along the fertile river valleys in the region.

The settlers built tall structures like ceremonial pyramids and complex irrigation systems that supported farming. Norte Chico is also one of the oldest civilizations thought to have practiced some form of...
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Chan Chan survived until it was conquered by the Inca Empire, the greatest of all empires in the Americas before the arrival of Europeans. At the peak of their glory in the 15th century, the Incas controlled the entire western coast of South America from modern day Ecuador in the north to most of Chile in the south. To the east, the empire covered parts of modern Bolivia and Argentina. The empire had a federal structure with four distinct provinces administered by governors appointed by the emperor. Infighting between two Inca heirs to the throne led to a civil war and weakened the empire, which made it easier for the European colonizers to subdue the region during the second half of the 16th century.

Desolation under Colonial Rule and the Dawn of Independence

Attracted by the riches of the Incas, a group of Spanish men gained permission from the Spanish king during the first half of the 16th century to conquer the Inca territory which they called Peru. They took advantage of the internal conflicts of the Incas and, though the Spaniards were far less in number than the Inca army, they ended the Inca reign with superior military technology. The Inca army had never encountered a cavalry force or gunfire before and by the second half of the 16th century, the Spanish conquest of the Inca Empire was complete.

To rule over the region, the Spanish established the Viceroyalty of Peru, with their seat of power in the newly established city of Lima. This city became the focal point of Spanish power in the Americas and a major commercial center. The colonizers were mostly interested in extracting precious metals from the region and exporting the wealth to Spain. For the indigenous people, the colonial period brought immeasurable suffering and devastation. They were forced to work in the mines in large numbers, often as bonded labor. Every family was required to send at least one member to the mines. As they were not immune to the epidemic diseases like smallpox, malaria, and measles brought by the Europeans, the indigenous people saw a catastrophic collapse in population during the colonial period. It is estimated that Peru’s population fell from 16 million at the peak of the Inca Empire to less than 3 million before the end of the 16th century.

The miseries wrought by colonial subjugation led to repeated peasant uprisings in the 18th century. The most significant of these revolts was in 1780 under a descendent of the Incas, who assumed the name Tupac Amaru after the last Inca emperor. Though this rebellion was brutally put down by the Spanish, it only paved the way for many more in the decades that followed. The decisive battle for independence was led by General Jose de San Martin, who was also instrumental in gaining independence for Argentina and Chile. Substantially weakened by Napoleon’s conquest of Spain, the
Befitting the country’s long history of regional domination, colonial experience, and reliance on external trade, the ethnic composition of modern Peruvians is an amalgam of different races from all corners of the world. The Indigenous people, or Amerindians, now account for nearly half of the Peruvian population, followed by people of mixed indigenous and European ancestry, commonly referred as Mestizos. People of European descent form nearly 15% of the population, while Asians and Africans make up the rest.

Despite the long periods of coexistence by people of different races and cultures, there remains a distinct ethnic divide between urban and rural regions of Peru. The cities are mostly dominated by people of European origin and the Mestizos. The Amerindians continue to populate the rural areas. There are also more than 50 different groups of tribal people in the Amazonian region, who still live in isolation.

Viceroyalty of Peru was defeated in 1821 and Peru was declared independent. In the 1824 battle of Ayacucho, the Spanish colonialists met their final defeat and Simon Bolivar became president.

**THE QUEST FOR POLITICAL AND SOCIAL STABILITY**

However, independence failed to usher in political stability as the wealthy elite seized the positions of power vacated by the Spanish. For nearly a quarter of a century since independence, Peru was mired in many civil wars and frequent regime changes. An economic revival led by rising exports paved the way for political stability, and Ramon Castilla rose to power in 1845. Slavery was abolished, and the economic revival helped the country to retire foreign debts, modernize the army, and strengthen government authority.

Towards the end of the 19th century, Peru, along with Bolivia, fought a long war with Chile over territorial disputes. The War of the Pacific, or Saltpeter War, led to the occupation of large areas of Peru, including capital Lima, by Chile. The war finally ended in 1883, after Peru ceded part of its territory to Chile. The period between 1895 until World War I, often referred to as the Aristocratic Republic, was initiated by the presidency of Jose Nicolas de Pierola. The period saw profound changes in the political, social, and economic structures in Peru. The ruling elite gradually ceded their influence to the common folk who benefited from rapid industrialization and the establishment of modern plantations.

The period after the Great War saw political instability and the rising influence of militant labor and the military. The country was also involved in a brief war with its neighbor Colombia in 1932 and later with Ecuador in 1941. The army seized power in 1948 and Peru remained under military dictatorships for the next three decades. Democracy was restored and a new constitution was adopted in 1979.

However, the 1980s were marked by economic collapse and the rise of armed guerilla groups who subscribed to radical philosophies. This period also saw a dramatic increase in the cultivation of coca for narcotics, which was then transported overseas through Colombia. The government of Alberto Fujimori, a descendent of early Japanese settlers, attempted to stabilize the economy and suppress the rebels. However, Fujimori fled the country following charges of human rights violations and corruption. He was followed by Alejandro Toledo as president in 2001, who continued to face social unrest and pressure from the armed rebels. In 2006, Alan Garcia, who had an earlier unpopular term as president between 1985 and 1990, became president.

**A PROUD CULTURE, ENRICHED BY EXTERNAL INFLUENCES**

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Peruvian culture has evolved over many centuries, taking in external influences mostly during the colonial period, yet retaining much of the distinct features of its glorious past. These cross-cultural influences are visible in all art forms and literature. While the architecture in the major cities follows European traits, the more indigenous elements thrive in rural areas. Colonial influences dominate the religious celebrations in this country which are now predominantly Roman Catholic. Economic growth in recent decades has led to the emergence of a middle class, which has added immensely to the vibrancy of Peruvian culture.

KEY TAKEAWAY

Guano or dried sea bird droppings, a natural fertilizer, was one of the most prized commodities in the 19th century. Peru experienced a guano boom which ended when many of the islands on the Pacific coast were completely depleted of guano deposits before the end of the 19th century. Guano or dried sea bird droppings, a natural fertilizer, was one of the most prized commodities in the 19th century. Peru experienced a guano boom which ended when many of the islands on the Pacific coast were completely depleted of guano deposits before the end of the 19th century.

GUANO AND RUBBER - NATURE’S BOUNTY FUELS ECONOMIC BOOMS

Every morning, teams of laborers set forth in small boats from the Pacific coast of Peru. Their destination is any of the tiny islands a short way from the shore, deserted except for the millions of birds that literally cover their surface. This is a daily journey people in this region have been undertaking, at least since the age of the Incas. They are in search of guano, or dried sea bird droppings, one of nature’s best fertilizers.

Rich in nitrates, guano was as important as a natural resource in the 19th century as crude oil is today. It was so prized that the United States Congress passed the Guano Islands Act in 1856, which authorized American citizens to take control of islands with guano deposits. More than a 100 Pacific islands were claimed as U.S. territory and some remain under its sovereign control even today.

Back then, Peru had an abundance of guano in the numerous islands scattered off its coast and some deposits were said to be more than 150 ft high. During a period spanning three decades, starting in the 1840’s, Peru exported millions of tons of the fertilizer to the U.S. and Europe. The advent of commercial agriculture in both regions during this period was fueled by the abundant supply of guano. It is estimated that Peru earned more than $500 million from guano exports during this period, which set the country on a path to economic revival and political stability.

However, overexploitation of the fertilizer deposits led to a sudden decline in output towards the end of the 19th century and the boom went bust. Entire islands were completely depleted of deposits and there was a dramatic decline in the bird population. The government was forced to take control of most of the islands and place armed guards to protect the birds. Guano extraction was only allowed in
The guano boom was followed by the rubber boom, centered in the city of Iquitos in the Peruvian Amazon, during the last decades of the 19th century. Surging demand for rubber from rapid industrialization in the U.S. and Europe led to large scale rubber extraction from wild trees in Peru, often by forcing entire indigenous tribes to become rubber tappers. At its peak, rubber formed 30% of Peruvian exports and led to a substantial increase in income levels and urbanization in the Amazon region. This boom also went bust by the early 20th century, as organized plantations which produced rubber at a lower cost came up in Asia.

POTATO - PERU’S GIFT TO THE WORLD

The humble potato must rank as Peru’s most benevolent gift to the world. The potato was first domesticated between 6,000 and 7,000 years ago, somewhere near Lake Titicaca in western Peru, bordering Bolivia. The potato is God’s gift to the highland people across the Andes, according to a Peruvian legend.

Potato became the staple diet of people in the Andes region, from where it later travelled to all corners of the world. Spanish colonizers first took potatoes to Europe during the early 16th century, but large scale cultivation on the continent started only in the 19th century. North America was introduced to the spud in the late 16th century and it reached Asia much later.

However, it is in Asia that the potato is becoming an increasing part of local diets. Between them, China and India account for more than a quarter of global potato production which now exceeds 300 million tons every year. Recognizing the potato’s significance in global food supplies, the United Nations has declared 2008 as the International Year of the Potato.

However, the potato has lost its luster in its place of origin. Rice has now supplanted the spud in Peru, where Peruvians don’t consume even a quarter of the potatoes an Eastern European eats in a year on average. Peru’s annual potato output has slumped to barely 1% of global production. That is about to change, if the Peruvian government’s recent initiatives succeed. The country is blessed with more than 3,500 edible varieties of the tuber and plans are on the boil to turn this diversity into an advantage. The exotic varieties grown in the highlands, like the yellow Peruvian potatoes which are considered the best for mashing, have the potential to fetch high prices in the international market. The government is trying to prepare an origin registry for some of these potato varieties and set up processing plants in the highlands to facilitate exports. If successful, these programs have the potential to transform the relatively poorer regions of Peru.
Indeed, the glorious city of the Incas is the most recognized icon of Peru and one of the most popular tourist destinations in South America. Despite the restrictions to preserve the heritage site, as many as 800,000 tourists now visit Maccu Picchu annually.

For adventurous travelers, there are many other less known marvels as well in Peru. Much of the Peruvian Amazon is still pristine rainforest, left to grow undisturbed for ages, and one of the most bio-diverse regions in the world. Foreign visitors have increased manifold over the last decade to an estimated 60,000 annually now. With active support from the government, ecotourism is thriving in the region with emphasis on protecting the sensitive environment from the ills of exploitation.

To make the ecotourism model sustainable, local indigenous groups have been made the major stakeholders in successful ventures. Many such communities collectively own large tracts of land which are utilized for tourism. The communities take a major share of revenues apart from the wages they make by helping manage the facilities. Because they directly benefit financially, these indigenous groups make it a priority to ensure the sustainability of such ventures by protecting the forest. With these tourism projects taking hold and starting to succeed, there has been a dramatic improvement in the income and literacy levels among the local population.

The islas flotantes or floating islands on Lake Titicaca, the world’s highest navigable lake at over 12,500 ft above sea level, is another major attraction for tourists. The indigenous Uros people in the region construct these islands from the totora reeds found in plenty in the lake. They then build their homes on the islands and live there. In contrast, Peru’s big cities, with their impressive colonial architecture, retain an old world charm which many tourists find irresistible.

However, Peru often struggles to accommodate the large number of foreign visitors. Tourist arrivals have nearly doubled over the last decade to nearly 1.8 million a year now. There is a severe shortage of hotel rooms at most major centers and last year room rates skyrocketed to as high as $800 a night in Lima.

The government has been trying hard to promote construction of new hotels, but there is opposition to frenzied construction activity on fears that the historical sites may be damaged by increased commercial activity.

**THE FINE BALANCE BETWEEN DEVELOPMENT AND PRESERVATION**

Peru produces just about two-thirds of the crude oil it consumes, and energy consumption is steadily increasing as in most emerging economies. However, the country may soon become a net energy exporter as and when production starts at some of the recently discovered oil reserves. Oil and natural gas reserves have been discovered both in offshore basins and in the Peruvian Amazon. Recent discoveries include a 1.1 billion barrel oil reserve and a natural gas field with estimated reserves of 1.2 trillion cubic feet, both off the coast of Piura in north Peru. Estimated reserves before these finds were less than 1 billion barrels of oil and 8.4 trillion cubic feet of natural gas.

The Peruvian government has been aggressive in its efforts to attract new investments in the energy sector. Dozens of exploration blocks covering an area of more than 200,000 square miles were...
However, the deep correction in global commodity prices is bound to pinch the Peruvian economy as resource exports continue to be a major contributor to economic growth. The country is one of the top global producers of silver, copper, zinc, tin, and gold. Prices of most of these metals are well below the record revenues seen in recent years. Investments and job creation in the country’s mining sector

Another concern which may hold back the development of the Peruvian energy sector is the impact on environment. The government’s decision to open up large tracts of the Amazon basin for oil exploration attracted criticism as similar initiatives in neighboring countries have proved calamitous for the environment. There is also opposition among indigenous tribes who will see their habitats disturbed by the exploration activity, without much direct financial benefit. At the same time, extraction of hydrocarbons is less damaging to the environment than other commercial activities like industrial farming or cattle ranching prevalent in most countries in the region. The need to exploit available resources leaves the country with few options, but the Peruvian government is showing increased sensitivity to environmental and social concerns.

Following the repeated boom and bust cycles throughout much of its history, Peru has successfully initiated economic reforms over the last couple of decades. These measures have led to restructuring and diversification of the economy, improved financial management, and increased trade relations with the rest of the world. An active member of Asia-Pacific Economic Cooperation or APEC and an associate member of the regional trade group Mercosur, Peru has forged or is currently in negotiations to finalize trade pacts with many large economies including the U.S. and China. The country also has a very close economic relationship with neighboring Brazil. An ambitious project under consideration to build roads through Peru to the Pacific coast will make Asian markets more accessible for Brazilian products. Peru is also encouraging Brazilian companies to establish manufacturing facilities in its territory to take advantage of the many trade pacts it has with major economies.

These efforts at domestic reforms and external trade expansion have paid off handsomely over the last few years when Peru outperformed the rest of Latin America in economic growth. Fueled in part by the spectacular surge in global commodity prices, average annual growth has exceeded 6% over the last six years. Government finances have never been in a better shape, with the country achieving a fiscal surplus last year.

Currently, domestic savings have steadily increased to nearly 20%, and Peru continues to enjoy an investment grade credit rating when some of the other Latin American countries are being downgraded. Foreign investments exceeded $5 billion last year and exports totaled nearly $20 billion.

The growth buoyancy since the commodity price boom has spread to the domestic sector, which has added to the economy’s vibrancy. The last decade has seen the growth of an affluent middle class which has driven up private consumption growth and continues to power the economy even now. Besides, Peru has diversified its export basket to include textiles and farm produce like artichokes and mangoes.

However, the deep correction in global commodity prices is bound to pinch the Peruvian economy as resource exports continue to be a major contributor to economic growth. The country is one of the top global producers of silver, copper, zinc, tin, and gold. Prices of most of these metals are well below the record revenues seen in recent years. Investments and job creation in the country’s mining sector
will decline until the global economy recovers. This will also lead to a fall in government revenues from mining royalty and taxes in the near future and cut the resources available for public spending.

The longer term challenges are more daunting. Despite the rapid economic growth in recent years, nearly half of the population is poor and a fifth live in extreme poverty. This wide disparity in income distribution is already a cause of unrest in many areas and, if left unaddressed, may worsen in the future. The disparities between the urban and rural areas are also acute and the gains of economic development are yet to reach the indigenous and tribal people. Though nearly 90% of the population is literate, the quality of education is poor. The same can be said of healthcare which is markedly better in urban areas.

Peru has set itself an ambitious target to emerge as a developed nation by 2021, in time for the bicentennial celebration of its independence as a nation. Despite the global economic turmoil which clouds the outlook, Peru is better placed than ever to regain the glory of its splendid past. The Inca emperors were considered to be the descendants of the sun god. Sustained efforts to achieve economic progress and social development will restore this great country and its proud people to their rightful place under the sun.

**KEY TAKEAWAY**

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