

Growing Pains: Urbanization and Governance in Peru

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The glittering Real Plaza shopping center in the Comas district north of Lima **buzzes with middle-class energy** (<https://www.youtube.com/watch?v=q8xzrawOEyE>), featuring franchises like Popeye’s and KFC, DirecTV and RadioShack, McDonald’s, China Wok and even a multi-screen “Cineplanet” movie theater. Like similar shopping malls across the sprawling Lima metropolitan area, the Comas Real Plaza is visibly aspirational; the economic prosperity and upward mobility that it represents to many Peruvians is hard to miss. Polished glass, spotless common areas, air-conditioned stores, plush cinema seats and American fast food all tell the story of a new, rising middle class.

This particular mall is almost an hour by car from the skyscrapers and manicured streets of San Isidro and Miraflores—Lima’s more posh, moneyed districts. It also stands somewhat in contrast to other areas nearby. Not much farther north, many roads are unpaved and neighborhoods less developed. Even immediately outside the gates of the mall, Peru’s colossal informal economy still flourishes, as vendors hawk street food, fruits and vegetables.

In Peru, one of Latin America’s strongest-performing economies, scenes like Real Plaza are the visible trappings of the country’s economic success story. They are also part of the allure that has over the past several decades drawn millions of Peruvians from towns and villages farther inland to the sprawling urban area around the capital.

Since 1980, the population of metropolitan Lima has doubled, going from 4.8 million to **almost 10 million in 2015** (<http://larepublica.pe/17-01-2015/inei-lima-tiene-9-millones-752-mil-habitantes>). Many of the new arrivals settled in **sprawling informal settlements** (<http://lanic.utexas.edu/project/laoap/iep/ddtlibro25.pdf>),



A child holds a bucket as he stands at the top of a hill in a poor neighborhood, Lima, Peru, May 15, 2008 (AP photo by Esteban Felix).

known locally as “pueblos juvenes,” or young towns. As a result, greater Lima—confined by the Andes to the east and the Pacific Ocean to the west—has stretched and contorted along almost 125 miles of coastline. Lima is now the sixth-largest metropolitan area in Latin America, just behind Rio de Janeiro. However, unlike Rio’s favelas, not all pueblos juvenes are slums or shantytowns; in Lima, the divide between formal and informal urban development has begun to blur. Many pueblos juvenes are now serviced by running water, electricity, paved roads, schools and other public goods. While most are still underserved by global standards, many have also started to resemble middle-class neighborhoods.

Some are also, contrary to their name, not so young anymore. Comas itself began as a pueblo joven in the 1970s—a slum mostly of recent arrivals from the country’s interior and highlands. Originally one of the capital’s poorest areas, the district has risen with Peru’s new middle class and is now one of its most populated quarters. Indeed, Comas today bears little resemblance to the past, with shopping malls at least symbolically replacing shantytowns.

Much of this development has been made possible by a remarkable period of economic growth. Between the mid-2000s and 2014, Peru enjoyed growth rates **averaging 6.4 percent annually** (<http://www.ft.com/intl/cms/s/0/831f5402-432e-11e4-9a58-00144feabdc0.html#axzz3nH6gFZQw>), one of the best-performing economies in Latin America. Like much of the region, it has since **experienced a slowdown** (<http://www.reuters.com/article/2015/09/18/peru-economy-idUSL1N11016820150918>) due to declining commodity prices, but unlike much of the region, its economy is hardly stagnant. According to World Bank estimates, the economy should again **grow at around 5 percent** (<http://www.worldbank.org/en/publication/global-economic-prospects/data?variable=NYGDPMKTPKDZ®ion=LAC>) in 2016 and 2017. This optimistic scenario could change if global economic turbulence worsens, but Peru’s macroeconomic situation is solid: Inflation remains low; investment rates are high by Latin American standards; and the country’s fiscal outlook is less worrying than that of its neighbors. In other words, despite recent challenges, the Peruvian economy shows few signs of deviating from its upward trend.

As a result, the new aspiring middle class—the one that craves shopping malls and other perks of urban life—is likely there to stay. Even if the economy expands more moderately, Lima and other urban areas will likely continue to grow at breakneck pace, given their economic dynamism compared to rural areas. As urban sprawl pushes against geographic boundaries and the pueblos juvenes age into suburban districts, the capital will only further transform. Future generations of Limenos, as the city’s inhabitants are called, will face a new class of opportunities, as well as an increasingly complex set of challenges.

A Distinctly Peruvian Middle Class

The growth of Peru's middle class has been remarkable. According to the Inter-American Development Bank, the proportion of Peruvians making a middle-class income—roughly \$12 to \$60 a day—**exploded from 16.2 percent to 40.1 percent**

(<http://semanaeconomica.com/article/economia/macroeconomia/163033-bid-que-tan-grande-es-la-clase-media-en-el-peru/>) of the population between 2004 and 2014. Nevertheless, income inequality between urban and rural areas is particularly sharp in Peru, with the latter being much poorer. In fact, in a country where urban and rural populations are roughly equal, just **15 percent of non-urban residents**

(<http://semanaeconomica.com/article/economia/macroeconomia/163030-ipsos-que-tan-grande-es-la-clase-media-en-el-peru/>) are currently middle class. In contrast, average earnings in the metropolitan area around the capital **grew by over 40 percent** (<http://knowledge.wharton.upenn.edu/article/real-estate-credit-emerging-middle-class-peru/>) between 2003 and 2010. As a result, a sizeable majority of greater Lima is now considered middle class, and according to polling done by Arellano Marketing, a private firm, 57 percent of the urban population now **self-identifies as such** (<http://semanaeconomica.com/article/economia/macroeconomia/163032-arellano-marketing-que-tan-grande-es-la-clase-media-en-el-peru/>)—almost double from a decade ago.

Part of what makes this new demographic noteworthy is that it emerged mostly without a helping hand from the state. Although Peru's **investment in social programs has increased** (<http://pfr.sagepub.com/content/42/3/391>), it is still fairly low, especially compared to many other South American countries, even if the anti-poverty and social-inclusion initiatives in place are generally considered efficient and effective. And even though the government can and should take credit for some of the countrywide reductions in poverty over recent years, trends in metropolitan Lima tell a different story.

By and large, the relative prosperity of Lima's previously poor districts is a self-made success. Not only has Peru's growth over the past decade been investment-driven rather than state-driven, but much of that investment has also happened on an individual scale. Peruvians, distrustful of a government that rarely meets social demands, have worked to compensate for its lack of services. According to a **2013 survey by Latam Confidential** (<http://www.ft.com/intl/cms/s/0/f2a68f2e-5767-11e3-b615-00144feabdc0.html#axzz3n8dd1ddr>), Peruvians are almost twice as likely to buy health services and one-third more likely to invest in private education than regional averages. Additionally, the growth of the middle class has been **partly a product of migration** (<http://www.economist.com/news/americas/21661802-urbanisation-peru-has-brought-citizenship-also-host-problems-migrant-nation>) to cities. As millions of migrants have flocked to Lima and other urban areas, they have not only benefited from economic growth driven

by foreign investment, but have also helped to sustain it by bolstering a thriving informal economy and large labor force for manufacturing, services and other industries.

In many of the current and former pueblos juvenes, even access to public services has been hard-earned. Through well-organized neighborhood organizations, residents have **successfully banded together** (http://www.ucl.ac.uk/dpu-projects/Global_Report/pdfs/Lima.pdf) to secure not just running water and electricity but also better roads, schools and other public services. In many cases, access to these utilities has not necessarily been legal—communities often tap directly into power and water lines, for example—and therefore risks making it more difficult for the state to expand services legally, due to concerns over the potential for lost revenue from services it would otherwise provide. Still, the country’s progress in this area is hard to overstate. In 1980, 72 percent of urban Peru **lacked access to running water** (http://pdf.usaid.gov/pdf_docs/pdaaf995a1.pdf); today that number is **less than 15 percent** (<http://gestion.pe/economia/mvcs-857-poblacion-peruana-tiene-acceso-al-servicio-agua-potable-2130028>).

This legacy of self-sufficiency makes some among the urban middle class less eager to look to the state for assistance than their counterparts elsewhere in the region. This is exacerbated by the fact that Peruvians, by and large, have little faith in politics and public institutions. President Ollanta Humala has seen his approval ratings **plummet to a mere 16 percent** (<http://www.telesurtv.net/english/news/Peru-Protests-Hit-Humala-Approval-Ratings-20150601-0013.html>), despite the current economic prosperity and the fact that recent corruption scandals have created less political fallout compared to the rest of the region. Other institutions in Peru do not fare better: Only 27.4 percent of Peruvians trust Congress, 34 percent the justice system and 24 percent political parties. A similar story is true on the local level. According to the Latin America Public Opinion Project (LAPOP), **only 37 percent of Peruvians are confident** (http://www.vanderbilt.edu/lapop/peru/AB2014_Peru_Resumen_Ejecutivo_Final_W_042215.pdf) in their municipal government. The rest generally cite corruption, incompetence, insecurity and unsatisfactory public services as the sources of their mistrust.

Even more revealing is that, according to the same poll, while most Peruvians are unsatisfied with national health care, education and other social programs, a sizeable majority would not be willing to pay higher taxes to improve their quality. For example, of those who rated health services as “poor,” only 30 percent would want to be taxed more to improve the system. Skepticism about politicians and the state runs so deep that many believe improvement is simply not possible.

Many Peruvians see the gains of the past decade not as a national triumph but as a popular one—success in spite of the government, not because of it. Even if this perception is biased, the

implications for Peru are enormous. Despite their country's recent prosperity, the impressive growth of the middle class and the country's favorable position relative to most if not all its neighbors, the Peruvian people will not be quick to buy into any government effort to improve its future.

Don't Drive There: The Challenges of Rapid Urbanization

This tension reveals the growing difficulties for policymakers in Peru, and in Lima particularly. While the growth of the urban middle class has been a tremendous economic accomplishment, it also poses serious and mounting challenges. With close to 30 percent of the Peruvian population living in the capital and more arriving daily, the public service deficit and challenges of urbanization in general will only continue to grow.

Lima has quickly become one of the most congested cities in the world. The lack of proper public transportation has led to the proliferation of informal small buses, known as combis, which only make the situation worse. The streets are a constant battle between personal cars, taxis, buses, motorcycles and combis; traffic in the Peruvian capital is so infamous that the Discovery Channel **devoted an episode** (<http://www.citylab.com/cityfixer/2014/05/lima-theres-no-simple-path-re-regulating-public-transportation/8982/>) of a documentary series called "Don't Drive There" to the city. Lima has only one metro line, which took decades to complete because of budgetary constraints and political bickering between the national and local governments. While there are various reasons for optimism—the municipal government recently built a new rapid-bus system, which crosses the city from north to south, and five more metro lines are planned—the overall picture is not encouraging.

Another growing problem is access to housing. As thousands pour in from the provinces every year, demand has skyrocketed, while land grabs and the construction of illegal and informal settlements continues. This has led to conflicts over land ownership with the government, which attempts to protect property rights and avoid the uncontrollable growth of precarious settlements. However, demand from low-income migrants shows no signs of declining. At the same time, occupying land to build houses has become a profitable business for traffickers, who issue falsified land titles. The municipal government has abandoned its initial repressive policy toward illegal construction, launching an aggressive program to formalize settlements and provide basic public services through the Commission for the Formalization of Informal Property. At present, it's unclear how successful this effort will be.

At the same time, many migrants moving to the city face considerable economic instability and

unpredictability. A growing economy has created jobs, but the informal economy remains prominent, and over 50 percent of Limenos, according to some estimates, **are self-employed** (http://wiego.org/sites/wiego.org/files/publications/files/Aliaga-Linares_WIEGO_WP13.pdf), running small businesses at a subsistence level. Nationally, at least 61 percent of Peruvians **work in the informal economy** (<http://www.economist.com/news/americas/21599782-instead-crises-past-mediocre-growth-big-riskunless-productivity-rises-life>). While some argue that the informal economy has, at least up until now, still been an engine of growth, at some point the government should seek policy tools to similarly incorporate these workers into the formal sector. Not only would doing so increase tax revenues, it would also improve government services, data collection and labor regulations, as well as help limit organized crime and illicit financial activities. However, this will require a gargantuan effort, one substantially larger than is needed for land formalization.

Additionally, a rising population, industrial growth and an increase in cars have created serious environmental problems. According to the World Health Organization, Lima's air is **the most polluted in Latin America** (<http://www.peruviantimes.com/08/world-health-organization-says-lima-has-worst-air-pollution-in-latam/22119/>), surpassing cities like Mexico and Santiago. Insufficient urban planning and the expansion of precarious settlements like the pueblos jovenes has led to contamination of the Rimac River, which flows across the city and serves as its main source of water. Informal garbage dumps have emerged across Lima, and land grabs have reduced what were already sparse green areas.

These are mounting issues that, to date, have not been effectively addressed. While political cynicism only makes state-driven progress more difficult, at some point solutions, whether inside or outside of government, will have to be found.

Crime: Lima's Achilles' Heel?

For any resident of Lima, wealthy or poor, all of those challenges likely rank considerably below crime. According to most polls, about half of Peruvians **view security as the single most pressing issue** (http://www.vanderbilt.edu/lapop/peru/AB2014_Peru_Resumen_Ejecutivo_Final_W_042215.pdf) facing their country. And they have good reason to: In a 2014 poll, almost 30 percent of Peruvians **reported having been a victim of a crime** (http://www.vanderbilt.edu/lapop/ab2014/AB2014_Comparative_Report_English_V3_revised_011315_W.pdf) in the past 12 months—the highest rate in the Western Hemisphere. Fifty percent of Peruvians **do not feel safe** (<http://www.peruthisweek.com/news-peru-has-highest-levels-of-perceived-insecurity-in-latin-america-101462>) in their neighborhoods, and many consider high crime to be one of Humala's greatest failings as president.

Security is likely to be the dominant issue in next year's election.

Peru is also quickly becoming the global hub for cocaine. In 2013, it **overtook Colombia** (<http://www.insightcrime.org/news-analysis/why-peru-top-cocaine-producer>) as the top producer of both coca leaf and processed cocaine. Unlike most of its neighbors, Peru lacks a comprehensive strategy to fight drug trafficking, instead preferring to downplay the issue. As a result, **many export routes end in Lima** (<http://www.insightcrime.org/news-analysis/the-routes-and-methods-of-perus-cocaine-traffickers>), with the drugs then sent onward through the port of Callao. Many Peruvians perceive the drug trade as a wave that is now spilling out into the streets.

Moreover, police corruption is well-documented, and initiatives to reform the security forces have been sporadic and ineffective. In an unusual move, the government of Lima recently announced the unification of various uniformed but unarmed municipal forces, known as serenazgos, which patrol the streets and assist police forces in crime prevention. With around **25,000 officers in almost all municipal areas** (<http://www.economist.com/blogs/americasview/2014/07/crime-peru>) around the country, the serenazgos are becoming, almost by default, a defining part of the government's crime-prevention policy. To critics, this is a fitting image for the government's crime strategy: a local watchman with a nightstick facing down heavily armed drug cartels.

At the same time, the serenazgos **are probably effective** (<http://elcomercio.pe/lima/ciudad/solo-serenazgo-municipal-lima-gino-costa-noticia-1808576>), at least in the areas where they have been uniformly deployed. There are indications that crime is not the epidemic many Peruvians and Limenos believe it to be. Most importantly, the nature of crime in Peru is softer than that of its neighbors. Homicide rates are surprisingly low, **a mere 6.6 per 100,000 in 2013** (<http://www.insightcrime.org/news-analysis/insight-crime-2014-homicide-round-up>), making it one of the safest countries in Latin America; by comparison, in the most violent countries, such as Honduras and Venezuela, murder rates are over 10 times higher. The crimes that dominate in the Peruvian capital and its surroundings tend to be petty: pickpocketing, robbery and extortion, all of which, while endemic, are less violent than murders.

That said, Peru's crime-rate statistics, although high, are less conclusive than they may seem: The figures **rely on self-reporting** (http://www.vanderbilt.edu/lapop/ab2014/AB2014_Comparative_Report_English_V3_revised_011315_W.pdf) in opinion surveys, are not weighted for the severity of the crime and have no fixed definition of what even constitutes a "crime," leaving considerable room for subjectivity and bias.

In the end, Lima today may not necessarily be suffering from a crime epidemic, but its residents

have become more vocal in their demands for heightened security. This should be a guiding lesson for policymakers as they look to Lima's future: Economic success is not sufficient to win voters' trust so long as the streets feel unsafe and the government seems absent and corrupt.

From Emergence to Development

Peru's rising middle class presents an enormous opportunity, but policymakers must move quickly to keep the momentum. The overwhelming concentration of the population in Lima should make the city a top government priority. Lima needs a long-term urban development plan that can organize the use of land, the city's scarcest commodity; protect parks and other common spaces; ensure public services; invest in long-overdue public transportation; and establish safety standards to hold construction firms accountable.

That said, any economic and social-development policy that targets only one city is bound to fail, and no plan will withstand the more than 100,000 internal migrants Lima receives each year. To change this, the Peruvian government will have to invest in developing other cities, provinces and rural areas to promote a more balanced and decentralized model of growth. It is worth noting that Arequipa, the second-largest city in the country, is growing equally fast but still has just one-tenth of Lima's population.

If it wants to leverage the new middle class to create a more developed and economically diversified Peru, the government will have to tackle its legitimacy problems, rebuild trust and make visible progress in improving the day-to-day lives of its citizens. So long as this emerging social class does not feel represented by public institutions, it will not be willing to foot the bill for expanded public services. So too will it remain skeptical about public initiatives, as badly needed as they are. Gaining the trust of the middle class will take time, and the Peruvian state should begin with small-scale initiatives that prove it can be a partner instead of a burden, such as recent public-private cooperation to [increase middle-class access](http://knowledge.wharton.upenn.edu/article/real-estate-credit-emerging-middle-class-peru/) (http://knowledge.wharton.upenn.edu/article/real-estate-credit-emerging-middle-class-peru/) to credit. In any case, though, the government must find ways to move urban policymaking away from benign neglect and toward active engagement. Otherwise, Peru's recent success could very well be short-lived. Limenos more than ever see themselves as middle class with middle-class needs; the state needs to keep up with these expectations.

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