Subnational Economic Nationalism:
Peru in the Wake of Liberalization and Decentralization

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Abstract:

Liberalization and decentralization have significantly expanded the scope of interaction between transnational corporations and subnational governments across the global south. Despite expectations that subnational governments will respond by adopting cooperative behaviors vis-à-vis foreign direct investment, in much of Latin America these governments are confronting rather than courting transnational corporations. Conceptualizing this phenomenon as "subnational economic nationalism," the paper explains how subnational governments can use their expanded authority to challenge the de-nationalizing outcomes that neoliberalism has generated. As an inductive theory building exercise, the paper then examines the sources of and constraints on subnational economic nationalism in Peru, the Latin American country where this phenomenon has begun to produce important conflicts with the national government. The paper demonstrates that understanding subnational economic nationalism requires a careful examination of the specific types of liberalizing and decentralizing choices that national governments have implemented. In Peru, radical liberalization combined with anemic decentralization has created an environment that is ripe for subnational economic nationalism. At the same time, the Peruvian case also shows that, despite liberalization, national governments are still able to use their structural position in ways that limit alliances between subnational economic nationalists.

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In the last few decades, liberalization and decentralization have profoundly altered the political economy of countries throughout the global south by significantly expanding the scope of interaction between subnational governments and transnational corporations (TNCs). With respect to liberalization, the relaxation of foreign investment codes to allow foreign direct investment (FDI) in sectors that were previously off-limits has restricted the tools that national government officials used in the 20th century to shape and control inflows of capital. Simultaneous with this retreat by national governments, TNCs typically now have to pay greater attention to subnational governments, which have been empowered by diverse forms of decentralization: political, fiscal and administrative. It would be a grave mistake to conclude that national governments are no longer relevant, but in many countries they no longer monopolize the negotiation of terms that regulate the inflow of FDI.

Thanks to liberalization and decentralization, not only are subnational governments and TNCs coming into contact in fundamentally new ways, but the stakes associated with these new interactions are quite significant. From the perspective of subnational officials, who are now more likely to be elected and not appointed by higher levels of government, ensuring that the terms of FDI benefit local communities and promote local goals has a direct impact on their ability to hold onto their offices and/or advance their political careers. From the TNC perspective, how subnational governments use their expanded authority and stature can impact everything from local hiring requirements and land use permits to predictability and profitability. Despite these high stakes, the political economy literature – in both its international and comparative variants – has been slow to conceptualize and theorize this new relationship between subnational governments and TNCs. As discussed in greater detail below, subnational governments rarely figure in the literature on FDI, and when they have appeared, they have done so as actors whose pro-investment orientation has mostly been assumed. According to the logic of this assumption, just as competition between different countries for investment capital has intensified, so too has it intensified between subnational governments, which presumably must now court and retain foreign capital in order to prosper.

This literature, however, is clearly unable to make sense of what we are seeing in much of Latin America. As a region, Latin America certainly liberalized and decentralized in the last two decades, a period in which most countries abandoned the economic nationalism that had inspired policies of state-led industrialization, including sharp constraints on the terms of FDI. Despite cross-national variation in the timing, extent and scope of both liberalization and decentralization, few would doubt that Latin American countries are substantially more liberal and substantially less centralized than they were for much of the 20th century. Given the zeal with which national governments in Latin America have liberalized and decentralized, most of the current literature would lead us to expect cooperative behaviors on the part of subnational governments vis-à-vis foreign capital. If decentralization and liberalization encourage subnational governments to court TNCs, we should definitely be seeing evidence of this pattern in Latin America.

And yet even a casual survey of politics in the region in the last decade yields important and often quite dramatic episodes of conflict between subnational governments and TNCs. For example, in 2005 mayors and provincial officials in Ecuador led strikes and participated in acts of sabotage against oil wells in the (ultimately successful) attempt to evict the Occidental Petroleum Corporation from the country. In Mexico, municipal officials in the state of San Luís Potosí used their powers over the granting of land use permits in the (ultimately unsuccessful) attempt to prevent the U.S.-owned Metalclad corporation from expanding its operations in the municipality of Guadalcazar. In Argentina, governors in the last five years have adopted a series of changes at the provincial level that make the terms of investment far less attractive for the TNCs that purchased privatized utilities in the 1990s (e.g. water, electricity and telecommunications), leading in turn to decisions by some these firms to divest from the country.

Anti-FDI behaviors by subnational government suggest that local communities, social movements, and civil society actors are not the only or even the most important source of opposition to the inflows of foreign capital that have been generated by two decades of economic liberalization. In many cases, local governing officials have not only joined but actually led movements against TNCs, using (subnational) government resources to sponsor protests, joining hunger strikes, and even undergoing arrest by national authorities. Over the past few decades, the literature on liberalization has documented the resistance of grassroots actors aggrieved by the real and perceived costs of market reform, including wage compression, unemployment and environmental devastation (Chalmers et al. 1997, Oxhorn and Ducatenzeiler 1998). Thanks to this literature, we have a better handle on the opportunity structures that enable social movements and other actors to advance their interests, as well as the challenges inherent in building transnational networks with foreign NGOs that are designed to exert pressure on foreign investors (Keck and Sikkink 1998). But these analyses remain incomplete unless and until we add subnational governments into the mix. As a reflection of the tremendous enthusiasm for civil society actors by donors and academics alike, and notwithstanding the surging interest in decentralization, we know far more about local civil society than we do about local political society.[1] More specifically, we do not understand at all well why it is that mayors and governors strike oppositional stances vis-à-vis foreign capital, stances that confound both the literature on social movements – which tends to overlook them – as well as the literature on FDI – which assumes that these officials seek to court and retain foreign capital.

The failure of existing theoretical approaches to account for emerging episodes of subnational economic nationalism suggests the need for additional theoretical development. In response, this paper offers an inductive approach to theory building by describing and explaining the nature of the conflicts that are taking place between subnational governments and TNCs in one country, Peru, where these conflicts have become especially salient.[2] Like many of its neighbors, Peru experienced the concerted adoption of neoliberal economic policies in the 1990s, including one of the most radically neoliberal revisions of a foreign investment code anywhere in the region (Arce 2005, Roberts 1996). Liberalization in Peru, combined with a period of increasing global prices

[1] For some notable exceptions, see Grindle 2007, Montero and Samuels 2004, and Van Cott 2008.
[2] For an excellent study of regional grievances over neoliberal economic policies in Peru, see Arce 2003a. While, like Arce, I emphasize the geographically uneven effects of neoliberalism in Peru, I also underscore the importance of Peru's experience with decentralization after 2002 – whereas Arce emphasizes the importance of democratization at the national level that was initiated with the fall of the Fujimori government in 2000.

for the country's mineral exports beginning in 2002, has generated in turn a mining boom and the steady expansion of FDI in mineral-rich localities across the country. Also like other countries in the region, Peru has experimented with policies of decentralization in the post-authoritarian period that was initiated with the fall of the Alberto Fujimori government in 2000. Most significantly, President Alejandro Toledo (2001-2006) introduced direct elections for regional presidents and expanded elections for authorities at the sub-regional level. My goal in this paper, then, is to examine the impact of these liberalizing and decentralizing changes on the behavior of subnational officials in Peru. However, precisely because we need close analyses of local politics in order to understand these dynamics, I pay special attention in this paper to one particular subnational space, Arequipa, which is both the name of Peru's second largest city (after Lima) and one of the country's 25 regional governments.

To foreshadow my argument, I identify the following four sources of subnational economic nationalism in Peru: 1) the unequal territorial distribution of costs and benefits from neoliberalism, 2) the unvarying pursuit of neoliberalism at the national level, 3) sequences of decentralization that have made subnational officials susceptible to nationalistic demands, and 4) the entry of the left into subnational politics. I illustrate these pressures by focusing in depth on the so-called Arequipazo in 2002, when local authorities and grassroots actors forced the national government to cancel the privatization of an electrical power plant to the Belgian Tractebel Corporation. It would be a mistake, however, to overstate the extent of economic nationalism at the subnational level in Peru. I therefore also focus on four additional factors that have served to blunt the economic nationalism of subnational governments. These include: 1) the sharing of revenues and royalties derived from mining TNCs with subnational jurisdictions, 2) the establishment of escrow funds (*fondos de fidecomiso*) that invest in mining regions, 3) the negotiation of voluntary payments (*aportes voluntarios*) by TNCs, and 4) the ability of TNCs to take advantage of heightened political competition between and among subnational officials. I illustrate these factors by examining the ongoing struggle in Arequipa against the privatized Cerro Verde mining company. Before exploring the sources of and constraints on subnational economic nationalism in Peru, the next two sections discuss the existing theoretical literature and "subnational economic nationalism" as a conceptual category.

Political Economy Perspectives on Subnational Governments

Subnational governments have not figured prominently in any of the major strains of the international political economy (IPE) literature. This is most obviously the case in realist and neo-realist work that emphasizes absolute and relative power disparities between states in the international system (Lake 1993). But it is also true of IPE work that questions the realists' view of the state as a unitary actor and that looks within the state at domestic-level variables. Perhaps the absence of subnational governments is not surprising in scholarship that explains foreign economic policy as a result of sectoral dynamics (Frieden 1991, Gourevitch 1986) or of the relative strength of factors of production (Rogowski 1989). But it is indeed surprising that even the institutionalists have overlooked the possible relevance of subnational institutions. New institutionalists within the IPE literature have emphasized the importance of national-level regime type

(Moravcsik 1993) and attributes of political parties (Garrett 1998), but have very little to say about the design or strength of subnational institutions. Nor do the preferences of subnational governments seem to matter much in the two-level game posted by Robert Putnam (1988), who argues that inter-state agreements are shaped by domestic actors but who does not include subnational governments within his set of relevant domestic actors. Notwithstanding important disagreements, all of the mainstream IPE literature departs from a common set of assumptions about the national – and not subnational – location of important decisions affecting the global political economy.[3]

Outside the mainstream IPE literature, more critical approaches have begun to pay attention to the subnational realm by examining the impact that subnational governments can indeed have on capital flows and the functioning of the global economy more generally. This literature challenges the assumption that subnational governments are irrelevant, but it shares an equally limiting assumption by only examining subnational governments whose behaviors promote and facilitate the interests of TNCs. Borrowing from Gramsci, for example, Jessop (1997) criticizes the "local hegemonic projects" that result when transational capital and its local allies link up with subnational states. As another example, Darel Paul sees the contemporary subnational state as an entity that is everywhere "involved in the promotion of transnational liberal production and circulation (Paul 2002, 470)." Saskia Sassen's (1998) work on global cities operates in a similar mode by describing the partnerships that have developed between transnational capital and decision makers in the cities that host the world's leading financial firms. Ultimately, there is little space in this literature for subnational governments that oppose

[3] As Darel Paul observes, "a small literature did take up the 'international relations of subnational governments' in the 1980s and early 1990s…(but) failed, however, to make any real impact in IPE (Paul 2002, 467).

transnational capital or that are using decentralized resources in ways that challenge TNCs.

Even students of transnational capital flows who are more grounded in the subfield of comparative politics (i.e. the comparative political economy or CPE literature) attribute little causal influence to subnational governments. In arguing forcefully against theories of global convergence, for example, the varieties of capitalism literature has not seriously catalogued subnational variation, despite the likelihood that different national styles of capitalism assign different mixes of rights and responsibilities to subnational governments (Berger 1994, Hall and Soskice 2001). If Robert Wade (1996) is right and reports of the death of the national economy are premature, then this begs the question of how subnational governments contribute to national differences, particularly considering the amount of decentralization that has occurred in the decade since Wade wrote. Closer to Latin America, scholars who studied flows of capital from the perspective of dependency theory likewise tended to overlook subnational governments. Even in Brazil, Latin America's most decentralized polity, subnational governments were not understood to be significant actors within the state, one of the three key partners in Peter Evans' influential conceptualization of the "triple alliance (Evans 1979)."[4] So long as statist development models remained firmly in place, scholars focused almost exclusively on variation in the capacity of national governments to regulate inflows of foreign capital.

More recently, several scholars in the CPE literature have innovated by beginning to move subnational governments from the margins to the center of their analyses. For example, Richard Doner and Eric Hershberg (2001) argue that as firms have adopted more flexible forms of export production to compete in a post-Fordist global economy,

[4] Judith Tendler (1968) did, however, focus on subnational states in Brazil. See also Eaton 2006.

they have consequently come to demand the types of policy support that subnational governments are better at providing (i.e. they support decentralization). According to the "market-preserving federalism" model developed by Gabriela Montinola, Yingyi Qian and Barry Weingast (1995), for example, Chinese provinces compete with one another for domestic and foreign capital, and as a result have built and guaranteed investor-friendly climates, even in the absence of the rule of law. Writing on federations in Latin America, Alfred Montero (2001), Richard Snyder (2001) and Erik Wibbels (2005) have also systematically studied subnational governments as key political economy actors. Montero documents the different industrial policy regimes that Brazilian states developed, Snyder explains variation in the forms of regulation that Mexican states adopted in the wake of national-level deregulation, and Wibbels argues that higher levels of political competition in some Argentine provinces has led to greater support for market-oriented policies. My research builds on these works by focusing specifically on subnational governments as exponents of economic nationalism, and by restricting the scope of the analysis to foreign direct investment.[5] It also draws on recent work by Benjamin Goldfrank and Andrew Schrank (2007), whose research documents important episodes of territorial tension between neoliberal and socialist policy regimes in Latin America.[6] While my paper builds on Goldfrank and Schrank's focus on national/subnational discord over liberalism, I argue that "nationalism" is a better label

[5] See Rice and Roberts (2007) for the argument that Bolivian provinces that have received higher levels of FDI have also experienced higher levels of protest.

[6] More specifically, Goldfrank and Shrank show how subnational policy experimentation with liberalism in Mexico's northern states pre-dated and helped fuel the national-level liberalization that the country began to experience in the 1980s. Likewise, they argue that municipal experiments with socialism in Brazil and other countries presaged the region-wide shift to the left that has taken place at the national level since 2000.

than "socialism" for the policy stances that subnational governments are adopting in Peru.[7]

Subnational Economic Nationalism

Economic nationalism has been conceptualized as an ideology that is espoused by national-level actors who use or seek to use national-level policy instruments (e.g. tariffs, import quotas, subsidized credits from national development banks) to defend and promote national economic interests. From Friedrich List (1904) on, economic nationalism has been most closely associated with the protection of nationally-owned industries and with state-led industrialization, but it is not restricted to the manufacturing sector. Indeed, economic nationalists can focus their attention on any sector, including agriculture (as in the restriction on how much land foreigners can own and where they can own it), utilities, banking and the exploitation of natural resources. Given that national governments have greater leverage than subnational governments in interactions with other national governments, and given the greater range and power of the tools that come under the control of the national government, it is no wonder that economic nationalists have focused their efforts on influencing national-level decision making. Capturing subnational governments, for instance, could never give nationalists control over tariffs, which they can use both to protect domestic firms and to secure better access for domestic firms in foreign markets. Undeniably, national governments have been the most important and most desirable platform for economic nationalists.

[7] Nationalism is also the label adopted by the most important critic of neoliberalism in Peru, defeated presidential candidate Ollanta Humala.

And yet, subnational governments can also serve as important sites for the expression of economic nationalism and as institutions whose policy authority and legitimacy can be put to the service of nationalist objections. With respect to policy authority, depending on the extent of administrative and fiscal decentralization, subnational governments wield a variety of policy tools that can be used to promote and favor domestic capital and/or to penalize and limit foreign capital. Depending on the federal or unitary design of the country in question, these policy tools can be utilized by both intermediate-level and local-level governments. Local governments typically have the power to set property taxes and can impose higher (or lower) tax rates on foreign capital; even more importantly they often have the authority to grant or deny land use permits and control critical questions about the (re)zoning of land for various purposes (referred to as *ordenamiento territorial* in Latin America). Intermediate-level governments (e.g. states, provinces, departments, regions) typically have greater fiscal authority than local governments, which may take the form of revenues from tax bases that have been devolved from the center, or of revenue transfers from the national government. Intermediate-level governments can use nationalistic criteria when they decide how to spend these revenues; in some cases they have also established their own banks and state-owned enterprises in ways that limit options for foreign capital. Thus, the decentralization of fiscal and administrative authority has expanded the policy tools under the control of subnational governments, and these tools can be used for nationalistic ends just as easily as for liberal ones.

Furthermore, the decentralization of political authority via the introduction of subnational elections has reinforced the perceived legitimacy of the officials who win these contests, including mayors and governors, but also a broad array of municipal councilors and provincial legislators. In vast parts of the developing world, limited institutional capacity makes it difficult for elected subnational officials to make effective use of their new policy attributes, but once they are elected weak capacity does not prevent them from using their positions to challenge the terms or the very presence of FDI. The "mere" election of subnational officials – even when subnational governments have limited policy tools or limited capacity to actually use their tools – can transform these officials into powerful advocates for economic nationalism, particularly when they fear that the net effects of FDI are negative for their localities. At times, elected officials at the subnational level also seek to scale up their critiques of TNCs in articulating arguments that do more than highlight the local costs of FDI. In the words of Guillermo Muñoz, a subnational elected official who led the above-mentioned Ecuadorian strike against Occidental in the Amazonian provinces of Orellana and Sucumbios in 2005, "our provinces are defending the national sovereignty of Ecuador."[8] Understood as an implicit criticism of the national government for not defending the country's sovereignty, national authorities imprisoned Muñoz for his role in the strike.

The simple, but often overlooked, point that adherents of economic nationalism can occupy perches in both national and subnational governments opens up the possibility of deep policy disagreements between these different levels of government. Drawing on Juan Linz' critique of presidentialism, the separate election of national and subnational governments – thanks to political decentralization – creates a situation of "dual democratic legitimacy" in which national and subnational officials respond to their different constituencies by carving out very different positions vis-à-vis economic

[8] "Ecuador: New Defense Minister Takes Hard Line with Protestors," Inter Press Service, August 19, 2005.

liberalism and economic nationalism. Not unlike the separate election of executive and legislative branches (e.g. presidentialism), the separate election of national and subnational governments means that the former cannot merely dismiss the latter over policy disagreements. The national government can arrest subnational officials for breaking the law, as the Ecuadorian government did when it jailed Muñoz, and it can change national laws to criminalize certain behaviors, as the Peruvian government did in July 2007 with the passage of an "anti-strike" law that forbade the involvement of subnational officials in strike activity.[9] But punitive responses by the national government have their limits in the absence of institutional mechanisms to solve policy disputes between separately elected officials.

Sources of Subnational Economic Nationalism in Peru

The purpose of this section is two-fold. First, I focus on the factors that have transformed subnational governments in Peru into important exponents of economic nationalism. Specifically, I attribute the economic nationalism of subnational governments in Peru to four variables, each of which may vary cross-nationally in ways that could explain why subnational governments in other countries have responded differently to FDI. Specifically, I focus on 1) the territorial distribution of costs and benefits from FDI, 2) the depth and consistency of neoliberalism at the national level, 3) the adoption of political decentralization before administrative and fiscal decentralization, and 4) the impact of political decentralization on the fortunes of the political Left. Using

[9] Garcia declared that regional presidents had required government employees to attend rallies and that they had used government cars to help organize protests against the national government's economic policies.

the case of the Arequipazo in 2002, the second purpose of this section is to illustrate how these factors came together in Peru's most important and explosive episode of subnational economic nationalism.

The Territorial Impact of Neoliberalism

Around the world, the adoption of market-oriented economic models has produced well-documented benefits and costs. In Peru, as in many countries, the distribution of these benefits and costs has been territorially quite uneven (Arce 2003, Bebbington 2007, Gonzales de Olarte 2000). Economic liberalization in the 1990s included the rescinding of the capital and investment controls that had been introduced by the left-leaning and nationalist military government of General Velasco Alvarado (1968-1975). Liberalization in turn increased FDI geared toward the export of Peru's significant natural resources, including mineral wealth in the highlands of the Andes and gas deposits in the country's Amazonian departments. Peru's re-adoption in the 1990s of the export-oriented policies that had been abandoned in the late 1960s translated into buoyant foreign exchange earnings, impressive economic growth rates that ranged from 5 to 10% per year, and – after the hyperinflationary turbulence of the late 1980s and early 1990s – macroeconomic stability. In addition to producing important collective benefits for Peru as a whole, liberalization generated significant benefits for the national government relative to subnational governments thanks to tax laws that establish Lima as the tax home (*domicilio tributario*) for TNCs with investments in the interior. More generally, as the only region in Peru with functioning markets in labor, capital/finance, and goods and services, market reforms disproportionately benefited Lima relative to the periphery (Gonzales de Olarte 2000, 17).

Whereas liberalization has generated concentrated benefits for Lima and diffuse benefits for all Peruvians, the costs of this model have been particularly high subnational regions outside of Lima. As in other Latin American countries, liberalization curtailed the various inducements that national governments in the 1970s and 80s had used to encourage and protect industrial investment outside of Lima. Market reforms led to the bankruptcy of industrial firms throughout Peru, in addition to the re-location of many firms to Lima, whose proximity to the port of Callao generates important advantages in the more competitive environment that liberalization created.[10] De-industrialization and privatization translated into unemployment and downward pressures on wages, costs that weighed heavily on local economies throughout Peru, and that were not offset by the minimal employment needs generated by the shift toward capital-intensive investments in mining (Bebbington 2007, Bury 2008). In addition to the uneven territorial distribution of economic costs and benefits, Peru's mining boom deepened anti-Lima sentiment due to the geographic concentration of the environmental costs that mining produces. According to this logic, while the mines have generated welcome macroeconomic stability for Peru, they have also caused environmental devastation for local communities throughout the periphery, including chiefly the contamination of water sources. Thus, in contrast to other countries in Latin America where subnational regions outside the capital have benefited from liberalization (e.g. Bolivia, Ecuador, Argentina, Brazil), in Peru inflows of FDI have failed to generate enthusiasm for market reforms outside of Lima.

[10] As Arequipa Congressman Juan Carlos Eguren notes, industrial firms in Arequipa would have to pay to transport imported inputs over 1000 kilometers from Callao, and then another 1000 km back to Lima where the domestic market is concentrated. Author interview with Eguren, September 12, 2007, Lima.

Deep and Persistent Neoliberalism at the National Level

If Peruvians outside of Lima can with good reason believe that they have disproportionately borne the brunt of liberalization, they also have cause to look to subnational governments for redress given the aggressive and consistent pursuit of neoliberal approaches by a succession of national governments. Since 1990, actors who favor a more nationalistic economic agenda have enjoyed limited access in Lima, for two overarching reasons. First, it is important to note the comparatively more liberal terms for FDI that were adopted in Peru under Alberto Fujimori (1990-2000) relative to other countries in the region. Like other neoliberal reformers, including Carlos Menem in Argentina and Victor Paz Estenssoro in Bolivia, Fujimori sought to reduce country risk indicators that had increased sharply in the 1980s as a result of hyperinflation. Due to Peru's ongoing civil war, however, Fujimori had to do more than address the disastrous economic policies of his predecessor, Alan Garcia (1985-1990). In order to overcome the skepticism of foreign investors, and to encourage their investment precisely in those parts of the country where Shining Path insurgents remained a concern, Fujimori opted to extend very generous fiscal incentives. Even more importantly, he locked these incentives into place in the form of tax stability contracts (*convenios de estabilidad tributaria* or CETs) that outlawed future changes in the treatment of FDI. To further protect his preferred approach to foreign investment, Fujimori also inserted these contracts into the new Constitution (Article 64) that his supporters wrote in 1993.

Second, if the incentives offered to TNCs were especially generous in Peru, they have also been strongly defended by Fujimori's successors.[11] Although he was elected as one of the chief critics of the corruption that accompanied the liberalization process under Fujimori, President Alejandro Toledo (2001-2006) offered no major deviation from Peru's pro-market orientation. To the disappointment of his supporters on the left, Toledo consistently championed the importance of macroeconomic stability and sought to continue down the path of privatization (though this path was blocked by the subnational mobilization against privatization in Arequipa that is discussed below). More recently, in contrast to the policy positions adopted in his first presidency in the 1980s (including the declaration of a moratorium on international debt repayment), the re-election of Alan Garcia in 2006 has resulted in an even more aggressive defense of the reining neoliberal model. In the 2006 campaign against nationalist Ollanta Humala, who won heavily in much of the interior, Garcia promised to increase taxes on the windfall profits that have been generated in Peru by record-high mineral prices (i.e. *impuesto a las sobreganancias*), but backtracked on this pledge after his second-round victory. As seen in Table 1, Humala's nationalist agenda resonated heavily in the interior (e.g. the highlands and Amazonian departments), in contrast to Garcia's strong support in Lima and on the coast. In addition to the decree outlawing the participation of subnational officials in protest activity, Garcia has vilified protestors against TNCs as "terrorists" and restricted financial flows from external to domestic NGOs out of concerns that this financing has worsened Peru's investor climate. To opponents of neoliberalism in Peru, then, Garcia clearly represents the continuation of an economic model that has been in

[11] Although Fujimori softened some aspects of his neoliberal program (especially with respect to trade policy) in his second administration after 1995 (Arce 2003b), this did not affect the investment code.

place for nearly two decades – in sharp contrast to neighboring Bolivia and Ecuador, which experienced the election of economic nationalists to the presidency in 2005 and 2006 respectively.

[Table 1 here]

Political (But Not Fiscal or Administrative) Decentralization

While the territorial impact, depth, and persistence of economic liberalization help to explain why subnational economic nationalism has emerged in Peru, any account of this phenomenon would remain incomplete without a discussion of decentralization. If economic liberalization represents the main policy innovation of the Fujimori administration, the most important change in the subsequent Toledo administration proved to be decentralization, which Toledo had advocated on the campaign trail against Fujimori in the 2000 presidential race. But the fact of decentralization under Toledo is less important than the form that it took. Specifically, I argue that the adoption of political decentralization – in the absence of serious moves toward either administrative or fiscal decentralization – has encouraged subnational officials to embrace economic policy positions that are decidedly more nationalistic than their national-level counterparts. While subnational officials now have to worry about getting elected and re-elected by constituents who are frustrated with the costs of economic liberalization, the continued centralization of administrative and fiscal authority limits the ability of these officials to placate their constituents through responsive governmental policies at the subnational level.

In the context of Peru's transition from the authoritarianism of the Fujimori era, political decentralization became an important priority for Toledo, who saw in this reform the possibility of distinguishing himself from his predecessor's highly centralized style of governance.[12] Decentralization was particularly appealing given that Toledo did not offer a substantially different economic model. Though Fujimori's "self-coup" in 1992 is better known for closing down the national legislature, this rupture in democratic rule also enabled him to suspend elections in the country's regions, which had been introduced in the 1980s. The urgency of re-introducing regional elections after 2000 led to the passage in Toledo's second year as president of the Decentralization Law (*Ley de Bases de la Descentralización*), which inserted into Fujimori's 1993 constitution the holding of direct elections for regional presidents. Not only did Toledo agree to surrender his authority to appoint regional presidents, but he favored the non-concurrent holding of subnational elections in December 2002, an institutional design that limits the nationalization of subnational electoral contests. In addition to re-introducing elections, the 2002 Decentralization Law also adopted an explicitly sequential approach to decentralization. According to the sequence of measures laid out in this law, once regional elections were introduced in 2002, Peruvians would then vote on the formation of "macro-regions" in the attempt to create a smaller number of more economically viable regional units (Conterno 2007). Further measures of fiscal and administrative decentralization were made contingent on the formation of these macro-regions via a countrywide plebiscite to be held in 2005.[13]

[12] Personal communication with Pres. Alejandro Toledo, Santa Cruz, California, November 14, 2006.
[13] This sequence betrays a fair amount of suspicion toward decentralization by national legislators in Peru. According to Violeta Bermúdez, the 2002 law represents the insertion of a decentralization clause into a highly centralist (1993) constitution. Interview with Bermúdez, PRODES, September 21, 2007, Lima.

For several reasons, Peru's decentralization process ground to a halt after the historic re-introduction of regional elections in December 2002. First, reflecting its status as the only party in Peru with much organizational capacity, the opposition APRA party won 12 of the 25 regional elections in December 2002. To his great chagrin, the governing *Peru Posible* party that Toledo had cobbled together fared quite poorly in these elections, a political defeat that drastically reduced his enthusiasm for the subsequent transfer of fiscal resources and administrative authority to opposition-controlled regions. In the next regional elections held in December 2006, only six months after the victory of the APRA party in the July presidential elections, all but one of APRA's regional presidents lost their re-election bids. Like Toledo before him, Garcia has faced a set of regional presidents who are not his political supporters; a political landscape that has likewise served to freeze additional decentralization measures. Second, Peruvians overwhelmingly rejected the formation of new macro-regions in the 2005 plebiscite, which according to the 2002 law must take place before fiscal decentralization can proceed.[14] In addition to stalled fiscal transfers, Lima has also maintained tight administrative control over regional governments through the National System of Public Revenues (*Sistema Nacional de Ingresos Públicos* or SNIP), which requires national-level approval for regional expenditures above a low threshold.

Finally, the frustrations of political decentralization without fiscal and administration decentralization can be most clearly seen in the establishment in early 2007 of a National Association of Regional Governments (*Asociación Nacional de Gobiernos Regioniales* or ANGR). By September 2007, all regional presidents had

[14] Interview with Johnny Zas, expert on decentralization at FONDEP, September 14, 2007, Lima.

joined the ANGR, which has quickly emerged as an important lobby group for the adoption of more nationalistic economic policies.[15]

Left Politics at the Subnational Level

According to the discussion above, electing subnational officials but denying them fiscal or administrative authority makes it difficult for these officials to ignore the nationalistic demands of their constituents. But political decentralization in Peru is also important because it has more specifically opened up significant new spaces for the political left, including territorially-defined movements that have been able to take advantage of the collapse of the national party system and to win subnational elections in their own right. This phenomenon is important at both the municipal and regional levels of government. With respect to the municipal level, whereas national politics in the 1980s were dominated by a center-right party (e.g. Belaúnde's *Acción Popular*) and by a populist party (Garcia's APRA), Peru's most important left-wing party, the United Left (*Izquierda Unida* or IU) governed in its most important municipality, Lima. Although IU's goal was to use this municipal footing as a means of gaining power at the national level, its support in national elections remained anemic during and after the Fujimori period (Roberts 1998). In contrast, municipal spaces have remained the more important venue for the Left. While Fujimori canceled municipal elections in regional capitals in the 1990s (in addition to elections for regional presidents), he allowed elections for municipal authorities at two sub-regional levels (e.g. provincial and district-level

[15] Interview with Grover Pango, Secretary of Decentralization in the Council of Ministers, September 12, 2007, Lima.

municipalities). In the flattened civil society that characterized Peru under Fujimori (Cameron 1994, Cameron and Levitsky 2003, Grompone 2005), left-leaning mayors emerged as the leaders of the anti-Fujimori movement in the late 1990s. Many of these mayors then ran for regional president when these elections were re-introduced in 2002. More generally, precisely because parties in Peru are not well organized at the municipal level, they tend to choose local notables as their candidates in municipal elections, individuals who often are notable for their participation as strike leaders.

Turning from the municipal to the regional level, deep changes in Peru's political economy beginning in the late 1960s have transformed the regions into political spaces that are ripe for nationalistic demands. Most important is the sweeping agrarian reform implemented by Peru's military government, which essentially eliminated large landowners as a class and created a political vacuum in the regions. As Martin Tanaka notes, "regional elites no longer exist in Peru."[16] Before the agrarian reform, landed elites in Peru had long served as the bedrock of support for liberal, outward-oriented development strategies (Cotler 2005). Furthermore, in subnational areas like Arequipa, landowners invested the compensatory bonds that they received from the military government in industrial ventures that operated under considerable protection and that have struggled with economic liberalization.[17] Owners of industrial firms that survived liberalization in the 1990s are thus more likely to support nationalist than liberal policies, despite their origins in the agrarian elite.

More recently, "regional movements" (*movimientos regionales*) have filled the space left vacant by the disappearance of regional elites. These highly fragmented and

[16] Interview with Martin Tanaka, Professor at the Instituto de Estudios Peruanos, September 11, 2007, Lima.
[17] Interview with Pablo Alcazar, Direct of Public Affairs of the Cerro Verde Mining Company, September 18 2007, Arequipa.

often ephemeral movements, which tend to adopt a combative attitude toward FDI, have been favored by two institutional rules. First is the 2003 Political Party Law, which sought to strengthen parties by making their registration more stringent, but which ended up unwittingly giving regional movements an advantage in regional elections (Tanaka 2005, 112). Second, unlike presidential elections at the national level in Peru, ballotage is not used at the regional level, which has enabled quite fractionalized regional movements to capture regional presidencies.[18] Thanks in part to these rules, the number of regional presidencies controlled by regional movements rather than political parties increased from 7 to 17 between the 2002 and 2006 elections. According to the electoral data presented in Table 2, Peru is currently experiencing an important disconnect between national and regional power: regional movements control the vast majority of regional governments but not a single seat in Congress, whereas the parties that control Congress have quite limited representation at the regional level.

[Table 2 here]

Case in Point: The Arequipazo

To date, Peru's most significant episode of subnational economic nationalism occurred in the city and region of Arequipa in June 2002, one year after Toledo's election and six months before the re-introduction of regional elections. Early in 2002, the Toledo government announced plans to privatize Egasa and Egesur, two electricity companies that provide most of the electricity consumed in southern Peru. In response, a

[18] Interview with Carlos Basombrio, Vice Minister of the Interior during the Arequipazo, September 21, 2007, Lima.

heterogeneous social movement emerged to challenge the privatization, calling itself the Broad Civic Front of Arequipa (*Frente Amplio Cívico de Arequipa* or FACA). Though led by union leaders who had lost their jobs when Fujimori privatized state-owned enterprises, FACA also galvanized a broad array of non-union actors, student groups and neighborhood associations (including most importantly the *Asociacion de Urbanizaciones Populares de Arequipa* or AUPA). Arequipeños feared both the likely loss of jobs that would result from Egasa's privatization and the possibility of rate hikes. Referring to a 1989 law that had been derogated by Fujimori, FACA asserted that Egasa was owned by Arequipa as a region, and that the national government therefore had no right to sell it off. When Toledo responded to the protests by sending in the military, Arequipa exploded in violence, culminating in the death of two university students. Ultimately, Toledo sent cabinet ministers to Arequipa to negotiate and agreed not to privatize Egasa.[19] Thousands of protestors celebrated on June 19, 2002 by meeting to sing Peru's *national* anthem in the main square of Arequipa.[20] In the aftermath of the Arequipazo, Toledo declined to propose further privatizations for the remaining four years of his administration.

With respect to my arguments about the territorial impact, depth and persistence of neoliberalism in Peru, the Arequipazo tapped into a deep-seated belief that economic liberalization had benefited Lima at Arequipa's expense. Until liberalization, Arequipa sustained the most significant industrial base outside of Lima, with large steel, cement, and textile companies, in addition to La Gloria, the most important producer in Peru's dairy industry, which relocated to Lima in the 1990s. Accordingly, under Fujimori this

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[19] According to one national government representative, it was more of a capitulation than a negotiation. Anonymous interview, Lima, September 2007.

[20] Interview with Luis Saraya, FACA leader, September 20, 2007, Arequipa. See also Saraya 2006.

region was a hotbed of opposition to neoliberal policies. Arequipeños were not shy about demonstrating this opposition, as evidenced most famously when they whistled at Fujimori during his appearance at a soccer stadium in Arequipa, preventing him from speaking and, according to local residents, ensuring his enmity for the city.[21] Subsequent to Fujimori's fall in 2002, and fearing the privatization of Egasa which had been discussed in the 1990s, anti-privatization advocates in Arequipa persuaded Toledo on the campaign trail in 2001 to sign a pledge not to sell the company if he won the presidential elections that year. When Toledo reversed this position in 2002, facing IMF demands that he find revenues to close a $700 million budget shortfall, many Arequipeños were furious at the prospect of a continuation of the Fujimori policies that they had so vigorously opposed, and felt powerless to check these policies through national-level institutional channels.[22]

Turning from liberalization to decentralization, the Arequipazo also illustrates how the re-introduction of subnational elections in post-Fujimori Peru has fed the emergence of subnational economic nationalism. Critical here is the political transformation of the mayor of the city of Arequipa, Juan Manuel Guillen, whose hunger strike against the privatization of Egasa and whose leadership of the FACA remain two of the defining features of this episode. Before his election as mayor, Guillen had been a quite successful rector of the local university, a moderate who constructed important partnerships with Arequipa's business community in general and with the Sander corporation in particular. Far from espousing a nationalist position, Guillen actually signed several statements of support for Egasa's privatization in early 2002. In this

[21] Interview with Mercedes Cruz, Asociación Humanidad Libre, September 17, 2007, Arequipa.
[22] Interview with Ana Herrera, FACA leader, September 20, 2007, Arequipa.

period, he was also suffering from very low approval ratings on the order of 5%.[23] Like mayors elsewhere in Peru, the continued centralization of fiscal and administrative authority greatly reduced Guillen's ability to respond effectively to local concerns. Thanks to the SNIP, according to the head of Arequipa's main business association, "approximately 85% of those budgeted revenues that are assigned to Arequipa go unused and must be returned to Lima."[24]

Despite his pro-business background, once it became clear that such a broad set of interests in Arequipa were prepared to mobilize against the privatization of the city's electricity company, Guillen abruptly reversed course and championed the cause of the protesters. In the words of one local journalist, "with the Arequipazo Guillen became a leader (se convirtió en líder con el Arequipazo)."[25] Guillen's stance in the Arequipazo has been quite positive for his career, considering his victory in the elections for regional president of Arequipa in 2006 and his subsequent emergence as a leader within the ANGR. Institutional incentives created by political decentralization – in the absence of fiscal or administrative decentralization – clearly pushed Guillen in the direction of economic nationalism.

Constraints on Subnational Economic Nationalism in Peru

According to the argument developed so far in this paper, subnational economic nationalism has advanced in Peru as the direct result of the country's particular approach to the two trends that have taken place virtually everywhere in the region: liberalization

[23] Interview with Humberto Olaechea, Secretary of the Comité de Lucha, September 19, 2007, Arequipa.
[24] Interview with Mauricio Chirinos, President of the Chamber of Commerce, September 18, 2007, Arequipa.
[25] Interview with Patricia Pinto, journalist at *el Buyo*, September 18, 2007, Arequipa.

and decentralization. At the national level, in the absence of a viable anti-neoliberal alternative and in the absence of higher levels of political support for fiscal and administrative decentralization, my analysis suggests that the subnational realm will continue to be an important site for advocates of economic nationalism. It would be misleading, however, to overstate the prospects for subnational economic nationalism. As I argue in the paragraphs below, a number of constraints have limited the expression of economic nationalism by subnational governments, sometimes intentionally and sometimes due to the unintended consequences of institutional design. In the first section, I review a series of revenue arrangements that have increased financial payments and other supports for subnational governments, which fall well short of actual fiscal decentralization, but which have served to undercut anti-TNC sentiment in localities across Peru. In the second section, I discuss the effects of political decentralization and subnational electoral competition, which have encouraged some subnational politicians to seek financial support from TNCs. In the final section, I show how these constraints have challenged the ability of subnational governments in Arequipa to advance a more nationalistic position vis-à-vis the region's largest copper company, Cerro Verde.

Revenue Arrangements that Limit Subnational Economic Nationalism

While fiscal decentralization in Peru has lagged significantly behind other Latin American countries (including even other unitary countries like Bolivia and Colombia), the national government has pursued three distinct revenue arrangements that limit the force of economic nationalism at the subnational level. Rather than share fiscal revenues broadly with subnational governments according to the application of universalistic criteria, each of the three arrangements discussed in this section (e.g. *canon minero*, *fondos de fidecomiso* and *aportes voluntarios*) shares revenues with subnational authorities in select jurisdictions. First and most important are the so-called "canons" that share with subnational governments 50% of the tax payments generated by investments in mining, gas, forestry and hydroelectric activities (though the mining canon is by far the most significant). Canon payments are shared with 1) the municipality of the district in which the investment is located, 2) the provincial government in which that municipality is located, and 3) the regional government in which these provinces and municipalities are located (Zas Friz 2004). Although the canons were inserted into the 1993 constitution, this document failed to specify the exact percentages that would be shared with subnational governments.[26] Only after the fall of the Fujimori government in 2000 was implementing legislation passed that set the percentage at the (historically generous) level of 50%. Because the advantageous terms of the canon were introduced before Peru's mining boom, which few in the country foresaw, this timing raises questions about whether the canon can be considered a strategy to buy off local opposition to mining.[27] In addition to the canon, once the scale of the mining boom became apparent in 2003, Congress introduced a new law establishing royalty payments, which are also shared with select subnational governments.

I argue that the canon has weakened subnational economic nationalism in Peru in two important dimensions. First, it has created "have" and "have not" regions, as seen in

[26] Also, according to Zas, distribution rules initially favored population density, but these were later changed to increase monies for actual mining areas. Interview with Zas, op. cit.

[27] As one of the authors of decentralizing legislation stated, "when the canon was designed in the 1990s, no one could have imagined that prices for mineral exports would have increased so dramatically." Interview with Efraín Gonzales de Olarte, Rector of the Universidad Católica, September 11, 2007, Lima.

Table 3, which documents the tremendous cross-regional variation in the amount of canon monies received from TNCs. [28] Whether intentional or note, the decision of the national government to share tax revenues from TNCs unequally with subnational regions has had the effect of creating tensions between these regions. Whereas some municipal, provincial and regional governments are now receiving far greater revenues than anything they have ever received from Lima, neighboring municipalities, provinces and regions receive virtually nothing.[29] When the Economics Ministry proposed the creation of a compensation fund in 2007 to redistribute the revenues more evenly among subnational governments, those governments that receive canon monies successfully opposed the measure.[30] Opposition to the canon appears to be quite entrenched, despite the fact that it directly challenges constitutional language identifying subsoil wealth as the patrimony of all Peruvians (and not just those who happen to live in the locality).

[Table 3 here]

Second, and just as important, the canon has created incentives for subnational officials to adopt more compliant attitudes toward FDI. Given Peru's stalemated process of fiscal decentralization, which can only proceed if Peruvian voters agree to form macro-regions, the only way that subnational officials can actually access resources is if TNCs successfully exploit the natural resources found within their jurisdictions. Furthermore, while canon monies are still subject to SNIP control, proceeds from the canon remain in funds that are held by the subnational governments indefinitely – unlike budgeted monies

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[28] The unevenness of the canon was also a factor in the defeat of the 2005 plebiscite on the formation of macro-regions; canon receiving regions were loathe to merge with non-canon receiving regions.
[29] In the region of Tacna, canon revenues for one municipality went from 1 to 70 million soles thanks to the operations of the Southern Peru Mining Company.
[30] Interview with Carlos Casas, Head of the Cabinet of Advisors in the Economics Ministry, September 13, 2007, Lima.

that have to be returned to Lima if unspent at the end of the year.[31] Understanding that the canon has reduced the hostility of subnational officials to FDI, TNCs have begun to lobby Lima for changes that would increase still further the share of canon monies sent to subnational governments.[32]

In addition to the canons, which share tax revenue with subnational governments, the national government has also instituted the practice of requiring that TNCs themselves set up escrow funds (*fondos de fidecomiso*) to finance investments in local jurisdictions. According to César Díaz, director of public relations at the national government agency that promotes foreign investment in Peru (*Pro-Inversión*), the experience of the Arequipazo helped convince top leaders in the Economics Ministry (under which *Pro-Inversión* sits) of the need to direct monies toward the local communities in which TNCs operate.[33] Accordingly, all new investment projects in which TNCs participate must set up these escrow funds. Borrowing from the logic of participatory budgeting that was popularized by the city government of Porto Alegre in Brazil, these funds are under the control of stake-holder councils made up of representatives of local communities, representatives of TNCs, representatives of Pro-Inversión, and representatives of both the municipal and regional governments.[34] Thus the participation of subnational officials in these stake-holder councils – and the potential to influence the ways that TNCS invest in local communities – represents another mechanism that serves to depress anti-TNC sentiment among these officials. Escrow funds, however, do not always have this anticipated effect. Important in this respect is

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[31] Interview with Luis Ortigas, Project Manager for Electricty and Hydrocarbons at Pro-Inversión, September 12, 2007, Lima.
[32] Roundtable on FDI in Peru, Anthony Bebbington, Santa Cruz, April 2008.
[33] Interview with César Díaz, Director of Communications at Pro-Inversión, September 10, 2007, Lima.
[34] However, while regional presidents sit on these councils, the monies that constitute the fund are shared with the affected local communities, and not the regional government (unlike the canon system).

the Australian company Billington, which in 2003 agreed to devote 3% of the profits derived from its Tintaya mine in Cuzco to an escrow fund after several years of conflict with miners. When SNIP controls made it difficult for local stakeholders to actually use these resources, the miners renewed their attacks on the mine, resulting in the decision by Billington to sell the mine to Xtrata, a Swiss company. In six other important cases, however, escrow funds have enabled important FDI projects to proceed.[35]

A third, less developed revenue mechanism that also appears to be dampening subnational economic nationalism in Peru is the "voluntary support" (*aportes voluntarios*) that the national government has negotiated with TNCs in lieu of a tax on windfall profits. As described above, Alan Garcia promised to increase taxes on the profits that TNCs had derived not as a result of additional investments but strictly as a result of the increase in world prices that has benefited Peru's mineral exporters since 2002. After his victory in the 2006 election, Garcia then backtracked, arguing that any such tax increases would threaten the CETs or tax stability contracts that Fujimori had introduced in the 1990s and therefore drive away FDI. Thus in December 2006, under the auspices of the chief business association for the mining industry (*Sociedad Nacional Minera*), forty of the largest mining companies in Peru agreed to contribute 3% of their profits to a Mining Fund (*Fondo Minero*) that would be controlled by a private entity with the participation of local governments (and that was made contingent on the future trajectory of prices for copper, zinc, gold, silver, iron, tin and lead). In addition to the Mining Fund, Garcia also entered into a series of ad hoc negotiations with companies that

[35] These include the following projects: Yuncan in Pasco, Las Bambas in Apurimac, La Granja in Cajamarca, Alto Chicama in La Libertad, Toro Mocho in Junin and Bayovar in Piura. Interview with César Díaz, op. cit.

were asked to directly finance local investments in subnational jurisdictions, as in the controversial case of the Cerro Verde mining company that is discussed below.

Subnational Political Competition and Alliances with TNCs

As I argued in the first part of this paper, political decentralization in Peru (e.g. the re-introduction of elections for mayors of regional capitals and regional presidents after the fall of Fujimori) has encouraged subnational economic nationalism because it has not been accompanied by fiscal and administrative decentralization. Having to win election and re-election makes subnational officials sensitive to the demands of their constituents, many of whom are opposed to the neoliberal treatment of TNCs in contemporary Peru. At the same time, political decentralization has also indirectly created opportunities for TNCs as they seek to build partnerships with subnational officials. In their attempt to divide and conquer the opposition that has emerged to FDI in many subnational jurisdictions, TNCs can use their significant resources to gain the allegiance of individual subnational officials. More specifically, as elections have become more competitive and expensive, they have had the effect of creating incentives for cooperation with TNCs. The type of resources that TNCs control can prove to be critical in winning elections, though this strategy is also risky given current levels of anti-TNC sentiment in much of Peru. But in numerous cases, including the case of Cerro Verde discussed in the next section, individual politicians have negotiated separate arrangements with TNCs, which allow them to claim that they have secured important revenues from these corporations (though they tend to keep quiet about whether and how TNCs have helped finance their own political campaigns).

Finally, it is important to note that political decentralization has expanded the scope for partnerships between TNCs and subnational officials by increasing two forms of political competition, horizontal and vertical. Horizontally, candidates for the same subnational office can seek separate deals with TNCs, and try to use such deals to distinguish them from their competition in these races. Vertically, because Peru has *three* different levels of elected subnational government (i.e. municipal, provincial and regional), officials at one of these levels can attempt to strike separate deals with TNCs that deliver special benefits for their particular level, to the exclusion of other levels of government.

Case in Point: The Difficult Struggle against Cerro Verde in Arequipa

While Arequipa offers one of the most potent examples of subnational economic nationalism in Peru, it also offers ample illustration of the challenges that face adherents of economic nationalism. As seen in Table 3, Arequipa is not an important canon-receiving region. While the canon system certainly creates incentives for subnational politicians in Arequipa to moderate nationalistic demands, since they can only receive substantial revenues if TNCs invest, to date canon transfers have been limited. And yet the other constraints cited above, including subnational political competition and "voluntary payments" from TNCs, have frustrated attempts by residents of Arequipa to pursue a more nationalistic stance vis-à-vis Cerro Verde, the region's most important mining company.

Cerro Verde is the name of a copper mining company that was initially established as a state-owned enterprise (e.g *Yacimiento Minero de Peru*) during the Velasco Alvarado military government in the 1970s. In 1996, Fujimori sold the company and signed along with the privatization a tax stability contract (CET) so that no future tax changes or concessionary policy changes could affect Cerro Verde. In 1999, Cerro Verde proposed additional investments that would enable the expansion of its copper mining into deeper, sulfuric beds rather than the shallower beds that it had mined since the 1970s. While the national government argued that the expansion of Cerro Verde's operations should be considered a new project (and therefore not governed by the existing CET), it ultimately agreed that if the investments were completed by 2003, the company could continue to benefit from the more beneficial terms of the CET. As it happened, Cerro Verde only began its proposed expansion in 2004, but has continued to pay taxes at the lower rate. Cerro Verde has likewise used its CET in the successful attempt to avoid paying the royalties on mining profits that the Peruvian Congress introduced in 2003. Considering the sharp increase in copper prices, one civil society analyst calculates that Cerro Verde owes the region of Arequipa approximately $14 million in royalty payments and $74 million in taxes.[36] In response, in a movement that recalls aspects of the Arequipazo, residents of Arequipa have mobilized to demand that Cerro Verde pay 10% of its profits to subnational governments within the region.

In contrast to the Arequipazo, however, the struggle to force Cerro Verde to pay taxes and royalties has been mostly unsuccessful. First, the company has been able to

[36] Interview with César Acurio, Centro de Estudios Cristianos y Capacitación Popular, September 19, 2007.

take advantage of the sharply competitive political environment in Arequipa that has been created by political decentralization. For example, although many mayors participate in the Committee to Fight Cerro Verde (*Comité de Lucha*), Arequipa's regional president between 2002 and 2006 (Daniel Vera Ballón) pursued a much more sympathetic stance vis-à-vis Cerro Verde. According to Arequipa Vice President Carlos Leyton, President Vera struck an independent deal with the company in 2006.[37] Unfortunately for Cerro Verde, however, the political environment became more hostile with the election of Juan Manuel Guillen as Vera's replacement in the presidency of the region in December 2006. As was the case with his leadership of the FACA in 2002, Guillen has directly participated in the activities of the *Comité de Lucha* since 2006. Nevertheless, Cerro Verde subsequently struck an independent deal with Simon Balbuena, the socialist who is now serving as mayor of the city of Arequipa, who felt that the *Comité de Lucha* was insufficiently attentive to the needs of the city (as opposed to the local communities nearer to the mine), and who left the committee after announcing his separate agreement with Cerro Verde in 2007. These divisions among subnational politicians are important because they contribute to the already considerable challenges facing the *Comité de Lucha*, including factional struggles between the union and non-union actors who form its core. In contrast, Cerro Verde has been quite adept in its management of the struggles that have divided both civil and political society at the local level. From 2004 to 2007, as an indicator of the care with which Cerro Verde approaches these divisions, the company's public relations unit grew from two to twenty staff members.[38]

[37] Interview with Carlos Leyton, Vice President of the Region of Arequipa, September 20, 2007, Arequipa.
[38] Interview with Pablo Alcazar, op. cit.

Second, in addition to the divisions created by subnational elections and political competition, the debate surrounding the "voluntary payments" that Cerro Verde might make also speaks to the limits of subnational economic nationalism. When it became clear that President Garcia would not push the tax on windfall profits following his re-election in 2006, Cerro Verde entered into negotiations with both national and subnational authorities over possible contributions that it could finance within Arequipa. On August 2, 2006, representatives of the company signed an agreement in Lima according to which it would pay 100% of the costs of building a water treatment facility (La Estrella) on the Rio Chile, in addition to financing a technical study on the construction of a sewage treatment plant (La Tomilla). Subsequently, this arrangement fell apart when it became clear that Cerro Verde planned to deduct the associated expenses from its future payment of tax revenues into the mining canon, rather than pledging to commit additional resources to Arequipa. Perhaps more importantly, those who wish to strike a more nationalist position vis-à-vis Cerro Verde are disadvantaged by discussions that invite the company to play the types of governing roles that would directly displace and further weaken Arequipa's subnational governments.

Conclusion

Across Latin America, left-leaning presidents have taken power in recent years, promising to put an end to the neoliberal economic models that have dominated since the restoration of democratic rule in the 1980s. The election of these presidents in such countries as Argentina, Bolivia, Ecuador and Venezuela has indeed shifted economic policies in a nationalist direction, over the opposition of national groups that remain committed to more liberal approaches. These national-level struggles over the market are significant and deserve the attention they are receiving from Latin Americanists, but it may be equally important to focus on the "vertical" struggles over economic development models that are taking place between national and subnational actors.

Peru is a case in point; although the national government remains under the control of economic liberals, a focus on the national level alone would greatly understate the amount of support that exists within Peru today for substantially more nationalistic positions. Ironically, for the reasons underscored in this paper, subnational governments have emerged as the more important arena for the expression of economic nationalism. My research on Peru suggests that, if we want to better understand the phenomenon of subnational economic nationalism, we ought to carefully study how the twin processes of liberalization and decentralization have unfolded. With respect to liberalization, the costs and benefits of neoliberalism in Peru have been unequally distributed along regional lines. Furthermore, for nearly two decades regional losers from the liberalization process have been unable to deviate the course of the national government away from neoliberalism. Even worse, they are now routinely labeled as "terrorists" for expressing opposition to FDI by a president, Alan Garcia, who has aggressively sought to distance himself from the failed statist policies that he adopted during his first presidency. With respect to decentralization, the expansion of electoral spaces at the subnational level has been a boon to the left (particularly critical given its national-level failures), and the holding of elections for subnational officials who have few powers and limited resources has encouraged them to amplify the nationalistic positions adopted by their constituents.

Peru's particular approach to liberalization and decentralization has set the national government on a collision course with subnational governments, but the in-depth study of the Peruvian case also uncovers the vulnerability of subnational officials who seek to advance policies of economic nationalism. For instance, the fact that Peru has bucked the regional trend and failed to adopt fiscal decentralization has created contrary incentives for subnational officials. On the one hand, the lack of fiscal resources means that mayors and regional presidents have little to spend on constituents who are upset about TNCs and whom they must now please. On the other hand, that revenue sharing in Peru takes place only in subnational jurisdictions that exploit natural resources gives mayors and regional presidents good reason to court and retain FDI. The daunting challenges posed by limited state capacity at the subnational level in Peru likewise make subnational officials vulnerable to proposals that effectively turn governing functions (e.g. the construction of water treatment plants, sewerage and roads) over to TNCs. Taken together, subnational officials in Peru are confronting a contradictory set of pressures that are difficult to resolve. The incentives they face in the wake of liberalization and decentralization encourage them to adopt postures of economic nationalism and simultaneously to distance themselves from these postures. Far from being unusual or exceptional, the struggles in Arequipa that are highlighted in this paper represent the types of challenges that subnational officials are increasingly facing throughout Peru.

Table 1: Percentage of votes won in the 2006 Second Round Presidential Elections by Region

Departments by Region (Coast/Highlands/Lowlands)	Electoral Population	Alan Garcia (APRA)	Ollanta Humala (UPP)
Coast			
Ancash	611,881	**52.5%**	47.5%
Arequipa	770,535	35.4%	**64.6%**
Ica	451,197	**59.2%**	40.8%
La Libertad	942,656	**72.6%**	27.4%
Lambayeque	676,735	**61.2%**	38.8%
Lima	5,605,218	**62%**	38%
Moquegua	99,962	46.6%	**53.4%**
Piuria	914,912	**55.6%**	44.4%
Tacna	172,427	39.2%	**60.8%**
Tumbes	110,335	**53.4%**	46.6%
Highlands			
Apurimac	195,954	26.2%	**73.8%**
Ayacucho	306,662	16.6%	**83.4%**
Cajamarca	721,239	48%	**52%**
Cusco	643,629	27%	**73%**
Huancavelica	203,844	25.6%	**76.4%**
Huanuco	354,416	36.2%	**63.8%**
Junin	701,190	37.3%	**62.7%**
Pasco	135,670	**53.4%**	46.6%
Puno	674,865	30.4%	**69.6%**
San Martin	357,124	41.2%	**58.8%**
Lowlands			
Amazonas	179,331	42.4%	**57.6%**
Loreto	416,419	47.2%	**52.8%**
Madre de Dios	47,742	40.8%	**59.2%**
Ucayli	201,342	**52.5%**	49.5%

Source: Political Database of the Americas
http://pdba.georgetown.edu/Elecdata/Peru/pres2006sv.html

Table 2: Parties vs. Movements in the Control of National and Regional Governments

Elections	Political parties won:	Regional Movements won
2001 Legislative Elections	120/120 seats	0/120 seats
2002 Regional Elections	18/25 presidencies	7/25 presidencies
2006 Legislative Elections	120/120 seats	0/120 seats
2006 Regional Elections	8/25 presidencies	17/25 presidencies

Source: "Mapa de resultados comparativos de presidencias regionales: 2002 y 2006. Datos electorales, edición especial 10." Asociación Civil Transparencia. Available at: www.transparencia.org.pe.

Table 3: Transfers of Mining Canon as of June 2007 (Million Soles)

Departments	Mining Canon Transfers	Percentage of Canon Received
Ancash	1,630.30	30%
Tacna	821.69	15%
Cajamarca	585.74	11%
Moquegua	532.91	10%
Pasco	399.73	8%
La Libertad	293.41	5.5%
Cusco	272.89	5%
Lima	209.51	4%
Arequipa	165.31	3%
Puno	158.20	3%
Junin	132.81	2%
Ica	70.12	1%
Huancavelica	41.65	.01%
Apurimac	25.22	.01%
Ayacucho	21.97	.01%
Huanuco	12.67	.002%
San Martin	0.17	.000001%
Madre de Dios	0.04	.000001%
Amazonas	0.01	.000001%
Piuria	0.01	0%
Lambayeque	0	0%
Loreto	0	0%
Tumbes	0	0%
Ucayli	0	0%
TOTAL	5374.36	100%

Source: Grupo Propuesta Ciudadana. "Surveillance of Extractive Industries: National Report Nº 6." Lima, Perú 2007.

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