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**The ‘Reinvented’ State in Emerging Industries: A Comparison of
Tourism in Peru and Chile.**

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Tourism in Peru and Chile.**

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Dedication

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**The ‘Reinvented’ State in Emerging Industries: A Comparison of
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Christopher Ryan Tamborini, Ph.D.

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Supervisors: Bryan R. Roberts and Peter Ward

This dissertation contributes to the literature on the state, institutions and development in developing economies. Drawing from institutional and developmental state perspectives, I examine the way in which the state and its institutional character shape an important non-traditional growth sector across the Latin American continent in the contemporary period - tourism. The cases of Peru and Chile, where tourism has only become a particularly relevant economic activity since the 1990s, provide a comparative lens to explore how the state in conjunction with societal actors go about building new markets and local capacities in an emerging, but highly competitive, non-traditional niche in the global market.

My empirical analysis assesses the two case-studies along four dimensions: (1) the evolution of Peruvian and Chilean tourism and state involvement therein from the 1970s-present; (2) the extent to which the state shapes the natural/cultural-historic resources important to each country's tourism industry; (3) the role of sub-national government in tourism development, with focus on the regions of Cusco, Peru and Los Lagos, Chile; and (4) the influence of the organized private sector, and its relation with the state, on the productive potential of an emerging tourism sector.

My methodological strategy combines various sources of qualitative and quantitative data derived from one year of fieldwork in Peru and Chile, principally (a) over 70 in-depth interviews with public and private sector tourism leaders and; (b) secondary sources, which include historical and current government documents and policy reports.

The main findings of this dissertation show the complex and changing ways in which the state and particular elements of its institutional system matter in the mobilization of an emerging industry in the context of increasing globalization. Instead of prompting the demise of the state, the unfolding of neoliberal globalization in Peru and Chile has made state action (central and sub-national) more necessary as the private sector and civil society have struggled to seize new development opportunities such as tourism. How each state has responded to favorable tourism market trends, however, depends on a range of institutional factors (e.g. state-society relations, decentralization), which continue to shape national and local development processes in the context of accelerated globalization.

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Acronyms

ACHET	Chilean Association of Tourism Businesses (<i>Asociación Chilena de Empresas de Turismo A.G</i>)
AHORA	Association of Hotels and Restaurants, Peru (<i>Asociación Peruana de Hoteles, Restaurantes y Afines</i>)
AMTC	National Association of Touristic Municipalities of Chile
APAVIT	Peruvian Association of Travel Agencies (<i>La Asociación Peruana de Agencias de Viajes y Turismo</i>)
APTAE	Peruvian Association of Adventure and Ecotourism (<i>Asociación Peruana de Turismo de Aventura y Ecoturismo</i>)
CANATUR	National Chamber of Tourism, Peru (<i>Cámara Nacional de Turismo del Perú</i>)
CATA	Association of Adventure Travel Agencies and Operators (<i>La Asociación de Agencias de Turismo de Aventura</i>)
CBC	Centro Bartolome de Las Casas (NGO), Peru
CENFOTUR	Center of Tourism Training (<i>Centro de Formación en Turismo</i>)
CIES	Consortium of Economic and Social Investigation (<i>Consortio de Investigación Económica y Social</i>)
CONAF	National Forest Corporation, Chile (<i>Corporación Nacional Forestal</i>)
CONSETUR	National Chamber of Commerce, Services, and Tourism, Chile (<i>Cámara Nacional de Comercio, Servicios y Turismo</i>)
CONSETTUR	Consortium of Tourism Transport Companies Machupicchu (<i>Consortium de Companias de Transporte Turístico Machupicchu, S.A.</i>)

CORFO	Chilean Economic Development Agency (<i>La Corporación de Fomento y Producción</i>)
CORPAC	Peruvian Corporation of Airports and Commercial Aviation (<i>Corporación Peruana de Aeropuertos y Aviación Comercial</i>)
COTURPERU	Peruvian Tourism Corporation (<i>La Corporación del Turismo del Perú</i>)
CPT	Tourism Promotion Corporation of Chile (<i>Corporación de Promoción Turística de Chile</i>)
DRIT	Regional Directorate of Tourism (<i>Dirección Regional de Turismo</i>)
ENTUR-PERU	National Tourism Company (<i>Empresa Nacional de Turismo</i>)
ECLAC	UN Economic Commission for Latin America & the Caribbean
FODETUR	Comprehensive Strengthening of Regional Tourism Destinations (<i>Fortalecimiento Integral de los Destinos Turísticos Regionales</i>)
FOPTUR	Tourism Promotion Fund (<i>Fondo de Promoción Turística</i>)
FOSIS	The Social Solidarity and Investment Fund (<i>Fondo de Solidaridad e Inversión Social</i>)
GDP	Gross domestic product
HOTELGA	Federation of Hotel and Gastronomical Industries
IDB	Inter-American Development Bank
INC	National Institute of Culture (<i>El Instituto Nacional de Cultural</i>)
INDAP	Institute of Agricultural/farming Development (<i>El Instituto de Desarrollo Agropecuario</i>)
INE	National Statistical Institute, Chile
INRENA	National Institute of Natural Resources (<i>Instituto Nacional de Recursos Naturales</i>)
IMF	International Monetary Fund

MINCETUR	Ministry of Foreign Trade and Tourism (<i>El Ministerio de Comercio Exterior y Turismo</i>)
MINTINCI	Ministry of Industry, Tourism, Integration and Commerce
NICs	Newly Industrialized Countries
OAS	Organization of American States
Plan-COPESCO	Tourism and Cultural Plan of the Special Commission Peru-UNESCO, Integral Development Plan for the Cuzco-Puno Area.
PROFOs	Development Projects (<i>Proyectos Asociativa de Fomento</i>)
PROMPERU	Promotional Commission of Peru (<i>La Comisión de Promoción del Perú</i>)
SERCOTEC	Technical Co-operation Agency, Chile (<i>El Servicio de Cooperación Técnica</i>)
SERNATUR	National Tourism Bureau, Chile (<i>Servicio Nacional de Turismo</i>)
SINANPE	National State Natural Protected Areas System (<i>Sistema Nacional de Areas Naturales Protegidas del Estado</i>)
UGM	Machu Picchu Management Authority (<i>Unidad de Gestión de Machupicchu</i>)
UNESCO	United Nations Educational, Scientific and Cultural Organization
WTOUR	World Tourism Organization

CHAPTER I

INTRODUCTION

Promoting new industries and export markets has become a major response of the state to the globalization of the economy and the adoption of neoliberal economic strategies in the developing world. Despite predictions from globalization and other theorists that the state along with national institutions are losing their significance in the context of accelerated globalization, “free-wheeling” capital and neoliberal hegemony (Robinson 2001; Sklair 2001), the state and domestic institutions remain principal agents shaping national and local development in this age of global liberalism. The main purpose of this dissertation is to contribute to the understanding of how such a process manifests itself to the benefit or detriment of the emerging tourism sectors of two contrasting countries of the developing world, Peru and Chile.

This study is about the complex interplay between the state, institutions and non-traditional growth sectors in the context of increasing global integration in Latin America. It examines an often ignored but increasingly important industry illustrative of the changing nature of economic development in contemporary Latin America - tourism. My research uses tourism as a venue to inform our understanding of the changing role of the state in promoting national and local development and the institutional factors that

mediate this process. Focusing on a particular industry as Clancy (2001: 125) points out: “is particularly useful for drawing mid-level theoretical conclusions having to do with development.”

I shall analyze tourism as a form of market integration. My departure point is that new trends toward tourism growth in developing countries since the 1990s is not solely a story related to global corporate strategy and the natural spread of the industry to more “exotic” locations, but also one associated with domestic actors responding to changing global trends. From this premise, the process of tourism development is seen as one conditioned by national and local agents and the institutional structures and historical experiences of their countries, which help account for variation of development outcomes across national and local space within the context of globalization.

The dissertation is principally concerned with newcomers to tourism development in the developing world, that is, those countries where tourism has only become a particularly relevant economic activity since the 1990s. “Late” tourism developers are especially good sites for research on development because they offer a window into the way states in conjunction with societal actors go about building new markets and local capacities in an emerging, but highly competitive, niche in the global economy. In this context, attention is given to the Latin American region, an area which has experienced new patterns of tourism growth (WTOUR 2002) and global integration in recent years (Gwynne and Kay 2000).

Using a case-study comparative approach, I examine the experiences of Peru and Chile from the 1970s to present. I assess the extent to which the tourism sector in these

two countries has been, and is being, shaped by the state and domestic institutions. Peru and Chile provide a good opportunity to examine the way institutional structures of the state shape the form and consequences of state action in a non-traditional industry favored by recent global trends. On the similarity side, although tourists have visited Peru and Chile in the past, it is only in the past 10 years that both countries have come to see tourism as a particularly viable sector. Driving this trend is the growth of nature, adventure, and cultural-historic tourism markets domestically and internationally and the tourism resource assets of each case country. As tourism substantially increased in both countries during the 1990s, government and private sector leaders have stepped up efforts to promote industry expansion, which is seen as a means to generate foreign exchange earnings, local employment and entrepreneurial opportunities as well as reduce each country's dependence on primary commodity exports (minerals).

There are also very important differences between the two case-studies, which makes a comparison of them especially salient. These include marked contrasts between the global recognition of each country's tourism resource assets, and more generally, the historical patterns of development and the state in the two countries. A particularly important difference for this study will be the broad institutional character of Peru's (weak) and Chile's (strong) state. The divergent nature of institutional state structures, I posit, will differentiate the roles and capacities of each state in promoting an emerging tourism sector.

To ascertain how states intervene in an emerging tourism industry and the extent to which such action is shaped by the institutional character of the state, this dissertation

examines four dimensions. First, it analyzes the evolution of Peruvian and Chilean tourism from the 1970s-present and patterns of state involvement therein. Second, it explores the extent to which the state, and its institutional character, shapes the natural/cultural-historic resources important to each country's tourism industry. Third, it investigates the role of sub-national government in tourism development, focusing on two regions where tourism is an increasingly important productive activity (the Cusco region in Peru and the region of Los Lagos in Chile). Finally, this research analyzes the influence of collective action on the productive potential of the tourism sector, focusing on interactions between the state and tourism business associations. While each dimension is different, contributing to a better understanding of how state institutional characteristics shape the practices and opportunities of an emerging non-traditional industry under the new socioeconomic model is the unifying focus of this work.

In this opening chapter, I intend to set the stage for this study. First, I sketch out the general theoretical background and conceptual tools that will guide this dissertation's analysis. Next, I present the four primary questions of this research as they relate to my theoretical framework. This is followed by a general description of the case-studies. The remainder of the chapter presents the methodological strategy and organization of the dissertation.

AN INSTITUTIONAL AND STATE-CENTERED APPROACH

In this dissertation I adapt insights from institutional and state-centered development perspectives to analyze two emerging tourism markets in Latin America. Focusing on the role of the state in growth industries such as tourism intersects with the

increasing use of institutional theories in development research. Generally speaking, institutional approaches offer a means to understand the influence of formal and informal rules and organizations on the economic development process, i.e. regulatory frameworks, rules of the game, patterns of state and market organization, culture (Burki and Perry 1998; World Bank 2003: ch.3).¹ In this scenario, the state can be seen as a central institution that has shaped economic development over the past three centuries (Polanyi 1944). As Block (1994: 696) puts it, state action: “*always* plays a major role in constituting economies.”

In emphasizing the state as a central actor conditioning the development process, I wish to invoke a discussion not only of elected officials but more importantly the permanent legal, administrative, bureaucratic, and institutional structures that mediate relations between civil society and the social order (Stepan 1978). States are different than governments because they are more enduring and generally do not change with elections; as Rauch and Evans (2000: 62) remind us, states are: “typically ‘stickier’ than politicians.” I use the term state, then, to refer to a conglomeration of bureaucratic agencies and institutional structures: “charged with administering policies, maintaining order, enforcing the law, securing political legitimacy, and collecting the revenues necessary for the functioning of the state apparatus and the implementation of state policies” (Itzigsohn 2000: 13).

¹ More specifically, the *World Development Report* (2003: 38) defines institutions as: “the rules, organizations, and social norms that facilitate coordination of human action...on the formal end, they include a country’s codified rules and laws, and the procedures and organizations for making, modifying, interpreting, and enforcing the rules and laws.”

This dissertation focuses on the role of the state as it relates to economic development.² This focal point, sometimes referred to as developmental state theory, rests on several theoretical pillars related to a comparative institutional approach (Evans 1995: ch.2; Itzigsohn 2000; Woo-Cumings 1999; Wise 2003). The argument starts with the Weberian notion of a modern bureaucratic state, which is seen as a potentially autonomous actor in society.³ While societal interests will always condition the state to certain degrees (Barkey and Parikh 1991), a neo-Weberian view stresses the potential of the state to pursue its own goals separate from societal or particularistic interests.⁴ At issue here is a complex argument that views the state as a historical product of the institutional endowments and social structure within which it is embedded, rather than a simple collection of atomized self-interested bureaucrats (neoclassical) or a tool of the dominant capitalist class (neo-Marxist). If state action does not necessarily reflect the whims of individual state elites or the interests of the dominant capitalist class, then promoting economic development and industrialization reflects a central concern for states of developing regions, especially since the post-World War II period.

In this way, comparative institutional perspectives provide insights into the roles that states play in development, offering: “some suggestions as to what kind of institutional characteristics might be necessary for the state to have a chance of playing these roles” (Evans 1995: 32). Such a perspective thus not only makes possible the

² Besides promoting economic development, the state must maintain its sovereignty and promote social order.

³ In a Weberian sense, bureaucratic states have their own rationality, which is more instrumental and universal than is often found in society (Weber 1968).

⁴ In other words, the state is not always beholden to various interest groups but instead can act independently under the mandate of the ‘public good.’

analysis of linkages between state policies and development outcomes but also the kinds of institutional structures that promote development opportunities (Clancy 2001: 17-18).

In focusing on the developmental role of the state, the larger socioeconomic context must also be considered. In this dissertation, I locate the role of the state within the Latin American context, characterized by changing development ideologies and agendas.

THE SHIFTING STATE IN DEVELOPMENT: A THIRD WAY?

The contemporary state model in Latin America radically differs from that of the 1940s-1980s. During Latin America's import-substitution industrialization period, the state pursued a nationalistic development agenda geared toward internal market expansion and urban industrial growth (Gwynne 1985; Roberts 1995). Such an agenda led to "interventionist" strategies, whereby the state was considered a prime sponsor of economic development and played a heavy role in the economy (Portes 1997).

However, as the ISI model in Latin America began to sputter in the late 1970s, combined with the international debt crisis of 1982, an emerging consensus developed around the idea that the region would do better and develop faster if it implemented a market-friendly export-oriented development model (Gwynne and Kay 2000). This analysis, along with other factors, prompted the adoption of a neoliberal approach to development in almost all Latin American countries by the 1980s and early 1990s (earlier in Chile 1973).

Emphasizing the retraction of the state from the economic domain, neoliberal thinking held that states should get out of the way of market forces, which if let alone, would spur economic as well as social development. In this context, fixing underdevelopment in regions such as Latin America became a question of removing an inefficient and burdensome state from the economy, which strangled private initiative and followed rent seeking interests (Evans 1995).⁵

Responding to the movement toward neoliberal economics in many developing countries in the context of heightened globalization, some scholars began to argue that the traditional nation-state is losing its significance. Sassen's aptly titled *Losing Control? Sovereignty in an Age of Globalization* (1996) asserts that national governments are losing dominion over their own economies due to globalization forces. Focusing on "global cities," she concludes that the heavy influx of foreign capital and the rise of global finance and trade organizations have eroded the state's scope of action in social and economic development. For example, in order to secure international loans, governments of the developing world had to cut social services and welfare programs and deregulate their own industries and labor markets. Sklair (2001) reinforces this view, arguing that a diverse range of transnational institutions (e.g. WTO), capitalists, and financial markets have become the primary actors shaping macroeconomic policy in developing countries since the 1980s (see also Appadurai 1996 and Robinson 2001).

Around the same period a group of scholars within the comparative political economy tradition began re-emphasizing the state as a central actor in development

⁵ Although in practice, there is strong evidence that very few Latin American states reduced their overall level of public-spending or level of personnel, as in Argentina and Brazil (Wise 2003: 19-25).

within the context of globalization. Evans, Rueschemeyer and Skocpol's (1985) *Bringing the State Back In* greatly influenced development thinking, arguing that the state, at least a bureaucratically strong and autonomous one, could encourage positive national economic performance in the global liberal period. Subsequent "revisionist" studies of the state, mostly based on the East Asian miracles, gave strong arguments that linked capital accumulation to a *developmentalist state*, which helped domestic firms seize global economic opportunities (Amsden 1989, 1992; Evans 1995, 1997; Putterman and Rueschemeyer 1992; Wade 1990).

More recent research from political scientists and economists on "good governance" broadens our understanding of the importance of the state within national economic space in the age of neoliberal globalization. Using cross-national quantitative data, this growing literature establishes clear links between the quality of public institutions and a country's economic performance (Campos and Nugent 1999; Kaufmann, Kraay and Mastruzzi 2003; Knack 2003; Mauro 1995). Here, various dimensions related to good governance, such as political stability, general citizen security, level of corruption, and bureaucratic efficiency, are viewed as key institutional variables shaping national economic trends.⁶

While different, studies emerging from the revisionist and good governance perspectives essentially reveal the limitations of neoclassical economic thinking that views development as a simple result of freeing up market forces and reducing the state's role in the economy. They also diverge with globalization scholars, who see

⁶ For example, risk adverse entrepreneurs would tend to avoid making investments in countries if they face a corrupt or unpredictable government, which would be unlikely to provide complementary inputs into the development process.

transnational institutions as fundamentally superseding nation-state institutions in determining national and local development patterns in the context of increasing global integration.

In this context, a new way of conceptualizing the role of the state in developing countries is taking shape. Contrasting the dominant development wisdom in the 1980s and 1990s, which called for the state's retreat from the economy, current thinking generally invites more active but qualitatively different forms of state activities in economic development (ECLAC 2003; Gwynne and Kay 2000; Wise 2003; World Bank 1997). Chapter 2 characterizes this as a shift from a *minimalist* to *competitive* neoliberal state model.

To tease out this perspective, I will draw from Carol Wise's (2003) comprehensive analysis of market reforms in Latin America, which distinguishes three different orientations of the state towards the economy since the post-war period: interventionist (ISI), minimal (neoliberal), and most recently competitive (post-neoliberal). By competitive, Wise intends to stress a new kind of relationship emerging between the state and the economy, characterized by more activist public policies geared toward enhancing society's capacity to confront market challenges associated with the contemporary period.

The notion of "competitive" state strategies is an important one as it breaks from narrow economic theories that view the market alone as ensuring the best development outcomes, or that in its absence, states must assume total responsibility for developmental tasks. It does not argue for a return to the essentially inefficient and excessively

centralized state apparatus characteristic in Latin America from the 1940s-1970s, nor does advocate a continuation of the minimalist model representative of the late 1980s and 1990s. While competitive state strategies in the developing world intend to promote economic development like in the past, the state's field of action is more committed to playing a partnership role to the market and pursuing as Messner (1993) puts it: "active world-market integration" into the international division of labor. In this view, development success is not seen as a simple outgrowth of making economies more market-friendly, but rather as a process whereby states help national economies become more competitive internationally and responsive to local citizens' needs and capacities in this context.

There are, however, clear differences between the capacities of individual states to carry out such roles; that is, why do some states seem to strengthen national economic performance in the era of globalization, while others hinder it? In other words, how can state involvement promote national economic competitiveness in the international economy and more social inclusion in this process rather than inefficiency, inequality or predatory behavior? To address this question in the context of my analysis of the emerging tourism sectors of Peru and Chile, I adapt various insights from a comparative institutional perspective.

THE INSTITUTIONAL BASES OF THE STATE'S ROLE IN DEVELOPMENT

To help account for variation of state capacity in national and local development in the context of globalization, this dissertation emphasizes a range of micro institutional

and organizational arrangements of the state (Campos and Nugent 1999; Globerman and Shapiro 2002; Kreckhaus 2002; Rauch and Evans 2000; Wise 2003).

Essential to the line of argument developed in my case-studies are the linkages between various state institutional arrangements and the roles that the Peruvian and Chilean state have adopted to promote an emerging tourism industry. Put another way, this dissertation not only sets out to identify how the state attempts to mobilize tourism development across two countries, but also to assess the underlying institutional structures that condition the nature and efficacy of state involvement therein.

Employing an institutional based analysis of the state first requires a clear definition of state development capacity. For the purposes of this dissertation, I take state capacity to mean the ability of a state apparatus to confront development challenges (such as environmental problems) and opportunities (such as favorable market forces) effectively. Barkey and Parikh (1991: 526) define it as: “the state’s ability to implement strategies to achieve its economic, political, or social goals in society.”

While external global factors, such as world market shocks or foreign capital flows, make up an important set of constraints influencing state capacity (Sklair 2001; Stallings 1990), this dissertation is primarily concerned with domestic institutions and practices, which according to Evans (1995: 11): “create different capacities for action [and]... define the range of roles that the state is capable of playing.” In this dissertation I pay particular attention to the following institutional components seen to influence state action in development: (a) bureaucratic autonomy, (b) state-society ties, and (c) administrative and technical competence (Wise 2003). Unlike previous developmental

state research, this dissertation also calls attention to a fourth dimension - the state's decentralized character. I include this component in response to a fledgling body of research that finds decentralization of the state to be an important factor influencing national and local economic development. In this study I assess the proposition that decentralization can enhance state development capacity by making the state more flexible and embedded in geographically dispersed social groups.

Chapter 2 discusses these state institutional structures in more detail, arguing that they form fundamental elements in understanding the role of the state in contemporary development in developing economies. For now, let us take a brief look at two dimensions stressed in my case-study analysis; the first is state-society relations, and the second, the decentralization of the state.

State-Society Relations in the New Global Economy

State-society relations shape the roles that states take in development and their respective outcomes. The nature of the relationship between state agencies and societal actors is gaining importance in institutional and state-centered analysis of development in LDCs (Brinkerhoff 1999; Perez-Aleman 2000, 2003; Ó Riain 2000; Rauch and Evans 2000; Wise 2003). Traditionally, the development literature tended to pay most attention to ties between key state actors and industrial elites, which shaped the potential for a “developmentalist” state. However, recent changes in the larger development context marked by the acceleration of globalization on the one hand, and institutional reforms emphasizing citizen participation, flexibility and “targeted” intervention on the other,

means that state-society relations must be conceptualized in a way that encompasses a larger slice of society than individual companies or business elites.

Along these lines, a growing body of literature has shown that dense connections between a multiplicity of state actors and ordinary citizens, civil society organizations, and professional associations can contribute positively to development and promote competitiveness in the global economy (Brinkerhoff 1999; Evans 1996; Perez-Aleman 2000; Tandler 1997; World Bank 2003: 41; Wise 2003). Perez-Aleman (2000) argues that ties between the state and business associations enhanced the global competitiveness of Chile's agro-export industry. According to Evans (1996: 1119), state officials and ordinary societal actors can work together and create the basis for state-society synergy, which can act as a catalyst for local development. Such synergy is based on two cumulative dimensions; first is complementarity, where state actors and affected societal actors provide resources that the other group does not have.⁷ This existence of reciprocal relations enhance Evans's second dimension of synergy "embeddedness," which he describes as mutual trust and close social ties between state officials and societal actors (1121).

A similar argument cast in different terminology is found in recent work calling for public-private sector "partnerships." At the heart of a partnership perspective is the view that developmental ends are best achieved through collaborative action between the state and societal actors (Stiglitz 1997). Public-private partnerships can involve a variety of state agencies and societal actors, which can facilitate national and/or local

⁷ For example, the state may provide the financial and/or administrative inputs of a particular development project, while community actors provide local knowledge and information facilitating the efficient use of public resources.

competitiveness by encouraging, for example, the mobilization of scarce resources (financial, human, and technical) and the sharing of information across the public-private divide.

Building on this research, this dissertation explores the extent to which different configurations of state-society relations shape the development prospects of an emerging tourism sector. A recurrent finding in all of my case-study chapters is that alliances between a multiplicity of state and societal actors (elite and non-elite) enables the state to promote an emerging tourism industry more efficiently, effectively and holistically. For example, I argue that broad state-society relations represent a key factor influencing whether tourism development in Peru and Chile can be employed as a strategy to improve the economic opportunities available to “have not” communities. All told, my research findings reinforce the notion that states function better in development when they are embedded in a multiplicity of societal groups - elite and non-elite.⁸

Decentralization in the New Global Economy

The shifting of resources, responsibilities and political authority from highly centralized governments to regional or municipal governments or to other institutions such as NGOs represents another central factor influencing the role of the state in development during the global liberal period.

Emerging in the 1980s and 1990s in Latin America, decentralization is tied up with moves toward democracy and the rise of neoliberal economic policy (Manor 1999;

⁸ Such a perspective, stands in contrast to strict neoclassical economic thinking that tends to view state-society ties in terms of rent-seeking and/or clientelistic relations.

Rondinelli 1981, 1989; Tandler 1997). The change of orientation from a top-heavy state to a decentralizing one has changed, and is changing, the dynamics of state engagement in the development process. Furthermore, decentralization has become more relevant under the new socioeconomic model, which has encouraged export growth in peripheral areas, as in *maquiladora* industries in Northern Mexico and the Yucatan peninsula (Biles 2004; Wilson 1992) or non-traditional agricultural export growth (NTAX) in Central America (Hamilton and Fischer 2003), Brazil (Daminani 2003) and Chile (Bee 2000).

Indeed, a growing body of studies suggests that economic development may have something to do with the supportive nature of sub-national government, in conjunction with the central state (Braütigam 1997; Doner and Hershberg 1999; Putnam 1993; Tandler 1997; Véron 2001). Unfortunately, developmental state theory has overlooked the implications of a decentralizing state by almost exclusively focusing on the impact of central state policies and institutions on national level development outcomes (Doner and Hershberg 1999: 45).

My premise is that the cumulative capacity of sub-national government units helps determine how well the state can support emerging markets such as tourism. I argue that decentralization reforms can foster more flexible organizational state structures, which enable the state to address rapid changes in economic structures across a vast and diverse territory more effectively. Decentralization of the state may also foster more locally embedded or “customized” development strategies, which attempt to build on local assets and capacities to seize economic opportunities from favorable domestic and/or global trends. As Chapters 5 and 6 shall demonstrate, the capacity of sub-national

government impacts the ability of Peru's and Chile's state to confront tourism development challenges effectively and efficiently. In Peru, for example, I find that excessive centralization of the state exacerbates the country's ability environmental problems associated with rapid tourism expansion around cultural-historic assets.

Summary

The literature outlined above presents some of the key scholarly perspectives and conceptual tools that help me examine some of the key factors mediating the emerging tourism industries of Peru and Chile. Before moving on, some limitations of the existing literature should be mentioned. First, developmental state research tends to be biased toward the East Asian experience, particularly Japan (Johnson 1982, 1995), Taiwan (Wade 1990) and South Korea (Amsden 1989). Second, most studies, because they were conducted in the 1990s, have failed to adequately consider recent structural changes and institutional reforms in developing regions. Developmental state theory is thus weak in assessing the emerging socioeconomic model in Latin America marked by reforms that emphasize improving state flexibility, efficiency, technical competence, relations with civil society, and decentralization.

Third, the existing literature presents difficulties for students of particular industries, as the state's role in the economy is typically addressed at a macro rather than sectoral level. Existing studies often refer to state activities in the context of broad fiscal, social, and export policies, which are correlated with macroeconomic indicators such as the gross domestic product or GDP per capita (Wise 2003). And when studies focused on the state have examined particular industries, they tend to draw from cases of

extraordinary success or exceptional failure, focusing on traditional industries such as petroleum, mining, or the coffee trade (e.g. Shafer 1994). The literature has much less to tell us about linkages between the state and emerging and/or non-traditional industries, especially in the services and particularly in the Latin American context (Clancy 2001). The increasing importance of the tourism trade - the production of goods and services to visitors - in Latin America is one such case.

WHY LATIN AMERICAN TOURISM?

There are a number of good reasons for tourism to be a focal point in a dissertation that seeks to inform our understanding of how new growth sectors are shaped by the state and its underlying institutional character. To begin with, the tourist trade has been an important and at times controversial development tool for many less developed countries since the post-World War II period (Brohman 1996; Harrison 2001; Lea 1988). In some ways, tourism is similar to other export-oriented enterprises such as *maquiladoras*, non-traditional agricultural and even petroleum industries.⁹ Tourism is produced in a local context but consumed by foreigners or consumers who derive income outside of the local area (e.g. domestic tourists). It also relies heavily on external

⁹ Although tourism is a different activity than exporting goods for the world market, it can be defined under the rubric of an 'export sector' and within this a 'non-traditional export' (see Clancy, 2001 or Gang and Gormsen, 1999 for good examples). Tourism production represents an export-oriented activity because it describes the production of local goods (e.g. local crafts) and services (e.g. accommodation and entertainment sector) for markets outside of the local economy (mainly foreign tourists but also elite city-dwellers). In either case, each group's spending power is derived from outside of the local region, and most often in developing countries, from distant external markets. Moreover, tourism can be defined as a non-traditional export. Using Barham et al. (1992) criteria, international tourism can be considered a non-traditional export because as a product tourism has not, until recently, been produced on its current scale nor has tourism been seen in many countries as a particularly viable or important sector until recently. Also, international tourism thrives on the capturing of new export markets; in this case, export markets are tourist-emitting countries, which are mostly the industrialized countries of the North.

financial capital, technical expertise, and the globalization of the economy. At the same time, unlike other outward oriented development, tourism is consumed in the same national space as it is produced, which means it has considerable potential to create both positive and negative local linkages from its production.

With the exception of Mexico, Latin America's largest and most developed tourism market (Clancy 2001), the development literature has ignored tourism phenomena in Latin America. New trends, however, belie this neglect. Since the 1990s, the tourism industry has played an increasingly important role in many Latin American economies, such as Chile, Peru, Brazil, El Salvador, and Costa Rica (WTOUR 2001). This situation has prompted attention from many Latin American governments and NGOs, which increasingly advocate tourism expansion as a way to promote national and local development.

The increasing importance of tourism as a development tool in the Latin American region intersects with a larger story related to the shift to export-led approach to development. The consolidation of an outward looking development strategy in much of Latin America means that economic global integration is viewed as *the* means to promote macroeconomic stability, create new employment, and improve the living standards of local populations. It is in this context that expanding tourism activity has become alluring to state leaders in countries such as Peru and Chile. Tourism development, for example, offers a means to boost a country's foreign exchange earnings and hence improve balance of payments constraints and total export production (Sinclair 1998). Tourism industry growth can also promote social welfare by increasing local

employment and entrepreneurial opportunities (Harrison 2001) and helping decentralize economic activity away from large metropolitan areas.

The growing salience of tourism in many Latin American countries is also tied to changing global opportunities. The 1990s and 2000s find new forms of tourism activity in developing regions, underlined by the growth of adventure, cultural, and nature tourism, some of the fastest growing segments of the industry worldwide (Brandon 1996; Honey 1999; McKercher and du Cros 2002). Overlaying this trend are advances in globalization and time-space compression (Harvey 1990), which facilitates the incorporation of remoter areas in global tourism circuits, as in the Amazon (Weaver and Schüter 2001), the Andes (Casellas and Holcomb 2001) and the Himalayas (Abram et al. 1997).

My two case-studies show this tendency. Partly in response to the growth of nature and cultural-historic tourism, Peru and Chile recorded international tourism growth rates in the 1990s unmatched in their historical experience (WTOUR 2002). Taking a birds-eye view, Peru can be seen as the continent's leader in archaeological and cultural-historic tourism. The numerous pre-Columbian resources such as the World Heritage sites of Cusco City and Machu Picchu have become very competitive internationally. By contrast, Chile's tourism competitiveness lies in natural resources, such as the blue glaciers of *Tierra del Fuego* in southern Patagonia. With a larger domestic market increasingly geared toward nature tourism, Chilean tourism is also less dependent than Peruvian tourism on external markets.

This leads us, then, to the question of the role of the state in attempting to expand tourism activity in its national territory within the contemporary neoliberal period. While little research exists on this topic, existing studies on Latin America's tourism leader Mexico tell us that strong international tourism growth over the past three decades was not simple outgrowth of natural market forces, but a consequence of state-led development projects during the 1970s and 1980s (Clancy 2001; Torres 2000). Such research, however, is in short supply and needs to be updated to address the contemporary development context in Latin America. Will the neoliberal economic approach adopted by most Latin American countries make it difficult for states to assume far-reaching tourism development strategies such as Mexico during the 1970s? To what extent do state actions condition the development prospects of new forms of tourism such as nature and cultural-historic tourism? How is state involvement in the promotion of the tourism sector shaped by the state's institutional character and organizational structures? Unfortunately, these questions have received scant empirical attention in the literature, especially in the Latin American context.

FOUR QUESTIONS PERTINENT TO THE ROLE OF THE STATE AND INSTITUTIONS IN EMERGING TOURISM INDUSTRIES

This dissertation employs the tourism sector to consider the changing role of the state in the economy and the extent to which the organization and development potential of new growth sectors are shaped by institutional characteristics of the state. I pose four primary research questions in the context of two case-studies.

(1) *How is the developmental role of the state in the economy and its institutional capacity articulated in the tourism sector overtime? How does a neoliberal state go about promoting an emerging tourism industry?* With these questions, I examine how Peru's and Chile's tourism industries have been shaped by the state over the past three decades. Tracing the evolution of state involvement in the tourism industry is a useful means to explore the changing role of the state in the economy and the extent to which its institutional capacity is mirrored at an industry-specific level. Answers to question one provide insights into the sequencing of state strategies in a particular industry and its affinity with changing politics, development ideology, and global economic processes. The question also provides a solid basis for discussing the extent to which the institutional structures of the state are reflected in the roles that states play in the economy and ultimately how the state can mobilize new growth sectors.

(2) *To what extent do the state, and its institutional character, shape the ways in which natural and/or cultural-historic resources are exploited by the tourism industry?* With this question I compare how the Peruvian and Chilean state constrain and condition resource-based development via the tourism industry. I emphasize how state-society relations, along with other institutional factors such as the coherency of regulatory regimes, shape the sustainability of the natural and cultural-historic resources important to an emerging tourism industry. I also discuss the paradoxical role of the state in resource-based development characterized by resource-promoter and resource-protector, and how this scenario plays out in Peru's and Chile's tourism sector.

(3) How does sub-national government get involved in promoting tourism development and what are the circumstances that help account for the (in) ability of lower levels of government to address local development challenges? With this question, I depart from an emphasis on the central state to a focus on sub-national government. My aim is to assess the extent to which sub-national government units, in conjunction with the central state, are engaged in the tourism development process in the context of decentralization reforms. My analysis focuses on three separate sub-national units in the Cusco region in Peru and the region of Los Lagos in Chile: regional line ministries, regional government, and municipal government.

(4) To what extent can collective activities by the private sector, by themselves or in conjunction with the state, advance the productive potential of an emerging tourism industry? The purpose of this question is to account for the role of the organized private sector action in development. While developmental state theory has tended to focus on the institutional factors that enable the state to effectively provide collective goods and services, it is also important to explore the private sector's capacity to produce similar benefits and the state's capacity to promote this process. My examination is based on an institutional analysis of tourism business associations in Peru and Chile and their interaction with the state.

While these four questions pose distinct focal points, analyzing state involvement in two emerging industries and the institutional conditions that underpin this involvement is the unifying focus of this dissertation.

CASE STUDY SELECTION ¹⁰

To provide answers to my research questions, case-study analysis of Peru and Chile are developed on two levels: a national one, where aggregated national level data and the central state are the units of analysis and; a regional one, where one region in each country represents the unit of analysis. The countries of Peru and Chile were not selected because they have the largest tourism industry in Latin America nor the highest tourism growth rates in the developing world, but precisely because tourism has not been an important economic activity for either country until the 1990s. Since then, the tourism industry has played an increasingly important role in both countries' economies and development strategies.

Peru and Chile also share a set of general characteristics that provide a common thread for comparison. These include: a common border and language, geographic distance from major tourist sending markets (U.S. and Europe), neoliberal development approaches, centralized and unitary governments (Crabtree 2001; Weyland 1999), moves toward decentralization reforms, and an external sector dominated by mining activities (Banco Central de Chile 2001; Banco Central de Peru 2000).

But why focus on Peru and Chile instead of countries where the tourism sector is more consolidated and by extension state institutions related to tourism more developed (e.g. Mexico, Costa Rica)? The selection of Peru and Chile is instructive in four fundamental ways. First, the fact that both countries are relative latecomers to tourism development allows us to explore institutional and economic change. In Chapters 3 and 4

¹⁰ This section stresses the national characteristics of each case country. The regional case studies within each country are described in the chapter that focuses on the sub-national level (chapter 6). Also, see Appendix A for a description of the development policies in each case from the late 1960s to present.

I discuss why tourism would become a strategic sector later in Peru and Chile than other Latin American countries (e.g. Mexico), raising the question what makes a tourism industry flourish in one area, but not in another? At the same time, because Peru and Chile have experienced meaningful tourism growth since the 1990s, they call attention to the role of the state, institutions, and the private sector in an emerging, but competitive, industry in the international economy.

Second, Peru and Chile provide excellent examples of a new wave of global tourism expansion in LDCs. Recent surges in nature and cultural-historic tourism worldwide have favored Peru's and Chile's tourism industries, which are based on the uniqueness of natural (forests, lakes, mountains) and/or cultural-historic (archeological sites) resources.¹¹ In this context, efforts to promote tourism in the two countries tend to focus on utilizing public resources such as national parks, bringing to the fore the long standing problem of how countries seize new economic opportunities from "endowed" resources, while maintaining the sustainable exploitation of those same goods (Antonio Puppim de Oliveira 2002).

A third and crucial reason why Peru and Chile are informative case-studies has to do with the institutional and historical peculiarities of each country. Most notable are differences between the timing of neoliberal economic policy in each country (Chile 1973, Peru 1990) and the institutional capacity of the state apparatus. Among Latin American countries, Chile currently has one of the most efficient and coherent state

¹¹ In contrast to 'enclave' type tourism development, the industry is diverse in both countries and lies somewhere in between local and enclave types. The predominant type of tourism in each country is thus a mixture of local/commercial initiatives, ranging from five-star internationally owned hotels to small-scale family owned facilities.

apparatuses. By contrast, Peru, although improving, has a relatively chaotic and weak state apparatus (Crabtree 2001; Wise 1994, 2003).

Table 1.1: Institutional Paths of State Reforms

	State (Autonomous bureaucracy, modernization of economic oriented state institutions)	Society (Strong evidence of the mediation of interests and the transformation of institutional links between the state and society)
Reforms in practice	<ul style="list-style-type: none"> • Chile • Peru • Mexico 	<ul style="list-style-type: none"> • Chile • Argentina
Reforms in Transitional phase	<ul style="list-style-type: none"> • Brazil • Argentina 	<ul style="list-style-type: none"> • Brazil • Mexico
Reforms introduced		<ul style="list-style-type: none"> • Peru (2001)

SOURCE: Wise (2003: 72, table 1.4)

To put flesh on this difference, Wise’s (2003) analysis argues that Peru and Chile have followed distinct institutional paths in the context of contemporary state reforms (see Table 1.1). While both Peru and Chile have modernized the state since the 1990s (autonomous bureaucracy, technically-oriented civil service, advances in economic institutions), *only* Chile has made “important advances in the modernization of state-society relations” since its democratic transition in 1990 (Wise 2003: 71). In other words, Peru reflects a case where the institutional development of the state has proceeded without the strengthening of state-society ties. By contrast, the Chilean state reflects a case of institutional reforms marked by the development of a relatively modern, efficient and flexible bureaucratic state with strong state-society relations. This difference, I

found, conditions the role of each state in the tourism sector and is a recurrent theme in all case-study chapters.

An even broader way to characterize institutional differences between Peru and Chile is to explore governance indicators provided by the World Bank, which offers six comparative measures associated with quality of governance. A brief glance at Table 1.2 shows a sharp contrast between Peru and Chile in terms of quality of governance. Put simply, Peru has relatively weak governance structures, reflected in its low governance scores across each of the six measures. Conversely, Chile reflects an exceptional case of strong governance in the Latin American context, revealed in its high governance scores across six dimensions.

Table 1.2: Good Governance Indicators for Peru, Chile and Latin America, 2002

Governance Indicator	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
<i>Percentile Rank (0-100)</i>						
PERU	57.6 (.17)	25.4 (.20)	38.7 (.16)	62.9 (.18)	40.7 (.13)	51.5 (.15)
CHILE	84.3 (.17)	85.9 (.19)	86.6 (.15)	90.2 (.17)	87.1 (.13)	90.7 (.14)
LAT. AM.	61.2	51.2	53.3	58.4	53.2	54.9

SOURCE: Kaufmann, Kraay and Mastruzzi (2003)

Notes: 1. () = Standard Deviation

2. Figures report percentile rank on each governance indicator. Percentile rank indicates the percentage of countries worldwide that rate below the selected country (subject to margin of error). This rank then reflects a statistical aggregation of responses on the quality of governance representing a large number of surveys carried out in industrial and developing countries by survey institutes, think tanks, non-governmental and international organizations. Each conceptual cluster for Peru and Chile, for example, reflects a compilation of 7-12 surveys related to that given cluster.

3. (a) Voice and Accountability = indicators measuring various conditions of the political process, civil liberties and political rights. They measure citizen participation in the selection of governments and independence of the media.

(b) Political Stability (and absence of violence) = combination of indicators that measure perceptions of the likelihood that government in power will be destabilized or overthrown by unconstitutional or violent means.

(c) Government Effectiveness = quality of public service provision, quality of bureaucracy and civil servants, and the independence of the civil service from political pressures.

(d) Regulatory Quality = measures policies and includes the incidence of market-unfriendly policies such as price controls. It also includes perceptions of the burdens imposed by excessive regulation such as in foreign trade.

(e) Rule of Law = an aggregation of several indicators that measure the extent to which agents have confidence and abide by the rules of society, such as: perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts and property rights.

(f) Control of Corruption = measures perceptions of corruption, or exercise of public power for private gain.

Taken together, Peru and Chile thus provide valuable comparative cases to explore how different types of states - one institutionally strong and another institutionally weak - shape the mobilization and prospects of an emerging tourism sector. While few studies have examined how state institutional capacity and its underlying governance structures shape emerging industries such as tourism, previous research does make quite clear that the state's underlying institutional character and its style of governance explains, in part, why some countries are able to get more out of certain types of development than others (e.g. Evans 1995, 1997; Globerman and Shapiro 2002; Knack 2003; Wise 2003). A central argument of this dissertation is that state institutional structures, especially strong state-society relations and sub-national bureaucratic coherence, enable Chile to promote tourism in a way that is more likely to achieve broad development goals as compared to Peru.

A final reason why the selection of Peru and Chile is appropriate has to do with the sheer lack of systematic studies on tourism in either country.¹² This dearth of research is surprising given that international tourists, not to mention domestic ones, are currently injecting almost \$1 US billion into Peru's and Chile's economy annually.

¹² Research from a development perspective has however documented the strong impacts of international tourism in Mexico (Chant 1991, 1997; Clancy 1999, 2001) and the Caribbean region (De Kadt 1979; Poon 1990). Other countries in Latin America however have almost totally been ignored in the literature. Also noteworthy is the separate 'tourism literature', such as the *Annals of Tourism Research* and *Tourism Management*. While useful, the tourism literature is often divorced from important theoretical concerns and rarely uses an explicit development perspective (Clancy 1999).

Moreover, comparative studies in this area are almost completely lacking. By comparing state-market relations in tourism across two different national contexts, my research is able to gain a deeper understanding of linkages between a country's institutional infrastructure and the mobilization of an emerging tourism industry.

METHODS AND DATA

Assessing the state's role in a particular sector is complex and involves collecting and synthesizing a variety of evidence (Evans 1995). Consequently, this dissertation's methodological strategy is eclectic and combines various sources of qualitative and quantitative data, along with my own field observations (Creswell 1994: ch.9). The core of my analysis draws from one year of fieldwork in Peru and Chile and relies principally on two types of data: (a) secondary sources, which include historical and current government documents and policy reports and; (b) key-informant in-depth interviews. In bringing together these data, my research strategy falls within a long tradition of development literature that combines different data sources and methodologies to study the role of the state and institutions in the economy (e.g. Evans 1995, 1996; Itzigsohn 2000; Wise 2003).

Secondary Sources and Documents

I started this dissertation project gathering a diverse array of secondary data sources. The first important source of evidence was scholarly accounts of the state, economy, and society in Peru, Chile and Latin America. These sources gave me firm

grounding in socioeconomic and political issues particular to each case country and the region as a whole. Another crucial source of secondary data is quantitative in nature, namely tourism statistics offered by national governments and the World Tourism Organization (WTOUR). Analysis of these data provides a broad picture of the evolution of tourism worldwide and in Peru and Chile. The limitations and specificity of such statistics are described in the chapters that employ such data, particularly Chapter 3.

In analyzing the role of the state in Peruvian and Chilean tourism, I draw from historical and contemporary materials primarily consisting of government documents but also information published by tourism business association and NGOs. Such institutions provide technical reports about specific policies, projects, events, and the industry's evolution in each country. Obtaining such documents required me to search in "hard-to-find" places (Creswell 1994: 150), making numerous visits to libraries, state agencies, business associations, and chambers of commerce in each country. At each site, I looked for any documents or reports related to my research questions. Gaining access to such information was not always easy. To acquire copies of many government documents, I first had to make contacts in various state agencies via in-person visits, telephone, or email. To initiate a relationship with particular officials, I presented a formal letter that clearly stated my credentials and the objectives of my visit. To add credence to my stated research objectives, I garnered support from a local research institute in Lima (*Consortio de Investigación Económica y Social*) in conjunction with the University of Texas at Austin. After establishing a bit of rapport and trust, I was typically able to secure the approval of the "gatekeepers" (Marshall and Rossman 1989); that is, those actors who

gave me access to important and sometimes unpublished government reports, which provide insight into the evolution of state policies in each country's tourism sector.

It is also important to note that I was also able to collect a variety of government documents from the official webpage of state agencies. Whereas downloadable government policy documents would have been impossible only ten years ago, technological innovation and moves toward government transparency in Latin America have opened up new opportunities for scholars of public policy and the state. Complementing government, business association and NGO documents are a range of local newspaper reports, periodicals, and tourism industry magazines I collected during my fieldwork period. These offer relevant historical as well as up-to-date information on the tourism sector in each specified region.

Key-Informant Interviews

The best way to understand the dialectic between state policy and development processes is to ask relevant public and private informants directly. The core data in this study are thus drawn from a series of one-to-one key-informant interviews, which offer essential insight into the state's role in the development processes of the tourism sector.

In total, I conducted 71 semi-structured tape-recorded interviews. Interviewees included state and private tourism sector leaders on the national, regional, and local level in each case country. Employing a key-informant approach, my sampling procedure was purposive and not random. A purposive sampling frame (the entire universe would be all state agencies, businesses and NGO leaders involved in tourism development) was

drafted and updated frequently. To generate this list, my pre-dissertation research as well as review of secondary materials pointed me to key public and private players in the tourism sector in each country (such as the *National Tourism Bureau* in Chile or the *Ministry of Foreign Trade and Tourism* in Peru).

My strategy in approaching potential interviewees was similar to the way I went about collecting government and business association documents. I first contacted a representative of a targeted state or private institution via in-person visits, email, or telephone. After explaining my research objectives, I was typically referred to a representative who had extensive technical and policy experience in the respective organization. Following a brief exchange to make sure the potential informant fit with my prerequisites (i.e. he/she was not the secretary but rather a policymaker), I requested an interview at which time a date, site, and hour was determined.¹³

After conducting an initial round of interviews using this approach, I employed a snow ball technique. I found state and industry leaders in both countries to be extremely helpful in suggesting key state agencies, organizations, experts, and local leaders involved in the tourism industry. In fact, sometimes informants went so far as to call a professional contact in a key organization so as to ensure they set up an interview with me.

To avoid possible bias in using a snow ball method, I made sure to interview at least one key informant in any state agency that explicitly gets involved in tourism in

¹³ Of course, this process was time-consuming and required patience. In fact, the whole process of contacting potential interviewees, setting up appointments, and traveling to the interview site took much longer than the interview itself. It also required flexibility. Interviews took place whenever informants had time to carry out the interview (I told them to allot at least one hour from their schedule). This meant that sometimes I conducted “breakfast interviews” at 7:30 in the morning or during “*lonches*” at 8:00 in the evening.

both countries. Moreover, I often discussed my methodological strategy with interviewees. That is, I compared who I thought to be key actors in the tourism industry with the perspective of every interviewee. In this way, I learned if there was a particular agency or institution that I was unknowingly neglecting in my investigation.

All told, almost every potential interviewee accepted an interview request (95%), often times enthusiastically. I believe my role as outsider (foreigner) facilitated my access to interviewees. State officials and private actors were extremely accommodating in part because they saw me as a US academic, a status that often translates to better-than-average treatment in countries such as Peru and Chile. Furthermore, I believe that my outsider status made me less threatening to the interviewee as it was commonly understood that I was not a local journalist looking to uncover the latest political blunder or corruption scandal.

Out of 71 total interviews, 35 were conducted in Chile and 36 in Peru. Roughly half of these interviews were carried out with public officials and the other half with private sector tourism leaders or NGOs involved in tourism development projects. Interviews were first solicited in the capital cities of Lima and Santiago. Being the administrative, political, and economic centers, these cities were obviously important sites to carry out interviews with national level state actors, national business association leaders, and NGOs relevant to this study.

At the same time, since tourism activity occurs in a geographically decentralized fashion, it was equally important to interview key state and private sector actors at particular regional tourism hubs. These areas (Cusco region in Peru and the region of

Los Lagos in Chile) correspond to the regional case studies in the dissertation. Besides highlighting national oriented issues, regional/local informants give this study a more detailed and localized picture of the tensions and consequences of state involvement in tourism. Additionally, interviews at the sub-national level provide the basis for exploring the role of sub-national government in tourism (Chapter 6). Appendix B presents more detailed information on the general characteristics of interviewees in all locations.

I conducted all 71 interviews between October 2003 and May 2004. In each capital city, I was able to combine archival research with interviews. Aside from research in the capital cities, I spent roughly five weeks in the regional-case study areas. In Chile, I spent considerable time in the 10th regional capital of Puerto Montt, and also Temuco, the regional capital of the 9th region. In Peru, I spent over six weeks in the Cusco region, namely Cusco City.

All interviews were tape-recorded. They were primarily conducted in interviewees' site of work (government ministries, local chamber of commerce, hotel offices and lobbies) and carried out in Spanish. Interviews were based on a semi-structured survey instrument concentrated on eliciting information related to state involvement and state-society linkages in the tourism industry. The instrument, which was more of a thematic guide, included topics such as experience with tourism policy and projects as well as interviewees' perception of the impacts of and obstacles facing the tourism industry in each country. A thematic guide ensured that every interview broached common themes deemed important to this study from the outset. It also allowed me to compare and contrast similar themes across countries and between the

public and private sector. On the whole, key informants spoke to general institutional/organizational action and tendencies rather than from an individual perspective.

With that said, since questions were open-ended, interviews were highly interactive and adapted to each interviewee. For example, during interviews with state actors I often focused on the actions of a particular agency, while with private sector interviewees my questions tended to stress perceptions of the state's role in tourism and private sector interaction with state officials. Similar to other studies focused on the state's role in development, particular attention during each interview was paid to uncovering developmental processes, institutional structures and tensions, in addition to the consequences that new policies or collective action might have (Clancy 2001; Evans 1995).

The duration of all my interviews varied from 45 minutes to over two hours in some instances. While open-ended questions do not allow quantification of the data, they were necessary and advantageous for eliciting rich and detailed data on complex issues such as state action. Furthermore, open-ended questions allow for unanticipated answers, which more closely reflect the views and perspectives of each respondent (Fowler 1993: 82). I stopped the interviewing process only when I reached saturation point in each case country; that is, when I began hearing similar responses and recurrent themes to the same questions. This was a good strategy to ensure the validity and reliability of the data. Once completed, tape-recordings of all the interviews were transcribed by local contacts to guarantee accurate transcriptions of local dialect.

To begin analyzing the interview data, I carefully read through all of the transcripts various times searching for broad patterns and themes. After identifying central commonalities and differences, I created a color-coding scheme to allow quick review and classification of emergent themes. Important themes thus resulted from an iterative process of going back and forth in the text, rather than a firm set of preconceived variables. In this way, I remained open to a multitude of possibilities for my findings. I also utilized what Yin (1989) calls a time-series analysis in the context of case studies to measure changes in the state's role in tourism overtime. In analyzing the interviews, I constructed three time periods: (a) 1970-1990, (b) 1990-2000, (c), 2000-present. These categories were particularly helpful to identify temporal changes of state involvement in tourism.

In sum, the different data sources and methods employed in this dissertation give a reliable and in-depth perspective of the logic and evolution of the tourism sector and its relation to the state and the institutional context of each case country. I should also mention that complementing formal interviews and secondary document analysis are a multitude of informal conversations I had with ordinary citizens, tourists, hotel and restaurant staff, and small local tourism entrepreneurs such as artisans during my one year in the field. These casual but pointed discussions provided me with a micro level perspective on what the tourism industry means to different types of individual actors and how the state may directly or indirectly influence such experiences.

THE ORGANIZATION OF THIS DISSERTATION

This dissertation is organized in two parts. The first part, Chapters 2 and 3, provides a general picture of the problem and highlights new issues in the study of the state, institutions, economic development and the tourism industry across Latin America.

Chapter two situates this study in the existing development literature on the state and development. It begins by tracing the changing role of the state in the economy in the developing world since the post-World World II period. What makes this analysis particularly insightful is a discussion of the resurgence of the state in both development discourse and practice, but with qualitatively different and more varied institutional character than past periods. To sketch out the emerging state model in Latin America, I draw from the concepts of competitive state strategies (Wise, 2003) and a managerial developmental state (Roberts 2005). After a survey of the political economy of the state, the chapter examines the institutional bases of state capacity, which will prove helpful in analyzing the case studies in later chapters.

Chapter 3 draws from existing research and statistics to analyze the historical evolution of the tourism industry in developing countries over the past three decades. The first aim of the chapter is to provide a historical backdrop to the case-studies presented in subsequent chapters. It looks in detail at two broad patterns of tourism expansion in the developing world since World War II. The first period, dominate from the 1960s through the 1980s, is described as the conventional mass tourism phase. The fragmentation of this model in the 1990s and the rise of “alternative” forms of tourism mark the current phase. I locate Peru and Chile within the latter phase. Chapter 3

analyzes these themes in conjunction with a discussion on the linkages between the state and tourism development, highlighting how the framework laid out in Chapter 2 can help us better understand the roles that states may play in promoting emerging tourism industries in Latin America.

The second part of the dissertation, Chapters 4-7, presents the key empirical findings of my case-studies Peru and Chile. The research underpinning these chapters combines extensive interviews with analysis of government and business association documents.

Chapter 4 examines the evolution of tourism in Peru and Chile and the state's involvement therein from the 1970s to present. Distinguishing three different patterns of state involvement in tourism in both countries, the chapter poses two key arguments. First, it asserts that the unfolding of the current neoliberal project in both countries has not weakened the state's role in supporting new productive activities such as tourism, but rather has made state support more relevant, although qualitatively different than earlier periods. Second, it shows the importance of particular institutional characteristics in mediating patterns of state involvement in tourism. For instance, I argue that broad ties between state agencies and societal groups (elite and non-elite actors) enables the Chilean state, in comparison to Peru, to promote tourism in a way that at least attempts to address the competitive and distributive aspects of tourism production.

The focus of Chapter 5 is the linkages between the state and tourism resource assets. This chapter broaches a central challenge for states hoping to expand nature and/or cultural-historic tourism - promoting the utilization of tourism-rich resources

while protecting the integrity of those resources. It presents a focused analysis on the extent to which the state and its institutional character shape tourism assets in each case country, emphasizing cultural-historic resources in Peru and natural resources in Chile. The chapter establishes clear links between the environmental and ultimately economic sustainability of nature and/or cultural-historic tourism and the institutional character of the state. I emphasize bureaucratic coherence, state-society ties, and the nature of central/local relationships to explain different state-tourism resource relations in each case.

Chapter 6 asks whether and how sub-national government units get involved in mobilizing an emerging tourism sector. My comparative frame is the Cusco region in Peru and the region of Los Lagos in Chile and is based on the separate treatment of three major sub-national government units in each country: (a) regional field offices of the central administration, (b) regional government, and (c) municipal or local government. Among other conclusions, my analysis elicits an interesting finding - that sub-national government units are more capable, efficient, and engaged in mobilizing developmental goods in tourism within a context characterized by a stronger central state (Chile) as against a weaker one (Peru). I pinpoint various comparative factors to help explain why sub-national government units play a more helpful role in Chile as against Peru, including: expenditure autonomy and capacity of sub-national units, “assistance linkages” between different government institutions, and the nature of state-society relations at the sub-national and central level.

Chapter 7 explores the role of the organized private sector in promoting developmental goods in the tourism sector. It focuses on tourism business associations in Peru and Chile and their relationship with state agencies. The chapter is organized around the theoretical argument that business associations can provide an institutional solution to the development challenges faced by emerging industries. My research answers affirmative, revealing that associations of tourism firms help increase the productive capacity of the tourism sector in both countries. At the same time, however, I suggest that the scope and effectiveness of tourism business associations are shaped by the state and its institutional character. For example, evidence shows that the Chilean state, in contrast to the Peruvian state, forges cooperative relations with tourism business associations, which in turn, enhances their capacity to provide collective goods for the sector.

Chapter 8 concludes the dissertation. It addresses the theoretical and empirical contributions of the study and discusses whether the state is part of the problem or solution for emerging industries such as tourism in Latin America. I discuss various themes that suggest a broadening out of institutional theories of the state. The chapter ends with some reflections on the implications of this study for future research and for policymakers.

CHAPTER II

THE CHANGING STATE: MOVING TOWARD COMPETITIVENESS IN DEVELOPMENT

This chapter situates the present study in the literature on the state and development. Debate about the role of the state has been long and contentious in development and economic theory (Polanyi 1944; Gwynne 1985; Gwynne and Kay 2000). Our foray into existing research begins by placing the state into the larger historical and development context with a strong focus on the Latin American region. This backdrop, as we shall see, is characterized by changing structural and political factors and development ideologies since the post-World World II period. What makes this discussion particularly insightful is the inclusion of the emergence of a competitive state model or post-neoliberal phase of development. Moves toward democracy, decentralization, heightened global integration, and institutional state reforms during the 1990s represent distinct yet overlapping forces under which a new type of state is emerging in the Latin American context.

After examining different state orientations and structural forces characterizing Latin America's post-war development history, the chapter teases out some of the

dominant features of a competitive state in development during the current period. The final important strand of the chapter relates to the institutional bases of state development capacity in the contemporary period. I identify “good governance” along with various micro institutional structures as elements central to understanding the relationship between the state and the process of capital accumulation in the current period.

Ultimately, this chapter presents the core theoretical concepts and arguments that will guide my case-study analysis in following chapters. While the neoliberal development model and accelerated globalization have certainly placed limits on the “old” developmental functions of the state, I argue that the state’s importance in development has not simply disappeared but changed. As I see it, the developmental role of the state under the current socioeconomic model is two-pronged: its role as promoter and facilitator of national economic competitiveness within the world economy and its ability to foster more social inclusion in this process. How this process is played out depends on a diverse array of institutional structures, which shape how global trends are articulated in individual countries.

Our first task in this chapter, however, is to take a step back and examine the orientation of the state toward development over recent history and the historical, political, and ideological factors shaping this orientation. Drawing from Wise (2003), which complements other scholars, we can distinguish three principal state orientations toward development since the post-World War II period in Latin America.

(1) The Interventionist State/ISI phase: After WWII and until the 1982 debt crisis, development is characterized by strong state involvement in the economy through, for example, regulations, tariffs, subsidies and direct intervention. The effective state is seen as one that induces internal development and corrects the limits of the market.

(2) The Minimalist State/Neoliberal phase: Chronic debt crises, over-borrowing, and a lack of financial resources in the early 1980s, coupled with the emergence of orthodox neoliberal solutions to development, fostered market reforms and by extension a complete scale-back of the state in the economy in many Latin American countries. The state and the market are seen at odds with one another.

(3) The Competitive State/2nd Neoliberal phase: By the late 1990s, institutional state reforms, revisionist studies on the state, together with mediocre development outcomes in developing countries, led to a sort of resurgence of the state in development, but with qualitatively different and more varied character than the interventionist or minimalist phase. The effective state is seen as an institutionally strong apparatus, which complements market activity and acts as potential partner to the private sector and civil society (Wise 2003: 289; World Bank 2003). An effective state is also marked by a new bureaucratic style of management based on flexibility, decentralization, and performance-control as against the old bureaucratic state model which controlled by highly centralized and rigid procedural rules (Roberts 2005).

It is essential to emphasize that the phases spelled out above are not definitive or mutually exclusive. My intentions are heuristic and my analysis offers a way to frame important changes and continuities in the economic and political context in which the state and development practice in Latin America, has been, and is embedded.

ISI AND THE INTERVENTIONIST STATE

From the nineteenth century through World War II, Latin American economies tended to follow a primary export model of development (Hirschman 1968). Influenced by traditional international trade theory and the law of comparative advantage spelled out in Ricardo's *Principles of Political Economy and Taxation* (1933 [1817]), economic development was seen as a condition that could be encouraged if countries produced commodities and products that it had a natural advantage. For example, at the beginning of the 1930s, cities such as Buenos Aires, Argentina, São Paulo, Brazil and Medellín,

Colombia concentrated in productive activities servicing an export oriented agricultural sector, as in coffee, cereals, meat and other livestock products (De Oliveira and Roberts 1996).

In the 1950s, pessimism about the possibility of changing the peripheral position of underdeveloped countries in the global economy through comparative advantage based development gained steam in Latin America, Africa and parts of Asia. Fuelling a shift in development thinking in Latin America at this time was structuralist analysis coming out of the United Nations Economic Commission on Latin America (ECLA or *Comisión Económica para América Latina, CEPAL*).¹⁴ Headed by Argentinean Raúl Prebisch, ECLA argued that international trade between developing and developed countries was not mutually beneficial and that Latin American economies remained underdeveloped because of their export bias toward primary commodities and import bias toward manufactured goods.¹⁵ Since primary export products followed a rate of deteriorating prices in the world market, while manufactured products followed a trend of increasing world market prices, Latin American underdevelopment was a product of “unfavorable terms of trade.”

This analysis foreshadowed the emergence of the more radical dependency school or the *dependistas* of the 1960s and 1970s (Bath and Dilmus 1974; Cardoso 1972; Cardoso and Falleto 1979; Furtado 1966). Challenging modernization perspectives,

¹⁴ It should be noted that the emergence of ISI in Latin America occurred in spurts from the 1930s to 1950. Historical factors such as the Great Depression in the United States followed by World War II, frustrated the continuation of a primary export model in Latin America, causing, for example, supply difficulties of imported manufactured goods in Latin America as well as balance of payments problems (Baer 1972). It was not until the immediate post WWII period that ISI would become a coherent strategy of economic development for the region (Roberts 1995).

¹⁵ This viewpoint is an important contrasting position from classical trade theory, which assumed that all countries would benefit from an increase in external trade based on comparative advantages.

which saw underdevelopment as essentially an issue of installing western values and institutions (e.g. education) that would work in favor of economic growth (Rostow 1960), *dependistas* argued that peripheral countries could not fully modernize if they remained in the capitalist world system predicated on a division of labor and economic exchange favoring advanced industrial countries (Bath and Dilmus 1974; Gunder-Frank 1966). In this vein, Brazilian Celso Furtado (1966) argued that Latin American underdevelopment was a product of the historical legacy of colonization and the distorted social and economic structures that have followed this, particularly a reliance on exporting raw materials to industrialized countries.

Responding to ECLA's analysis of *Cepalismo* and the "general tenor of critical thinking about the problem of underdevelopment in the immediate post-war period" (Roberts 1995: 72), most Latin America countries began to reject, directly or indirectly, a primary export-oriented model of development (Baer 1972). From this scenario, development strategy swung to a state-led import substitution industrialization approach (ISI) or *desarrollo desde dentro*.¹⁶ Although there is considerable variation between countries, ISI policies generally aimed to extricate Latin American countries from their peripheral position in the world economy through internal market expansion, urban industrial development and economic nationalism.

¹⁶ It is important to note that Prebisch's and ECLA's recommendations did not "cause" import substitution industrialization in Latin America, but rather were powerful arguments justifying the implementation of ISI policy. Besides ECLAC's analysis, the success of the Marshall Plan and popularity of Keynesian economics during provided impetus for a stronger role for the state in economic development. Meanwhile, Gerschenkron's (1962) study of European industrialization in the 19th century suggested a strong role for the state in development in late industrializing countries due to the limited nature of the domestic private sector and capital markets.

Following these developments, an *interventionist state* was to emerge in all countries of Latin America to some degree. A common feature that distinguishes this type of state from others is its level of penetration in the economy and its ideological orientation that underdevelopment can be overcome by a state-induced industrialization. That is, a strong state was not only necessary to maintain law and order, like in the past, but also to employ industrial policies that would bring about higher growth rates and ultimately more economic independence of the developing world from the global economy. This shift not only had important economic implications but also social and political ones.

Political-Institutional Context of an Interventionist State

To arrive at a clearer understanding of Latin America's ISI period, we need to first consider the social and political-institutional conditions that underlined state-led industrialization strategies. Let us start with urbanization. A shift in economic policy favoring state-led industrialization encouraged heavy rural migration into urban centers across Latin America from the 1940s-1980s. This trend gave way to the emergence of primate cities or megalopolises, where populations became excessively concentrated, as in Buenos Aires, Caracas, Lima, Mexico City, Santiago, and São Paulo-Rio de Janeiro (Portes 1989; Portes, Itzigsohn and Dore-Cabral 1994). The key point here is that state-led development ultimately facilitated the transformation of the region's population from predominantly rural to urban in character by the 1980s.

Closely related with urbanization was the growth of industrial productive activities and a decline in agriculture. Roberts (1995: 57) notes: “from the 1940s until the 1970s, the trend in all Latin American countries was similar: in each decade, agriculture contributed a lower percentage of the gross domestic product while manufacturing, with some fluctuations, contributed a higher percentage.” Even smaller agricultural based countries experienced rapid industrial growth during the ISI period. For example, from 1950 to 1981 in Costa Rica, agriculture dropped from 43 to 19 percent of the GDP, while the industry and construction sector rose from 15 to 27 percent during the same time period (Kutsche 1994).

As Latin American countries became more urban and industrial under ISI, the established way in which elites maintained control became difficult to maintain as the old political order and the state were challenged. On the one hand, the state needed to advance its industrialization agenda, and on the other, it needed to meet the increasing social demands of urban residents and rural migrants searching for work in the burgeoning cities. One prevalent way of addressing this challenge became known as the “populist compromise,” a cross-class alliance between political and economic elites and the urban working class.

The phenomenon of populism can be seen as a practice of politics that seeks to incorporate political rivals into the state’s agenda, namely lower-income and working classes (Coniff 1982; Di Tella 1990; Roberts K. 1995; Weyland 1996). Di Tella (1990) argues that Latin American populism represented a strategic response to the changes emerging from rapid urbanization and the growth of a large urban working class unable

to form autonomous political organizations (see also Collier and Collier 1991). Two classic examples in this direction were the Perón administration (1947-1955) in Argentina and Vargas' *estado novo* in Brazil (1937-1945), which employed economically nationalistic industrial programs and universalistic social policies to garner support from the working class and trade unions (Malloy 1979; Weyland 1996).

To be sure, populism has taken distinct forms across Latin American countries over historical time, depending partly on the leadership style of particular administrations (or political parties) as well as the social and economic context to which they responded (Kaufman and Stallings 1991).¹⁷ Michael Conniff's edited volume *Populism in Latin America* (1999) identifies three general phases of populism in Latin America's historical development: 1900s-1930s "early populism," 1940s-1960s "heyday of classic populism," and the late 1970s-present "move toward neo-populism?" For purposes of the discussion here, it is important to point out that the emergence of classic populism helped the state maintain control during the rough road to industrialization during the ISI period. In this way, interventionist state policies such as exchange rate manipulation, food subsidies, price controls, employment programs, and minimum wage standards went hand in hand with a populist strategy to build up an internal market by increasing the purchasing power of the working classes. As Roberts (1995: 65) reminds us, populism represented: "a particular strategy of economic development based on expanding personal consumption, and thus the market for industrial products, while controlling and limiting the demands of the working classes."

¹⁷ Scholars have, however, referred to new forms of populism or "neopopulism" in the current neoliberal development period (Crabtree 2001; Roberts, K. 1995; Weyland 1996).

Often times, however, the populist compromise was not enough to limit the growing demands of the urban working class. Following the decline of economic growth prompted by the second and difficult stage of ISI from the 1960s-1980s came a rise of non-democratic authoritarian regimes in many Latin American countries (Conniff 1999; Di Tella 1990: ch.5&7). While different countries vacillated between democratic and military governments between 1945 and 1982 (Ames 1987), a wave of authoritarian military regimes took power in Latin America from the 1960s-1980s - in Brazil (1964-1985), Argentina (1966-1970, 1976-1983), Peru (1968-1980), Uruguay (1973-1984) and Chile (1973-1990). Long-standing dictatorships also existed in Nicaragua, El Salvador, Guatemala, and Paraguay. Although civilian, the practices of Mexico's Institutional Revolutionary Party's (*Partido Revolucionario Institucional*, PRI) also came to exemplify an authoritarian state (Rodríguez and Ward 1995; Stevens 1977).

Despite considerable variation between countries, authoritarian regimes in Latin America had some common characteristics marked by a new style of governance labeled "bureaucratic-authoritarianism" (Collier 1979; O'Donnell 1973, 1988). According to O'Donnell's thesis (1973, 1988), which is based on comparative analysis of Argentina (1966-1970 and post 1976), Brazil (1966-1970), Chile (post 1973), Uruguay (post 1973), and Mexico (1980s), bureaucratic authoritarianism represented a particular form of governance that responded to the crisis of state-led industrialization and the stagnation of ISI. Such regimes tended to share an elite-based political system based on non-democratic practices (political and economic exclusion of the popular sector),

technocratic orientation, economic modernization, and alliance with foreign capital (O'Donnell 1988: 31-32).

Taken together, the intersection of bureaucratic authoritarianism regimes (B-A hereafter) and ISI economic strategies would have significant consequences. For one, B-A regimes would encourage an excessively rigid and highly centralized bureaucratic state structure, which offered little room for civil society participation. Meanwhile, the technocratic orientation of B-A regimes promoted the growth of centralized planning and economic institutions of the state, such as the Ministry of Industrial Development in Mexico. In addition, because of their highly centralized structure, B-A regimes would present little opportunity for sub-national government to participate in the development process. In many countries, regional and/or municipal governments were to be headed by a presidential appointee rather than democratically elected officials (Martínez and Díaz 1996).

Another telling issue to underscore is the importance of economic nationalism in facilitating the general rise of Latin American statism and populism from the 1960s through the mid-1980s (Cardoso and Faletto 1979: ch.5). Economic nationalism sharpened concerns about national sovereignty and the detrimental influence of “neo-imperialists” or foreign capital. This situation, in turn, would help the state maintain support for its nationalistic economic agenda and heavy intervention in the economy.

Concomitant with the processes described above was the phenomena of *clientelistic* intervention. As with populism, clientelism emerged as a response to particular socioeconomic problems associated with a state-led development model. A

primary difference between clientelism politics and populism is that clientelist practices are more personalized and discretionary than a broader populist agenda.

Clientelist policies have served many Latin American states by promoting vertical solidarities between the dominant political class and the poor, thereby limiting popular sectors' autonomy and capacity to organize against state interest. Sives (2002: 72) argues that clientelist politics: "tend to develop when there is a small elite group with access to material resources and a large group in need of material relief. The mediation of these income inequalities is the internal dynamic of clientelist practices."¹⁸ Although varied, the political systems of many Latin America countries have suffered from a preponderance of both party-client relationships, as in the PRI in Mexico (Fox 1994) and to a lesser degree Costa Rica (Itzigsohn 2000), and/or patron-client relations, where a particular administration uses patronage to expand political loyalties, as the Peruvian nationalist Alan García during the late 1980s (Crabtree 2001).

Understanding the presence of clientelism is useful for the concerns of this chapter because it captures two important processes that often get neglected by developmental state scholars. First, the widespread prevalence of clientelistic practices in many Latin American countries during the ISI period illustrates the inherent weakness of state institutional capacity. In a study of the political system in Colombia, Dix (1967: 182) noted: "one feature of a weak state, its lack of neutrality, has been evidenced in Colombia by the prevalence of the spoils system..." Second, clientelism can have

¹⁸ According to Kaufman (1974: 285) a patron-client relationship is distinguished by: (a) asymmetrical relations of power and status; (b) reciprocity, that is, a relationship whereby services or goods (e.g. state) are rendered in exchange for some reward (e.g. political loyalty); and (c) personalistic linkages, that is, relationships that are particularistic and private.

perverse effects on popular participation, and more broadly, the nature of state-society relations. Put in the language of this dissertation, clientelism can be seen as a factor hindering the possibility of productive public-private partnerships, both historically and currently. This perspective is nicely broached in Fox's study of state restructuring in Mexico (1994), which shows the enduring negative implications of Mexico's clientelist "machine-style political brokers" on civil society and its capacity to form political (or developmental) goals outside of a patron-client relationship.

Roles and Policies of an Interventionist State

Under the political-institutional configuration described above, the state represented the principal actor in development. Partly fuelled by external loans granted by international financial agencies (e.g. Peru in the 1970s), interventionist strategies prompted heavy state penetration in many Latin American economies, including the implementation of protectionist policies and the provision of subsidies to help local infant industries to catch up to global competition (Cardoso and Faletto 1979). For example, countries such as Brazil and Mexico were to place heavy tariffs on imported manufactured goods, while giving favorable subsidies to domestic manufacturing firms producing those same goods (Gereffi and Evans 1981). Such a dynamic can be seen in Brazil's automobile sector, which experienced strong growth in the 1950s thanks to state policy that guaranteed the industry a large internal market through tariffs and rigid controls on automobile imports (Evans 1995: 86-92).

An interventionist state also promoted the growth of public sector planning and economic institutions to “tinker” with the market. In such a light, the National Trust Fund for Tourist Infrastructure (INFRATUR) in Mexico created in 1969 became a key actor in the initial stages of Mexico’s aggressive growth pole tourism development strategy. INFRATUR gave subsidies and loans to the private sector and literally planned resort cities such as Cancun from the ground up, e.g. providing basic infrastructure and developing and selling land (Clancy 2001: 51-53).

Another important feature paramount to understanding an interventionist state was its direct participation in the economy. Based on the rationale that saw a strong producer role as necessary due to the absence of local capital and the fickleness of transnational capital, the state would attempt to induce domestic growth through large infrastructure projects (e.g. gas, water, roads and electricity) and by taking control of key national industries, such as oil, mining, airlines, and steel in most Latin American countries (Roberts 1995: 114). This approach led to the growth of state-run enterprises, like Brazil’s national steel company *Compania Siderúrgica Nacional* (CSN) or Peru’s state-owned copper company *Centromin* in 1974. In Pre-Pinochet Chile, the state controlled and operated enterprises in electricity (ENDESA), oil (ENAP), and steel (CAP).

It is worth noting, however, that efforts to advance domestic production in Latin America were not often carried out solely by the state, but rather a “triple alliance” involving state firms, local manufacturers and transnational corporations (Cardoso and Falleto 1979; Evans 1979). For example, ISI’s strategic emphasis on the production of

consumer durables (e.g. appliances, automobiles) encouraged the importation of foreign technology and capital, which in turn gave way to a new pattern of dependence between state enterprises, multinational corporations and domestic companies (Cardoso and Faletto 1979).

An interventionist state was marked by several other forms of involvement. The state was to play a strong role in the economy by administering price controls, fixing domestic interest rates, and regulating foreign exchange and financial markets (Sheahan 1994). Moreover, all of this intervention prompted the rapid expansion of public sector employment, which in turn, had important repercussions for the social class and occupational structure of many Latin American countries. According to Portes' (1985) class analysis, the growth of state employment in Latin America during the 1960s and 1970s underlined the expansion of an urban technical class, which consisted of technical and career personnel in state enterprises and bureaucracies.

I should add the considerable influence of interventionist state strategies on labor markets, most prominently through rigid labor codes that set the working conditions of the formal labor force (e.g. minimum wage, social security provision, working hours). Itzigsohn's (2000) research on the labor regimes of Costa Rica and Dominican Republic from the late 1940s through the 1990s provides a nice illustration of the nexus between interventionist state strategies and labor market outcomes during the ISI period.¹⁹

With that said, there are considerable social, economic, historical, political, and ethnic differences between Latin American countries, which frustrate the ability to make

¹⁹ Highly regulated labor markets geared toward industrial production also provided stimulus for the informal economy, which provided the urban poor with the means of survival in the face of limited and unstable market conditions (Roberts 1995).

broad generalizations about the continent as a whole. Thus, interpretations made about development patterns in larger countries (Brazil, Mexico, and Argentina) might not hold true in smaller countries of the region (e.g. Guatemala, Panama, Costa Rica). For example, ISI worked best in Latin American countries with the large internal markets, Brazil, Mexico, as well as Argentina. Meanwhile, small agricultural based Central American countries were the last to industrialize (Gwynne 1985). Moreover, there were significant economic and political differences within Latin America's larger more industrialized countries. During the 1970s, the capital goods sector (e.g. machinery, transport equipment) played a large role in Brazilian industrialization, while intermediate goods (e.g. oil, petrochemicals) played a prominent role in Mexico's development process (Villarreal 1990: 305). With respect to politics, Kaufman (1990) paints a picture of significant differences in the political regimes of Argentina, Brazil, Mexico, Chile, Colombia and Uruguay during the ISI period. There are, however, common characteristics of Latin America as a whole that allow general interpretations of the continent to be made, such as the peripheral relationship between Latin American countries and the world economy and the historical processes (e.g. colonialism) in which they are embedded (Portes 1985; Itzigsohn 2000).

The Fall of ISI and the Interventionist State

Despite moderate to strong patterns of economic growth in many Latin American countries from the 1950s through the 1970s, it quickly became evident that ISI was unsustainable and had failed to achieve many of its initial development objectives.

Instead of forging independent development, many Latin American countries faced disappointing results by the early 1980s: large international debts, stagnating economies, low productivity in agriculture, a lack of foreign exchange, persistent poverty, and a heavy reliance on foreign loans and imported technology.

The factors contributing to ISI's exhaustion have been subject to much debate. Some economists contend that Latin America would have been better off to continue exporting primary products rather than moving toward a state-induced industrialization model (Baer 1972). Protectionist policies associated with an interventionist state model, for example, stifled the dynamic needed to get competitive local capital innovation, as there is little incentive to innovate and upgrade technology if there is already a captive market in place.

The institutional character of the Latin American state has also been part of the explanation. In this view, ISI's failure may not have been so much a result of the state's heavy-handed role in the economy, but rather an outcome related to an institutionally weak state apparatus marked by inefficient bureaucracies that lacked administrative capacity, did not follow formal rules of procedure, and had a propensity for corruption. The authoritarian nature of many Latin American states during ISI may be another important factor here, as research has suggested that the lack of accountability associated with non-democratic regimes can encourage rent-seeking behavior within the state apparatus (Olson 1991; Przeworski 1991).²⁰

²⁰ At the same time, however, authoritative regimes, because they are less susceptible to popular pressure, may be more likely to pursue long-term investment projects in development (Przeworski et al. 2000).

International factors also conspired against the continuation of an ISI model in Latin America. For one, the oil crises and worldwide recession of the late 1970s and early 1980s exacerbated foreign exchange shortages in many countries, beginning with Mexico (Itzigsohn 2000: 46). At the same time, the rise of neoliberal heterodoxy or “market fundamentalism” in the 1980s offered failing developing economies and highly indebted states an alternative economic and political development strategy.

THE EMERGENCE OF A NEOLIBERAL MINIMALIST STATE MODEL

The *minimalist state* model in Latin America coincided with the adoption of a neoliberal development model. Becoming known as the neoliberal paradigm because of its intellectual affinity with classical liberal doctrine of the 19th and early 20th century, a neoliberal strategy of development was adopted in most Latin American countries from the 1980s onwards (1973 in Chile). This shift can be characterized by several interrelated tenets that reflected a sharp break from development thinking during the ISI period. The first was the move from a skeptical stance toward international market integration to the notion that better integration in the world economy could solve many of the development problems plaguing the continent. Second was the swing from statist to market economics - the state should retreat from the economy giving markets the primary role in development. Third was the departure of the region’s trade strategy from supplying internal markets to one focused on supplying international markets.

In this context, Latin American governments came to recognize a set of economic policy recommendations known as the Washington Consensus (Williamson 1993).²¹ According to Portes (1997: 238), these measures called for: (1) the opening of the domestic economy to foreign trade; (2) the emphasis on exports; (3) the privatization of state enterprises (e.g. airlines, mining, oil, electricity); (4) the deregulation of labor and capital markets; (5) the promotion of macroeconomic stability through prudent fiscal-monetary policy; (6) the diffusion of the notion that the market is a prime mechanism for reducing social inequality; and (7) the attraction of foreign investment. The central point to underline here is that integration in the international economy and market based development became the benchmark for economic development across much of the continent.

A number of trends combined to facilitate the adoption of neoliberal economic policies in the majority of Latin American countries in the 1980s and 1990s. On the international front, multilateral financial agencies, namely the World Bank and International Monetary Fund, came to explicitly advocate a neoliberal perspective that stressed the retreat of the state in the economy, fiscal discipline, privatization, deregulation, competition, efficiency and trade reforms; in a nutshell *lassie-faire* capitalism. Closely associated to this was the creation of structural adjustment policy programs (SAPs) in the early 1980s. In turn for much needed foreign income, participating countries (all Latin American countries to some extent) had to agree to adopt SAPs, which stipulated a neoliberal “way of doing things” in the South (e.g. removal of price

²¹ The Washington consensus describes a series of “neoliberal” policy prescriptions prevalent among many Western governments, economists and prominent institutions in Washington during the 1980s and early 1990s (see Williamson 1993 for more details).

controls, subsidies). Such agreements were not, however, met with unbridled enthusiasm, as highlighted by John Walton's (1989) analysis of austerity riots related to the approval of structural adjustment programs in many Latin American countries.

Neoliberal economic policies also responded to the acceleration of the globalization of production in the 1980s and 1990s, marked by advances in the transnational flow of transportation, information, and communication (ECLAC 2003: ch.1). This development coincided with the decline of U.S. corporate hegemony in the world economy and an increase in foreign competition (e.g. Germany and Japan), which stimulated a drive on the part of MNCs to reduce production costs by moving to locations that offered an abundant supply of cheap labor (Wilson 1992). In this context, MNCs from the North began to advocate economic liberalization in the developing world as a means for improving their own profits (Portes 1997; Sklair 2001).

Another important international factor facilitating the rise of neoliberalism in Latin America was the economic success of the East Asian tigers, most notably Hong Kong, Singapore, South Korea, and Taiwan. By the 1980s, the contrasts between the outward looking economies of East Asia and the inward looking countries of Latin America were striking. For example, while South Korea and Taiwan's average annual real GDP increase from 1980 to 1987 was 8.6 percent and 7.5 percent respectively, Brazil grew only 3.3 percent and Mexico merely 0.5 percent (Gereffi 1990:11). To explain these regional differences, analysts pointed to the export-led development strategy of East Asian countries (Gereffi and Wyman 1990; Williamson 1993; World Bank 1983). The adoption of a neoliberal agenda also responded to the fall of the Soviet bloc in late 1980s

and early 1990s, which served to reinforce the notion that state-led economies were inferior (Gore 2000; Portes 1997; Williamson 1993).

On the domestic front, neoliberal policies offered Latin American countries a way to cope with economic stagnation, severe debt crisis and balance of payments problems in the 1980s. It also coincided with the dramatic movement away from authoritarian governance structures toward democratic ones during the 1980s and 1990s (e.g. Brazil, Argentina, Peru, Chile, El Salvador, Guatemala). While still subject to much debate (Przeworski 1991; Przeworski et al. 2000; Rueschemeyer, Huber and Stephens 1992), there seems to be some evidence of an association between economic and political liberalization (Haggard and Kaufman 1995).

Against the backdrop described above, a crucial fracture and ambiguity has grown between the state and the market in the majority of Latin American countries. While recognizing the importance of the state for maintaining law and order, private property rights (e.g. North 1981) and foreign capital flows (Itzigsohn 2000: 22), the neoliberal paradigm essentially contends that the: “essential state was a minimal state” (Evans 1995: 23). The cornerstone of this argument, forcefully advocated by international financial organizations (World Bank) in the 1980s, is that states should simply get out of the way of market forces, liberalize trade, and “get the prices right” (Stiglitz 1998).²² Following this view, the state became: “the real culprit...Government bureaucracies were either strangling entrepreneurs or diverting it into unproductive ‘rent-seeking’ activities.

²² The phrase “get the prices right” became short-hand for the idea that the state should retreat from the economy in order to allow prices to reflect the “true” market forces of opportunity costs and benefits. In other words, state intervention causes market distortions (Streeten 1992: 15).

Getting rid of them [the state] was the first step on the development agenda” (Evans 1995: 23).

All told, in much of Latin America the state’s developmental role had been recasted by the 1990s. To some extent a “developmental” state became one that stopped meddling in the economy, pursued fiscal discipline, downsized state bureaucracies, used targeted social policies, and focused on export-oriented development. Neoliberalism also prompted a less economically nationalistic state, that is, a state that no longer sought to regulate exchange rates, labor, imports or the movement of foreign capital. Underpinning these ideas was the emergence of privatization schemes that would break up government monopolies that remained from the statist ISI period.

INITATING A COMPETITIVE NEOLIBERAL STATE?

Just as orthodox neoliberal policies became dominant in many Latin American countries, development thinking began to shift once again. By the end of the 1990s, the neoliberal project as envisioned in the 1980s and early 1990s appeared overly idealistic in its full reliance on unfettered markets to spur development (Green 1996). In the wake of rising inequality and mediocre economic growth, policymakers may have taken the notion of a minimalist state too earnestly (Wise 2003).

In opposition to a state versus market debate is the growing acknowledgement of a wide range of institutional elements in promoting development (Burki and Perry 1998; Wise 2003; World Bank 1997, 2003). Part of this development, I want to suggest, includes a conceptualization of the state that contrasts the orthodox neoclassical view

dominant in the 1980s and 1990s. Increasingly, it is argued, even in mainstream discourse, that an effective state -not a minimal one- is a pivotal factor in economic and social development progress in the developing world (ECLAC 2003; Evans 1995, 1996; Gwynne and Kay 2000; Wise 2003; World Bank 1997).

Authors have employed a variety of concepts to define what makes for an “effective” state in contemporary development. Following an analysis of market reforms primarily in Peru and Chile, Wise (2003) suggests that the challenge for the state nowadays is not to minimize even more, but to find ways to promote positive interaction between state institutions and particular market situations. This requires the state to strengthen its institutional capacity (e.g. bureaucratic autonomy, technical competence) and adopt a more explicit “hands-on” approach to export-oriented development. To illustrate, the author argues that Chile’s economic success in the 1990s was due in large part to the strong institutional capacity and professionalism of the state coupled with its commitment to non-traditional and value-added export development (304-306).

Offering a “neoliberalist” view, Gwynne and Kay (2000) advocate a stronger economic role for the state in Latin America in the current period. While stressing the need to adhere to basic market principles, neoliberalism argues that the state remains a central agent of social and economic transformation in the global liberal period. According to Gwynne and Kay, the state should play a more prominent role in promoting national competitive advantages in the global market and encouraging value-added ventures through well-designed export policies.

Focusing attention on the organizational structure of the state, Roberts (2005: 147) describes the emergence of a managerial developmental state (MDS) model in Latin America. Drawing from Bresser Pereira and Cunill Grau's (1998) concept of managerial public administration, Roberts defines a MDS as antithetical to the highly centralized and rigid bureaucratic state of the ISI period. The MDS is a decentralizing and more flexible state, which is more open to civil society. It controls by assessing output rather than through rigid bureaucratic procedures, and pursues technical efficiency in the selection and execution of policy. This concept is particularly important and built upon in Chapters 5 and 6 of this dissertation.

In addition to rejecting a narrow neoliberal view of the state, new perspectives of the state contrast the argument that accelerated globalization is a force that fundamentally usurps the importance of the state and domestic institutions in development. What they suggest, whether directly or indirectly, is that the acceleration of globalization has made the state a more important actor in promoting national competitiveness in the global economy. To not acknowledge the continued importance of the state would be to neglect a key element shaping how global trends are articulated in individual countries of the developing world.

Dynamics behind the Re-emergence of the State in Development

Three sets of factors have combined to encourage the state's recent comeback in development thinking. First is the mediocre development patterns recorded in many developing countries that implemented strict neoliberal reforms during the 1990s.

Instead of stimulating sustainable economic growth, most developing countries that adopted orthodox neoliberal reforms: "...found themselves more vulnerable than any time since they were first colonized [as] their economies were least well placed to prosper in the new 'global' market place" (Leys 1996: 22).

Recent research in Latin America reinforces this view, showing that the opening up of domestic economies to foreign trade and the retreat of the state was not enough to jump start sustainable growth in most countries. In a comparison of class structures across many Latin American countries, Portes and Hoffman (2003) find growing rates of unemployment, poverty (in some cases), income inequality, and informalization at the end of the 1990s as against earlier periods. Huber and Solt's (2004: 156) examination of neoliberalism in all Latin American countries reveals: "there is no doubt, then, that higher levels of neoliberalism and more aggressive tactics of liberalization are associated with rising inequality."²³ In terms of aggregate growth, Walton (2004) finds that although the Latin America's overall economic performance was better in the 1990s than the 1980s, it did not match its own growth rates during the 1960s and 1970s or that of the East Asian tigers. Roberts (2005b: 116) finds that economic insecurity worsened for the economically active population in four large Latin American cities over the 1990s, Buenos Aires, Montevideo, Mexico City and Santiago. In the face of such trends, an important development challenge has become focused on what states can do to promote national competitiveness in the global economy as well as stimulate growth that would "lift the tide of more boats."

²³ In a companion article, Walton (2004) suggests that the picture of inequality is more mixed, although the majority of countries are found to have experienced increases rather than decreases in inequality.

The second set of factors shaping current development thinking about the state is a body of studies suggesting that markets (especially emerging ones) need the support and guidance of the state to flourish (e.g. Evans 1997; Karagiannis 2002; Putterman and Rueschemeyer 1992). Perhaps the most renowned case revealing the mistake of reducing economic performance to narrow economic factors lies in “revisionist” studies of East Asian NICs (Amsden 1989, 1992; Evans 1995, 1997; Wade 1990; White 1988). While different, each of these studies served to reject popular market-oriented interpretations of East Asian economic success – that impressive economic growth was solely a result of the strength of private entrepreneurs, who were able to carry on in relatively open economies with minimal governmental presence (Wade 1990b: 232). As Robert Wade (1990) has shown, Taiwan’s economy clearly benefited from state inputs in outward oriented industries outside of its traditional markets.²⁴ According to Amsden (1989), South Korea’s rapid economic growth in the 1980s depended not simply on market forces but also on substantial state investments directed toward higher quality or value-added markets. In other words, the experiences of East Asian NICs scarcely reflected the orthodox neoliberal prescriptions spelled out by multilateral financial institutions like the World Bank and IMF during the 1980s and early 1990s.

A third set of factors prompting a sort of re-emergence of the state in development relates to institutional state reforms (Wise 2003). During the 1990s, many Latin American countries undertook institutional reforms that served to improve the quality of

²⁴ When discussing East Asia, we need to keep in mind, as Cheng (1990: 139) points out, “The ‘EAST ASIAN MODEL’ is not of a piece”, and it is therefore important to recognize the variations and differences between each country. For example, Singapore’s model of development depended on partnerships between the state and MNCs, while South Korea’s model relied more on ties between the state and domestic capital (Ermisch and Huff 1999).

state bureaucracies, stabilize leadership coalitions, and deepen ties between the state and organized civil society groups:

In essence, deep institutional reforms were instrumental for bringing the state back to life, both quantitatively and qualitatively, and for instilling an ethos of constructive state action in a region where the state had long been regarded as a predatory intruder (Wise 2003: 7).

Closely related is the new emphasis on government transparency and by extension efforts to root out entrenched structures of state corruption and/or patronage. For example, as government transparency becomes more important in a context where citizens have clearer civil and political rights, it may reduce corruption opportunities, which may encourage more positive state action and economic outcomes (Knack and Keefer 1995; Mauro 1997). This notion parallels a growing body of research on “good governance.” Analyzing quantitative data across various continents, economists have revealed different indicators of quality of government, such as political stability, general citizen security, level of corruption, and bureaucratic efficiency - rather than solely capital markets, natural resource base, or culture - to shape a country’s economic performance (Mauro 1995; Kaufmann, Kraay and Mastruzzi 2003; Knack 2003).²⁵

Altogether, these factors have served to support the argument that state activities and the institutional context in which they are embedded *shape* a country’s internal development despite increasing globalization and the hegemony of neoliberalism. Even the World Bank, the once strong proponent of an orthodox minimalist state model, has

²⁵ Corruption, for example, reduces the effectiveness of state activities in development. It also shapes the investment climate and perception of international and domestic investors (World Bank 2003).

come to recognize the importance of the state in the development process. In the 1997 *World Development Report* (pg. 6), The Bank identifies the potentially positive role a state can play in contemporary development:

When markets are underdeveloped, the state can sometimes reduce coordination problems and gaps in information and encourage market development... More recently, Japan, the Republic of Korea, and other countries in East Asia used a variety of mechanisms for market enhancement, in addition to securing the economic, social, and institutional fundamentals. Sometimes these interventions were quite elaborate: the highly strategic use of subsidies, for example. Other times they were less intrusive, taking the form of export promotion and special infrastructure incentives.

To sum up, the discussion presented above underscores a shift in development thinking, which I characterize as a move from a *minimalist* to *competitive* model of the state. This shift, as I see it, rejects the view that the market alone can ensure the best outcomes, or that in its absence, states must assume total responsibility for developmental tasks. Such a model falls in an intermediary domain, where the state and the private sector, and increasingly ordinary citizens, are seen as partners that work together, each with their own developmental responsibilities and tasks under a common agenda of finding sustainable sources of growth in the global liberal period (Stigliz 1997).²⁶

In this context I argue that the maturation of neoliberal reforms in many Latin American countries has not resulted in a weakened or impotent state, but rather has changed and redirected the state's fundamental role in development. The new state model calls for a more active and effective state in development with a managerial style

²⁶ In Stigliz's words, "The real issue that the success of East Asia and the failure of the socialist experiment raise is, *what is the appropriate role of government in economic development?* There is a third way- or should I say, many third ways- between the extremes of total government control of the economy and complete laissez-faire" (1997: 12).

of governance based on flexibility and technical competence. Its aims are to facilitate national economic competitiveness within the world economy and to achieve more equitable distribution of the economic opportunities associated with this process.

A Competitive State: Sketching out its Contours

The preceding discussion raises important questions about state involvement in the contemporary development context. Recognizing that there is no general blueprint for productive state-market interaction given the institutional, historical and socio-cultural singularity of individual countries, this section attempts to sketch out some of the different state policy responses available in the current neoliberal context.

Table 2.1: Approximations of Different State Orientations in a Neoliberal Context

	<i>Broad Market Orientation</i>	<i>Trade Policy</i>	<i>Labor Market/ Human capital</i>
Minimalist Functions	<ul style="list-style-type: none"> - Property rights. - Law and order. - Ensure macroeconomic stability. 	<ul style="list-style-type: none"> - Standard liberalization policy opening domestic markets to foreign trade. 	<ul style="list-style-type: none"> - Standardization of flexible labor markets. - Control of labor unrest (unions, etc).
Intermediate Functions	<ul style="list-style-type: none"> - Regulate monopolies (e.g. electricity, telecommunications). - Antitrust policies. 	<ul style="list-style-type: none"> - Express coherent goals for export development. - Negotiation of multi-lateral trade agreements. 	<ul style="list-style-type: none"> - Selective training programs to upgrade skills of labor force.
Competitive Functions	<ul style="list-style-type: none"> - Coordination of private activity. - Support and complement markets. - Help foster emerging markets and create new market actors. 	<ul style="list-style-type: none"> - Promotion of exports, esp. non-traditional. - Indirect incentives and tax breaks to foster non-traditional exports. - Diversification policy. 	<ul style="list-style-type: none"> - Technical help for the skilling of labor in small firms. - Training programs or subsidies sponsored by state but done by NGOs (often in export-oriented sectors).

SOURCE: Authors own elaboration. Some categories were inspired from World Bank (1997, table 1.1: 27) and Wise (2003, table 7.2: 303).

To highlight some of the possibilities of state intervention in the current period, Table 2.1 (above) presents a crude framework of three different state orientations - minimal, intermediate, and competitive - in relation to three market dimensions. Table 2.1's first and most general domain depicts differing state orientations toward the market. While a minimalist orientation toward the market might be focused on ensuring property rights, law and order and macroeconomic stability, a more intermediate function might stress stronger regulatory actions to ensure quality and affordability of an asset in particular markets (e.g. telecommunications). Meanwhile, a state taking on a more competitive orientation would move beyond the aforementioned fundamentals, adding the function of coordinating private sector activities and/or carrying out strategic actions

to support capital accumulation and new markets. For example, in Japan and East Asian NICs state activities helped direct and coordinate research and development activities associated with key private industries (Karagiannis 2002: ch.3).

The next domain delineates different state orientations toward trade policy in a neoliberal context. Here, minimalist functions of a state are placed in the standardization of liberalization policy, e.g. tearing down tariffs, the opening domestic markets to foreign trade. By contrast, a state that carries out competitive functions would move beyond such actions to pursue a wider and more supportive range of policy instruments for export-oriented development. This could include non-intrusive actions such as the general promotion of exports to more intrusive ones such as the use of incentives and subsidies to encourage non-traditional exports seen to contribute to national development goals (Wise 2003: 289).

The final category depicts several possible functions of the state toward the labor market under a neoliberal context. Minimalist functions reflect the basic needs of a neoliberal labor regime, such as the standardization of flexible labor markets and control of labor unrest. Competitive functions entail more sophisticated inputs on the part of the state; for example, worker training incentives to businesses or direct technical support to build “know-how” in small firms (Perez-Aleman 2000; Wise 2003).

While the above discussion is helpful in sketching out a continuum of different policy responses that a state may take in the current socioeconomic context, it has ignored the more profound question of state capacity. That is, what factors explain why some states have the capacity to pursue and implement competitive policies effectively,

while others do not? To address this, I draw from a comparative institutional approach, which illuminates some of the prominent institutional structures that shape the form and efficacy of state action in contemporary economic development.

AN INSTITUTIONAL APPROACH TO A COMPETITIVE STATE

Recognizing that the state can contribute to development in the global liberal period is crucial, but only a first step. Once acknowledged, important questions for development sociology and economics are raised - when and how can the state promote economic growth and development rather than inefficiency, inequality or predatory behavior?²⁷

As noted in Chapter 1, state development capacity can be seen as a function of a diverse array of institutions derived from a set of norms, rules and organizational arrangements. While external stimuli, such as world market shocks or foreign capital, make up an important set of constraints influencing state capacity, my primary concern relates to the role of domestic institutional variables in shaping state development capacity.²⁸ Here, I wish to refer to domestic institutional arrangements broadly, in a way that can encompass governance structures as well as more micro institutional arrangements. Let us take a look at these two components separately.

²⁷ Aside from contributing to development, the state can be highly inefficient or captured by powerful interest groups, classes or individuals. They can also form monopolies and engage in rent-seeking behavior (Evans 1995).

²⁸ From a world-systems point of view, state capacity is also shaped by a country's position in the global system. In his comparative study of the state regulatory regimes of Costa Rica and the Dominican Republic, Itzigsohn (2000: 24) argues that: "the intersection of institutional capacity and world-system position determines the opportunities and constraints confronted by states." While my case studies of Peru and Chile have different links with the global economy, each can be seen as smaller countries on the peripheral of the world system.

In the development literature, the concept of “good governance” has been employed as shorthand for linking the quality of public institutions with patterns of economic growth and development.²⁹ Empirical findings in this area have been based on quantitative analysis of a wide variety of indicators and data sources (Campos and Nugent 1999; Knack 2003; Mauro 1995).³⁰ Researchers (mostly economists) have used the following proxies to measure “good government”: voice and accountability, political stability, rule of law, general citizen security, level of corruption, regulatory control and bureaucratic efficiency (Kaufmann, Kraay and Mastruzzi 2003; Knack 2003). In this vein, Mauro (1995, 1997) found a positive and significant relationship between quality of governance (corruption, bureaucratic efficiency, the legal system and judiciary) and investment patterns and economic growth across a large cross-national sample (see also Globerman and Shapiro 2002).

While insightful, the aforementioned studies present particular difficulties for students of emerging industries as governance structures are typically addressed at the macro (e.g. GDP, FDI) rather than sectoral level. It is therefore important to briefly point out how governance structures, whether directly or indirectly, shape the potential of emerging industries such as tourism. Consider, for example, the dimensions of political stability, corruption, and bureaucratic efficiency. It seems reasonable to assume that risk adverse entrepreneurs would tend to avoid making investments in countries (and particular sectors therein) if they face a corrupt or unpredictable bureaucratic norms or an

²⁹ It is not my intention to cover all of the nuances in recent studies on good government, but rather point to the general way the literature can help inform our understanding of the role of the state in emerging industries.

³⁰ Indices have been constructed with data compiled by commercial institutions (Transparency International’s corruption Perceptions Index), the World Bank, or other research institutes (Database of Political Institutions, DPI).

unstable political environment. Such a relationship can be seen in Latin American tourism. During the 1960s-1980s much of Latin America did not enjoy the international tourism boom as other regions partly because most countries of the region were mired in political and social conflict characterized by military coups (e.g. Brazil, Chile), civil wars (e.g. El Salvador) and terrorism (e.g. Peru).

Aside from governance structures and the general institutional environment of a country, the developmental state perspective has shed light on the importance of a number of micro institutional state structures in development. To narrow the discussion, I limit my analysis to four institutional structures particularly useful in assessing state involvement in the emerging tourism industries of Peru and Chile.

(a) *Administrative Capacity: coherent planning and economic institutions.* The administrative capacity of the state apparatus generally, and the quality of its economic and planning institutions more specifically, shape the state's role in economic development. States with development capacity have administrative competence and maintain a number of coherent economic and planning institutions, which express development goals for the nation, oversee regulatory structures for the private sector, and implement strategic policies. Here, the literature points to the importance of a technocratic civil service, regulated by a meritocratic recruitment and promotion system rather than patronage (Rauch and Evans 2000). Another key factor is the availability of financial resources, which will impact the ability of state institutions to regulate, enforce, as well as intervene (Karagiannis 2002; Krieckhaus 2002).

State planning and economic institutions have often reflected the larger development context in which they operate. Thus, during the ISI period planning and economic institutions of the state were geared towards tinkering with the market to induce growth. The advent of market reforms in the early 1980s and 1990s prompted the marginalization or elimination of state economic or planning institutions, which were associated with protectionist or populist sectoral policies, e.g. the demise of *El Ministerio de Desarrollo Industrial* (Ministry of Industrial Development) in Mexico or *El Instituto Nacional de Planificación* (National Institute of Planning) in Peru (Wise 2003). In the early years of market reforms, the basic objectives of economic and planning institutions of the state came to reflect a strong laissez-faire tenor, often becoming subservient to capital markets geared toward foreign investors (e.g. Leys 1996: 23).

As market and structural reforms in Latin America have matured, some evidence suggests that economic and planning institutions of the state have gained new meaning and authority. Wise (2003), for example, argues that economic and planning institutions are increasingly helpful in defining collective development goals, regulating particular market activities, and rendering strategic policy interventions. One poignant example of the latter is found in the Ministry of the Economy in Chile, which began in the early 1990s to provide financial and technical resources (e.g. *Fondo Nacional de Desarrollo Tecnológico*, FONTEC) to help local private companies compete better in the global economy (Messner 1993: 88).

(b) *Autonomy of State Bureaucracies.* The developmental ends that states are able to forge also depend on the relative autonomy of its bureaucracies and their insulation from political manipulation or particularistic societal demands. Put simply, an autonomous bureaucracy is one that is able to formulate collective goals in the national interest as against particularistic interests of state agents and/or individual companies.

The literature gives ample support for the importance of state autonomy in development. A well-disciplined autonomous bureaucracy has been identified as a critical factor that fostered positive state action in East Asian NICs during the 1980s and early 1990s (Evans 1995; Evans and Rauch 2000; Wade 1990). Clancy (2001) argues that the political insulation of tourism-oriented state bureaucracies in Mexico allowed the state to carry out a relatively effective large-scale tourism development agenda during the 1970s and 1980s.

As in administrative capacity, a meritocratic based civil service, rather than one based on patronage and personal ties, is a key determinant of state bureaucratic autonomy (Rauch and Evans 2000). Moreover, state bureaucrats must receive good wages, have technical knowledge, and follow long-term career trajectories. The idea is that if human capital qualities of state bureaucrats are high, the state apparatus will be better able to formulate collective rather than particularistic goals. This was the case for the prestigious Ministry of International Trade and Industry in Japan (MITI), as well as in Korea, where the high status of the bureaucracy allowed the state to attract the “best and brightest” (Evans 1995: 51-60; Johnson 1982).

Unfortunately, the emergence of autonomous state bureaucracies cannot happen overnight, especially in the absence of existing norms and structures. Moreover, having an autonomous and professional state bureaucracy does not automatically translate to effective state action in development. In fact, too much state autonomy can be harmful to development. After all, a state that is too insulated from society may look like Evans' predatory state archetype (former) Zaire (1995: 45). What is needed to be effective in development is a complex balance of state administrative capacity and autonomy on the one hand, combined with dense links with society on the other.

(c) *State-Society Relations*. State-society ties shape developmental ends (Evans 1995, 1996; Perez-Aleman 2000; Wise 2003). Juxtaposed against the nature of state-society relations prevalent during the ISI period, where a rigid state apparatus was either too insulated from societal forces/participation or formed clientelistic state-society alliances, a key argument here is that the state cannot afford to act alone in development, but instead must rely on cooperative relations with the private sector and civil society.

The importance of strong state-society ties has been reinforced by “partnership” or “co-production” perspectives, which view developmental ends as best achieved through collaboration between different groups, such as the state, the private sector and/or NGOs (Bramwell and Lane 2000; Klooster 2003; Ostrom 1996; Stiglitz 1997). Public-private partnerships can enhance development, for example, by fostering the mobilization of information and scarce resources (financial, human, and technical). In this vein, Véron (2001) argues that partnerships promote face-to-face encounters between

public and private actors, which can provide a solid basis for encouraging state-society synergy. Using evidence from Porto Alegre, Brazil, Maya Fruet (2005) identifies public-private partnerships as having promoted the success of low-income housing cooperative projects.

State-society relations can be organized in a variety of ways. On one side, research has stressed connections between the state and key private sector actors. Evans' (1995: 126) classic work on the state's role in the information technology sector in South Korea, India and Brazil argues that the most successful developmental states have 'embedded autonomy' - a coherent and autonomous bureaucratic structure combined with dense ties with important entrepreneurial groups.

However, given the emerging economic and political context in Latin America marked by an emphasis on expanding local citizen participation, limiting government spending, and targeting programs to those most in need (Roberts 2005), state-society ties must be conceptualized in a broader way so as to capture relations between state actors and a multiplicity of societal actors - ordinary citizens, NGOs, civil society organizations (e.g. professional or neighborhood organizations). For example, Clark (2002: 505) maintains that relations between the state and NGOs have become increasingly important across developing countries, arguing that states need: "NGOs to help ensure their programs are effective, well-targeted, socially responsible and well understood." According to Perez-Aleman (2000), dense relationships between state development agencies and local business associations promoted the growth of the Chilean agro-

industry. Evans (1996) draws attention to ties between state agents and local communities as a means to promote state-society synergy.

An important structural dimension influencing state-society relations in Latin America worth noting is the move toward democracy in the 1980s and 1990s (Little 1997; Smith 2005). For purposes of our discussion here, the transition to democracy can be seen as creating a new context in which citizen participation is emphasized in the formulation and implementation of development policies. Concomitant with moves toward democracy has been decentralization, which represents another key institutional dimension shaping the role of the state in contemporary development.

(d) *A Decentralizing State*. A central argument of this dissertation is that the decentralized character of the state represents as an important institutional component shaping the nature of state-tourism market relations in Peru and Chile.

While Chapter 6 presents a more detailed review of decentralization as it relates to economic development, a few fundamental observations are in order here. I refer to decentralization as a process that entails the downward shift of powers, services, and activities from highly centralized governments to sub-national levels and/or to other institutions such as the market or NGOs. Several different dimensions of decentralization are likely to mediate state involvement in development. *Administrative decentralization* typically refers to the transfer of administrative and management responsibilities from the central administration to sub-national or lower levels of government. *Political decentralization* typically involves the shift of political authority and decision-making

power from upper level government to regional, state and/or local governments. *Fiscal decentralization* involves transferring the revenue-generating and expenditure authority of the central state to lower level government (through central-transfers or by granting lower levels the authority to raise their own revenues).

Although different between countries (and even within the same country), decentralization is likely to change the way in which the state gets involved in the development process in Latin America. For example, by granting a larger role to local and regional governments, decentralization can enable government policies to be more tailored to citizens' needs and assets at the local level (Manor 1999; Putnam 1993; Roberts 2005).³¹ Decentralization of government may also allow state institutions to act in a more flexible manner and thereby avoid rigid bureaucratic procedures that can conspire against development (Tendler 1997). Decentralization can also prompt local institutions and civil society to become more engaged in the development process, encouraging better collaboration between the private sector and local/regional governments.

On the question of whether and how decentralization promotes economic development, focused analysis is diffuse and in short supply.³² In fact, developmental state theory has generally ignored the implications of a decentralizing state. However, several studies offer a good starting point for my premise that the nature of decentralization influences how well the state can support development objectives,

³¹ Local/regional governments can also facilitate development through, for example, (a) improvement of local infrastructure; (b) improving local service delivery; (c) creating incentives for the local private sector (Karagiannis 2002: 74-77).

³² While it is often argued that a more decentralized state can better address local economic development problems (Manor 1999; Roberts 2001, 2005), such arguments have been discussed in very general ways, often times relying on anecdotal evidence.

especially in peripheral areas (Doner and Hershberg 1999; Evans 1996; Putnam 1993; Véron 2001). Such studies will be elaborated upon in Chapter 6.

At this stage, I wish to sketch out how strengthening sub-national government can be good for tourism development. Sub-national government officials, in comparison to their central counterparts, are closer to the actual tourism market (supply and demand), its resource assets and the local private sector. As a result, sub-national government may be able to formulate more nuanced and “customized” policies that take account of the local context. At the same time, sub-national government may be in a better position to forge cooperative ties with societal actors, which can promote the mobilization of local resources and information helpful to tourism development. In this way, Medeiros de Araujo and Bramwell’s (2002) analysis of tourism in Brazil suggests that tourism competitiveness can be improved through partnerships between national, regional, and local actors. Looking at Spain, Ivars Baidal (2004) argues that the incorporation of regional tourism planning since the 1970s has served to facilitate the diversification of tourism space and production in peripheral areas of the country.

Table 2.2: Institutions and State Development Capacity: A Theoretical Outline

Institutional Structures	More Competitive Neoliberal State	Weaker Neoliberal State
<i>Administrative Capacity: State Planning and Economic Institutions</i>	<ul style="list-style-type: none"> - A small number of powerful economic and planning institutions, which express coherent development goals - Technical civil service based on merit system - Sound regulatory structures to promote a competitive private sector and reasonable prices in public good sectors (e.g. water, transport) 	<ul style="list-style-type: none"> - No major planning or economic institution or if they exist, they do not have ability to meet goals and/or express conflicting goals - Hiring and promotion of civil service characterized by personalistic relations - Unsound regulatory structure and inability to enforce regulations when they exist. Lack of control within public good sectors
<i>State as Autonomous actor</i>	<ul style="list-style-type: none"> - Bureaucracy insulated from particularistic interests - Less clientelism 	<ul style="list-style-type: none"> - Bureaucracy infused by special interest - Excessive clientelism, which is primary form of exchange
<i>State-Society Relations</i>	<ul style="list-style-type: none"> - State is considered legitimate - Dense network between the state and society (business groups and/or civil society). Two way flow of information-- public-private 	<ul style="list-style-type: none"> - State is unpopular. Frequent changes in government and/or policy - Narrowly defined public-private ties. When ties do exist they are particularistic.
<i>A Decentralizing State</i>	<ul style="list-style-type: none"> - Privatization. Transfer of government economic monopolies to market/NGO - Transfer of central government functions to regional and/or local governments. Autonomous decision making by regional/local Gov. - Capable and coherent sub-national government units: local offices of the central administration, regional governments, municipal bodies 	<ul style="list-style-type: none"> - Difficulty in implementing privatization. Government involvement in key economic sectors - Highly centralized state, which monopolizes development functions of government; such as drafting regional development policy. - Weak sub-national government units.

SOURCE: Elaborated on the basis of various authors including: Evans, 1995; Wise, 1998: 106; Wise, 2003; Manor, 1999.

To summarize, Table 2.2 presents the four institutional state structures important to this study as they relate to a more competitive neoliberal state as against a weaker one. The central point I wish to make here is that the institutional character of the state remains a vital element shaping the economic development process in the current period. While a weaker neoliberal state can still encourage positive development outcomes, it is

more likely to promote sub-optimal and/or inefficient inputs in the development process, especially in emerging markets. By contrast, states with particularly strong institutional characteristics along the four dimensions outlined above will be more likely to play an efficient and effective role in promoting emerging industries. In subsequent case-study chapters, I put empirical flesh on this analytical framework by comparing the role of the state in the emerging tourism industry in Chile - one of the most institutionally capable state apparatuses in Latin America - with that of Peru - an institutionally weak state apparatus in the region.

IMPLICATIONS

The nature of state-market relations remains a contentious issue in both development practice and theory. Much of the recent debate has focused on whether the state has a prominent developmental role in the era of heightened neoliberal globalization and the extent to which institutions shape state development capacity. From my reading of the recent literature, a central question that remains is whether and how the state in regions such as Latin America can better support and create markets in the context of the global economy and the domestic institutional structures that facilitate this process.

By now it should be clear that my theoretical position starts with the premise that the state remains a potentially positive actor in the development process in developing countries in the global liberal period. With that said, my thinking is eclectic and reflects a middle ground approach. While diehard views on the right, which characterizes most types of state intervention in the economy as market-distorting, are not helpful, neither are dogmatic views on the left, which tend to idealize the state as a benevolent despot

without appreciating the structural and institutional limits of state action. Furthermore, given the great diversity between countries of the developing world, no one theory can claim absolute precision. What works in one country may not in another. What is clear is that institutional capacity makes a difference.

The task for researchers is to elucidate how different historical, institutional, organizational, and societal contexts shape the state's role and efficacy in development. Looking at the ways states get involved in mobilizing emerging industries is one fruitful route to confront this task. To this end, my case-studies provide an excellent lens to collect empirical information that not only adds to our knowledge about the role of the state in tourism, but also contributes to broader debates about how states and their "institutional baggage" constitute new types of growth industries in Latin America and the developing world.

Before heading directly into the case-studies however, we first must gain a better sense of the nature of the tourism sector itself. To this end, the next chapter analyzes important changes in tourism development patterns in Latin America and beyond since the second half of the twentieth century.

CHAPTER III

TOURISM IN DEVELOPMENT PERSPECTIVE

This chapter takes a closer look at the tourism industry. My primary aim is to provide a useful intersection between the general development literature and subsequent analysis on the tourism industry in the case-studies of Peru and Chile. Apart from this objective, this chapter will offer some new empirical insights with respect to Latin American tourism development and its relation to the larger socioeconomic context.

The chapter begins by canvassing the historical context leading up to the worldwide expansion of tourism activity in the late 20th century. It then moves to a focused analysis of Latin American tourism, which highlights some of the key demand and supply-side factors that have underlined the increasing implementation of tourism development strategies in Latin America since the 1990s. The last section of the chapter is devoted to sketching out the parameters of state involvement in the tourism sector.

TRENDS IN INTERNATIONAL TOURISM: A CHANGING LANDSCAPE

Historical Backdrop

Tourism has become big business worldwide. By many accounts, the travel and tourism industry is currently the largest employer in the world and a vital source of

foreign exchange earnings and employment for most countries. According to estimates provided by the World Tourism Organization, international tourism represents one of the top five export activities in 83 percent of countries worldwide and is the principal source of foreign exchange within at least 38 percent of these (WTOUR 2001b: 41). In 1998, international tourism income made up approximately eight percent of the total global income for exports of goods and services, making it the number one export worldwide.

Tourism, however, is not an entirely modern phenomenon linked to globalization and modern capitalist development. As far back as ancient Greece and Rome, there is evidence of leisure travel (Honey 1999). Historian John Towner's (1996) *Historical Geography of Recreation and Tourism in the Western World* provides a rich historical analysis of the growth of leisure and tourism in Europe and later North America from 1540-1940. As early as the 16th century, the European "Grand Tour" became a fashionable leisure activity for wealthy travelers. The 17th and 18th centuries witnessed further expansion of the tourism industry fuelled by the growing appreciation of art, architecture, scenery, and pleasure in upper class culture.

The history of modern tourism - where greater numbers of people participate in leisure travel - is rooted in the first major industrial power Britain. As a result of Britain's industrial revolution, leisure travel became accessible to a wider set of persons; first the commercial or middle classes then the popular classes. Evidence of the latter is found in the growth of working class seaside resorts along the coastal areas of England and Wales during the 18th, 19th and early 20th century (Towner 1995, 1996; Urry 1995). Although remaining by and large an elite activity, international tourism also became

more widespread during the 18th, 19th, and early 20th century thanks to improvements in the organization of the tourism industry (e.g. the advent of tour operators such as Thomas Cook in 1841) and the advancement of transport and technology (long-haul ocean vessels became more frequent). Changing consumer tastes also drove international tourism. Using travel narratives of American tourists from 1780 to 1850, Peretz (2003) shows how Paris, France became an important international tourist hub for foreign tourists seeking to experience urban modernity, art and architecture.

Even as tourism is not an entirely novel phenomenon, its significance, scale and form have been significantly transformed since the post World War II era, which marks the watershed period for the emergence of mass international tourism. To illustrate, a few basic statistics are revealing.³³ From 1950 to 2000, international tourism flows worldwide grew at an annual rate of 7.1 percent, mushrooming from roughly 25 million international tourists in 1950 to over 696 million by 2000 (See Figure 3.1 below).

During the same long period, income from international tourism, excluding international transportation costs, had an average annual growth rate of 11 percent. By 2000, the

³³ International tourism statistics on tourism patterns prior to 1950 are scarce and unreliable, especially for comparative purposes. Since 1950, the most common unit of measurement is international tourist arrivals, which is based on data kept by destination countries and then collected by WTOUR. The WTOUR/United Nations Recommendations on Tourism Statistics defines an international tourist as a temporary *overnight* visitor in a country outside his/her country of residence for not more than one consecutive year. Same day visitors are not included in international tourism arrivals. This definition of an international tourist is broad and can include very different purposes of travel such as: holiday-making, recreation, health, study, religion, sport, visiting family and friends, business or professional meetings (United Nations 1994). In 2000, 60 percent of international tourist arrivals involved trips for the purpose of leisure, recreation and holidays and the next most frequent purpose was business travel (WTOUR 2002: 27).

Although substantial advances have been made in recent decades, international tourism statistics present some inherent limitations. Methods of data collection are not entirely uniform from country to country. This tempers the international comparability of statistics. In addition, international tourism statistics have often been gathered in different ways over time. Despite these limitations, data is generally collected in agreement with the methodology of the WTOUR/United Nations *Recommendations on Tourism Statistics* and “are sufficiently complete and homogenous to be able to estimate sensible aggregates for regions and for the world” (WTOUR 2002: 49).

annual economic value of international tourism activity worldwide was estimated at US\$ 477 billion (WTOUR 2002).³⁴



The international tourism boom of the second half of the 20th century is marked by the “democratization” of travel, where tourism (especially foreign travel) would no longer be an exclusively elite activity, but also one available to middle and working classes, at least those living in industrialized countries (De Santis 1978). This development is allied to a host of factors. Improvements in communication systems and modern transport (e.g. the introduction of jet engine in 1957 and later wide bodied aircraft), the expansion of tour operators and holiday packages and the rise of living standards in advanced industrialized countries shrunk spatial distances between tourists and destinations and made long-haul travel more affordable for the general population.

³⁴ This figure includes overnight as well as same-day trips.

Tourism growth over the second half of the 20th century has also been attributed to social, psychological, and cultural conditions accompanying modern industrialization (and later post-industrialization). Early analysis such as Boorstin (1964) argued that the growth of American tourists in less developed countries reflected the contrived, consumerist, and hedonistic nature of modern life in the United States, which pushed tourists to seek the “exotic” (see also MacCannell 1976). Along similar lines, commentators have linked mass tourism growth with changes in the conception of leisure and work and the corresponding rise of a culture of tourism in advanced industrialized countries after the Second World War (Urry 1990, 1995).

Early Mass Tourism in LDCs

With the emergence of mass international tourism in the 1960s and 1970s, the tourist trade became an important and at times controversial development tool for many less developed countries (Brohman 1996; Harrison 2001; Lea 1988). Viewed through the prism of modernization, tourism growth would help developing countries generate new employment and personal income opportunities, stimulate national and regional economic growth, increase tax revenues, improve infrastructure, and raise much needed foreign investment and exchange earnings (Apostolopoulos, Sönmez and Timothy 2001; Sinclair 1998). To this end, analysts, governmental officials, multinational institutions (e.g. UNESCO) and banks (e.g. World Bank) came to advocate tourism as a strategy for modernization in underdeveloped countries.³⁵

³⁵ In the 1970s, for example, the World Bank financed tourism projects and studies in countries as diverse as Mexico (Clancy 2001) and Nepal (Richter 1989: 171).

While advocates touted tourism's development potential, a vocal body of critics raised (and still do) important questions over who benefits from third world tourism (Lea 1988; Mowforth and Munt 2003). In this vein, tourism development is criticized as providing limited benefits to local people who are seen to bear most of the costs related to industry growth. One important issue here is related to leakage, which refers to the high ratio of imported goods used by the tourist industry in developing countries as well as the high proportion of foreign ownership of tourism enterprises (Brohman 1996).³⁶ A case in point is found in enclave tourism development settings characterized by weak backward and forward links with the local economy (Freitag 1994). Critics have also been concerned with the socio-cultural impacts of tourism in developing nations, where cultural and economic differences between Northern tourists and Southern hosts can lead to conflict (Crick 1989; Dann and Cohen 1991; Greenwood 1977; Nash 1977).

Differentiation in Tourism Trends and Forms

It is now time to take a closer look at the evolution of global tourism during the post war period. To be sure, international tourism activity has not been uniform. For one, international (and domestic) tourists largely originate from advanced industrialized countries, suggesting a clear relationship between tourist activity and a country's level of development. We can see this tendency in Table 3.1 (below), which presents data on the world's top fifteen tourism-generating markets for the year 2000. Representing the largest tourism-emitting markets worldwide are the United States, Germany, and the

³⁶ There is a large literature considering the potentially negative impacts of tourism on development outcomes and host cultures (e.g. Salvá Tomás 1999; Smith 1977, 1992; Turner and Ash 1975; Urry 1990, 1995). Although important, it is beyond the scope of the present paper to consider this topic adequately.

United Kingdom. While some of this can be explained by size of country, it is interesting to note that not one developing country can be considered a major tourism sending market (besides a couple NICs – South Korea, China). This dynamic is important as it helps explain why developing countries continue to focus on attracting tourists from core countries in North America and Europe.

Table 3.1: Major Sending Markets: World's Top Fifteen International Tourism Spenders, 2000

Country	International Tourism Expenditure (in \$US billion)
United States	64.5
Germany	47.6
United Kingdom	36.3
Japan	31.9
France	17.8
Italy	15.7
China	13.1
Hong Kong (china)	12.5
Netherlands	12.2
Canada	12.1
Belgium	9.4
Austria	8.5
Sweden	8.0
Republic of Korea	6.2
Switzerland	6.2

SOURCE: WTOUR (2002b)

Notes: 1. International tourism expenditure is a measure of money spent on tourism in a country outside of the visitors' country of origin (includes same-day visitors and tourists).

Table 3.2: International tourist arrivals by region, 1950-2000 (in millions of international arrivals)

	Africa	USA & Canada	Central America (inc. Mexico)	South America	Caribbean	East Asia/Pacific	Europe	Middle East	South Asia
1950	0.5	6.2	0.4	0.4	0.5	NA	16.8	NA	0.05
1960	1.0	14.0	0.7	0.4	1.5	NA	50.1	NA	0.2
1970	2.8	27.4	2.9	2.4	3.9	NA	112.0	NA	0.9
1980	7.1	35.4	5.7	5.8	6.9	20.0	196.0	5.8	2.3
1990	15.0	54.6	19.0*	7.9	11.4	54.6	282.7	9.0	3.2
2000	28.4	71.3	25.0	15.5	17.4	109.2	402.5	23.2	6.1

SOURCES: WTOUR (1991b: 4-21; 2002: iii).

- Notes: 1. Includes international travel within region. Tourist arrival data is taken from various government sources and compiled by the WTOUR. Although improved since the 1980s and 1990s, criteria of international arrivals vary by country and should therefore be taken with caution.
2. East Asia and the Pacific includes North-East Asia (e.g. Japan, China, South Korea, South-East Asia (e.g. Thailand), and Oceania (e.g. Australia, Fiji, and New Zealand).
3. Europe includes Northern (e.g. United Kingdom), Western (e.g. France), Central/Eastern (e.g. Russia), Southern (e.g. Spain, Italy) and East Mediterranean (e.g. Turkey) regions.
4. Middle East includes Egypt
5. South Asia includes India, Nepal, Sri Lanka, and Pakistan.

* Figures represent a revised methodology for counting arrivals in Mexico. Until 1988, Mexico only counted international tourists arriving by air. In accordance with WTOUR methodological standards, Mexico began counting international tourists by land and air but only includes those tourists who stay in Mexico for more than 24 hours (Clancy, 2001:11). Mexico made up 17.2 million of the total 19 million international arrivals in Central America in 1990.

Table 3.2 presents a panorama of the evolution of international tourism since the Second World War. While these numbers are difficult to compare directly because each region varies by number of countries and population size, global comparisons reveal several useful observations. To begin with, the data show that foreign tourist arrivals have increased steadily in all regions of the world from the 1950 onwards, illustrating the participation of greater numbers of people in foreign travel to all regions of the world overtime.

In absolute numbers, however, the figures show a clear geographic concentration of international tourism arrivals in advanced industrial regions, namely in Europe, North

America (USA, Canada). Thus in 1960, Europe (especially France, UK, Spain, and Italy) received over 50 million international tourists and the USA and Canada over 14 million as against 1.1 million in Latin America and 1 million in Africa as a whole. In the 1970s, industrialized regions would continue to dominate international tourism markets; some estimates (Craik 1991: 6) suggest that roughly 80 percent of international tourism arrivals during this decade went to core countries (USA, Canada, Europe) as against peripheral regions (e.g. Africa, Asia, Latin America). By 2000, Europe and North America would continue to receive the bulk of international tourists (approx. 473 million combined) as compared to 40 million in Latin America and 28 million in Africa.

With that said, international tourism has followed a pattern of gradual diversification marked by the incorporation of developing regions. To this end, Table 3.2 shows a substantial increase in international tourist arrivals in developing regions from 1960 to 2000. In the 1960s, 1970s, and 1980s, “sun belt” countries of the Caribbean region (Jamaica, Bahamas, Barbados, Dominican Republic) and Mexico became major destinations for sun-seeking foreign tourists from the North. In Southeast Asia, Thailand stands out as an important growth destination; recording a major jump in international tourism arrivals from the 1960s-1980s: 1960 (81,000), 1970 (629,000), 1980 (1.9 million) and 1985 (2.4 million) (Richter 1989: 85). Meanwhile, international tourism in Africa has been dominated by Egypt, Morocco, Tunisia, Kenya, and South Africa (Brohman 1996: 52).

The East Asia/Pacific region, which contains a mixture of developed and developing countries, has also recorded substantial international tourist arrival growth in

recent decades, from 20 million in 1980 to over 109 million by 2000. Part of this is tied to rapid economic growth in East Asia's NICs during the 1980s, which provoked a flurry of business and then holiday travelers to new destinations such as Malaysia. China has also become a principal regional destination as economic reforms and an open-door policy encouraged an international tourism boom in the 1990s (Gang and Gormsen 1999).

In much of Latin America, international tourism arrival growth was more sluggish in the 1960s, 1970s and 1980s due in part to the major social and political problems of the region during this time (Santana 2001). In recent years, however, international tourism patterns in the region have changed dramatically. Apart from sustained growth in the more established destinations of the region during the 1990s, such as Mexico, Dominican Republic, and Costa Rica, international tourism arrivals have become significant in some new South and Central American destinations, e.g. Bolivia, Ecuador, El Salvador, Guatemala, Peru, Chile and Brazil (WTOUR 2001). Factors underlying this development will be elaborated upon later in this chapter.

Table 3.3: “Spreading-Out”: Principal international tourism destinations worldwide and percent of global market share, 1950-2000

Rank	1950 % of world share	1970 % of world share	1990 % of world share	2000 % of world share
1	USA	Italy	France	France
2	Canada	Canada	USA	USA
3	Italy 71%	France 43%	Spain 38%	Spain 35%
4	France	Spain	Italy	Italy
5	Swiss	USA	Hungary	China
6	Ireland	Austria	Austria	United Kingdom
7	Austria	Germany	United Kingdom	Russia
8	Spain 17%	Switzerland 22%	Mexico 19%	Mexico 15%
9	Germany	Yugoslavia	Germany	Canada
10	United Kingdom	United Kingdom	Canada	Germany
All other countries	12%	35%	44%	49%
Total	25.3 million	165.8 million	457.2 million	697.8 million

SOURCE: World Tourism Organization (2002: 75).

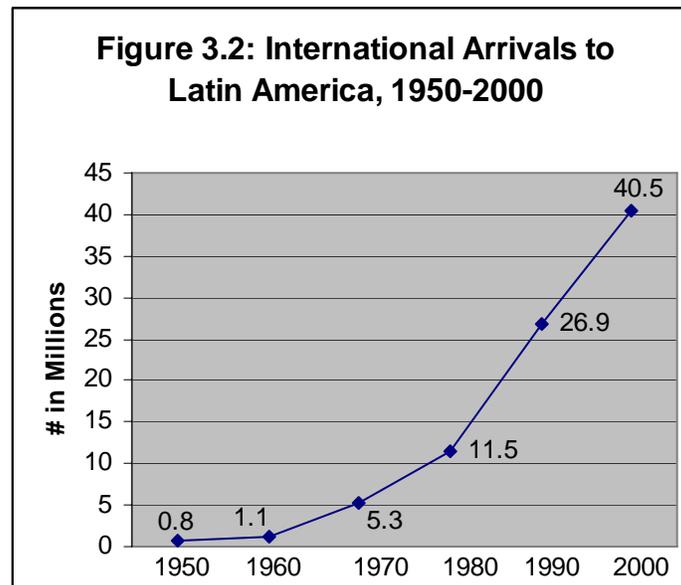
Another way to examine global international tourism trends over historical time is to consider the world’s most visited countries from 1950 to 2000. Table 3.3 presents shows the world’s top ten international tourism destinations from 1950 to 2000, revealing a significant decrease of their total share of international tourist arrivals from 1950 (88%) to 2000 (50%). Put another way, all countries outside of the world’s principal tourism destinations had increased their market share of international tourist arrivals from 12 percent in 1950 to almost 50 percent by 2000. The expansion of tourism in LDCs helps account for the diversification of international tourism arrivals overtime. For instance, developing countries in 1989 received 21 percent of all tourist trips and 26 percent of tourist receipts (excluding travel costs to destinations). By 1997, these figures had risen to 30.5 percent and 30 percent respectively (Harrison 2001b: 11).

EMERGING DESTINATIONS IN LATIN AMERICA

Given this dissertation's geographical focus, I now turn to a more detailed analysis of tourism patterns in Latin America. It is first important to note that the following discussion does not include examination of domestic tourism trends in Latin America due to the paucity of data on the subject and the lack of measurement uniformity of domestic tourists across countries. Glossing over domestic tourism is an important limitation of this section, as domestic tourists constitute a growing market segment both worldwide and in many Latin American countries, as in Argentina, Brazil, Chile and Mexico, where an emergent professional class with better access to credit, private vehicles, and income have begun to spur a relatively robust internal holiday market (Lumsdon and Swift 2001: 30).

Domestic tourism can have significant development implications. Seckelmann (2002), for example, argues that domestic tourism could help Turkey mitigate interregional economic and infrastructural disparities and provide an alternative to the fickleness of international tourism flows. According to Gang and Gormsen (1999), domestic tourism growth in China during the 1990s prompted new business opportunities for local investors with limited capital.

For the large majority of Latin Americans, however, domestic tourism activity is hardly possible (Lumsdon and Swift 2001: 30). For this reason, Latin American governments have generally focused on promoting international tourism. Latin American governments also have a bias in favor of international tourism as foreign tourists prop up a country's foreign exchange earnings and tend to spend more than domestic tourists.



SOURCES: WTOUR (1991b: 4-21, 2002: iii).
 Notes 1. Includes Mexico, Central America, South America

Taking a look at the numbers, international tourism in Latin America has increased steadily since the post-war period (Figure 3.2), from 800,000 foreign arrivals in 1950 to over 40 million by 2000. To gain a better understanding of Latin American tourism in the contemporary period, I needed to break down important indicators by country. To this end, Table 3.4 (below) presents the evolution of international tourism arrivals, income and regional market share from 1990-2000. At first glance, Table 3.4 shows that Mexico continues to be the clear leader in Latin American tourism. Between 1990 and 2000 international tourist arrivals to Mexico increased from 17 million to almost 21 million and international tourism receipts rose from US\$ 5.5 to \$8.3 billion.

Table 3.4: International Tourism Arrivals, Receipts, and Tourist Intensity in Latin America, 1990-2000

COUNTRY	Int. tourist arrivals	Int. arrivals as % of regional total	International tourism receipts (in \$US million)	Int. tourist arrivals	Int. arrivals as % of regional total	Int. tourism receipts (in \$US million)	Tourist Intensity Rate†
	1990	1990	1990	2000	2000	2000	2000
Mexico	17,176,000	64.3	5,467	20,643,000	51.6	8,295	21.1
Brazil	1,091,000	4.1	1,444	5,313,000	13.3	4,228	3.1
Argentina	1,930,000	7.2	1,131	2,991,000	7.5	2,817	8.3
Uruguay	1,267,000	4.7	238	1,968,000	4.9	652	59.2
Chile	943,000	3.5	540	1,742,000	4.4	827	11.4
Costa Rica	435,000	1.6	275	1,106,000	2.8	1,229	29.0
Peru	317,000	1.2	217	1,027,000	2.6	911	4.0
Guatemala	509,000	1.9	185	813,200	2.0	535	7.1
El Salvador	194,000	0.7	18	795,000	2.0	254	12.8
Ecuador	362,000	1.4	188	615,000	1.5	402	5.0
Colombia	813,000	3	406	530,000	1.3	1,028	1.2
Nicaragua	106,000	0.4	12	486,000	1.2	111	9.6
Panama	214,000	0.8	172	479,000	1.2	576	16.8
Venezuela	525,000	2	496	469,000	1.2	563	1.9
Bolivia	254,000	1	91	416,700	1.0	160	4.9
Honduras	290,000	1.1	29	408,000	1.0	262	6.3
Paraguay	280,000	1	128	221,000	0.6	101	4.2
Total	26,706,000	100	11,037	40,022,900	100	22,951	-----

SOURCES: Authors own calculations from World Development Indicators (2002) and WTOUR (2002: xi).

- Notes:
1. International tourism receipts are the receipts earned by a destination country from inbound tourism and cover all tourism-related earnings resulting from expenditure made by visitors from abroad, e.g. lodging, food and drinks, fuel, transport in the country, entertainment, shopping. This measure includes receipts generated by overnight as well as by same-day trips, which can be substantial in countries where a lot of shopping for goods and services takes place by visitors from bordering countries, such as Mexico. It excludes, however, the receipts related to international transport contracted by residents of other countries, e.g. ticket receipts from foreigners traveling with a national company (WTOUR 2002: xvi).
 2. In some countries, international tourism is largely made up of intra-regional travel. For example, the largest international market share of Chile's tourism sector is made up of tourists from Argentina. At the same time, international tourists from the United States and Europe (conventional 'long-haul' tourists) have increased significantly in almost every country in Latin America during the 1990s, including Chile.

† Tourist Intensity Rate = International Tourist Arrivals/2000 population * 100
Population figures based on *World Development Indicators* database, World Bank Group

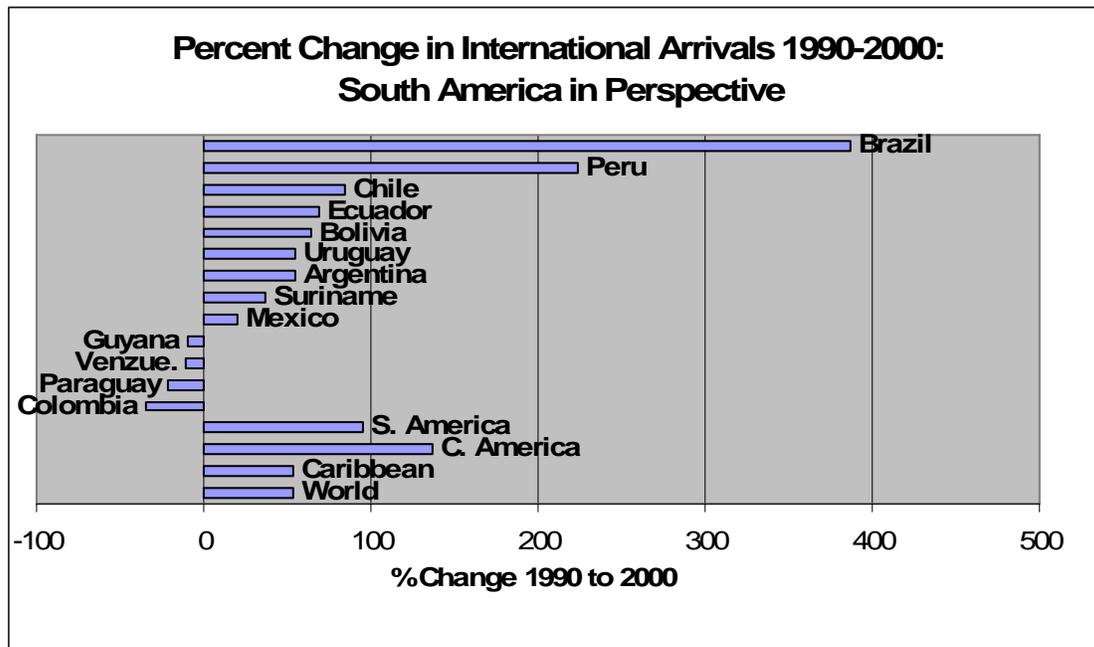
A closer look at the data, however, indicates a shift in regional tourism patterns during the 1990s, due to the growth of tourism in a wider set of Latin American countries (e.g. Mexico's regional share of international tourism arrivals decreased from 64 percent in 1990 to 52 percent in 2000).

In absolute terms, Brazil was Latin America's fastest tourism growth point during the 1990s, moving from 4 percent of the regional share of international tourism arrivals in 1990 to an impressive 13 percent by 2000. The data also reveal relatively good performance of other countries during the same period, i.e. Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Panama, and Peru. For example, international tourism arrivals from 1990-2000 more than doubled in Costa Rica; by 2000 international tourists were leaving more than \$US 1 billion into Costa Rica's economy annually. A similar trend is found in Peru, where international tourism receipts more than tripled from 1990 (US\$ 217 million) to 2000 (US\$ 911 million).

To help account for differences in country size, I also calculated a Tourist Intensity Rate (TIR) for international tourist arrivals in relation to population size in the year 2000 (Table 3.4: last column). In interpreting a TIR, one should keep in mind that the higher the TIR, the greater penetration of tourists in relation to the local population. Using this measure yields a somewhat different picture of Latin American tourism. Relatively high TIR ratings for the year 2000 are found in the following countries: Uruguay (59.2), Costa Rica (29.0), Mexico (21.1), Panama (16.8), El Salvador (12.8), and Chile (11.4). Countries with the lowest TIR ratings are Colombia (1.2), Venezuela (1.9), followed by Brazil (3.1).

Although helpful in accounting for population size in relation to annual tourist arrivals, the Tourist Intensity Rate has serious limitations. For one, it fails to consider where international tourists come from and how long they stay. Consider Uruguay, which has a high tourist intensity ratio but a relatively low amount of international tourism receipts. This discrepancy relates to the prevalent type of foreign tourist in Uruguay, which is generally a “day-tripper” or “weekender” from Argentina, as against a long-haul traveler from the United States or Europe, who would tend to spend more and stay longer. Another important problem with the TIR is that it does not account for the importance of tourism in the local economy. In poorer less industrialized countries, such as Peru or Bolivia, international tourism can often be more important to the national economy than in countries with more industrial or diversified economic structures such as Brazil.

Figure 3.3:



SOURCE: Calculations based on data from WTOUR, 2002,

Notes: 1. $\frac{\text{New Value (International Arrivals, 2000)} - \text{Old Value (International Arrivals 1990)}}{\text{Old Value}} * 100 = \% \text{ Change}$.

To obtain a sharper view of relative change in South American tourism (where my case-studies are located), the percent change of international arrivals for South American countries and some important comparative points was compiled (Figure 3.3). Organizing the data this way provides some interesting insights. For one, it offers a clear indication of the increasing incorporation of many South American countries into global tourism circuits during the 1990s, e.g. Brazil (+387%), Peru (+224%), and Chile (+85%). In fact, the majority of South American countries witnessed a higher percentage increase in international tourist arrivals during the 1990s than Latin America's tourism leader Mexico (+20%). Taken as a whole, South America recorded a higher percent increase of international tourist arrivals during the 1990s (+95%) as against the Caribbean (+53%)

and the world average (+53%) but slightly less than Central America (+137%). By contrast, it is important to note a drop of international tourist arrivals in some South American countries such as Venezuela and Colombia, which experienced increasing political instability during the recent decade.

The recent expansion of international tourism to new Latin American destinations has led to predictions that Central and South America will increase their hemispherical share of foreign tourists over the next fifteen years. The World Tourism Organization has forecasted higher annual international arrival growth rates from 1995-2020 in South America (4.9) and Central America (4.1) as against North America (3.6), which includes Mexico in this case (WTOUR 1998: 14). In other words, non-traditional tourism markets of Central and South America are predicted to grow at a faster rate than more conventional destinations of the Americas (USA, Canada, and Mexico). Analyzing recent changes in global demand factors shed light on this situation.

CHANGING DEMAND FACTORS AND LATIN AMERICAN TOURISM

The preceding discussion highlighted the growth of international tourism in a wide set of Latin American countries in 1990s. Underlying this development is a complex set of demand side factors that need elaborated. On the most fundamental level, international tourism is linked to the general economic and political context of the international arena. As levels of disposable income rise in the world economy: “a relatively large part of the discretionary income will typically be spent on tourism” (WTOUR 2002: 77). At the same time, global security shapes international tourism

patterns. The sharp drop-off of international tourism after the September 11th terrorist attacks in the USA attests to the sensitivity of tourism to safety and security perceptions in the international context.

However, to explain Latin American tourism over the recent decade, we need to take a closer look at global tourism demands, that is, the object of desire and type of activities realized by tourists. Since the post-war period, two broad patterns of tourism demands can be identified. The first, dominate from the 1950s through the 1980s, relates to the conventional mass tourism phase. At this time, international tourism tended to focus on the three S's – sand, sun, and sea. This situation prompted the creation of seaside resorts in warm island and coastal countries located in the “pleasure periphery” (Turner and Ash 1975). Such forms of tourism were mass oriented and largely organized by transnational corporations, which offered standardized tourism packages that were affordable to large numbers of people from advanced industrialized countries.

This sort of tourism served to catapult Mexico into global tourism markets in the 1970s and 1980s (Clancy 2001). The Caribbean territories also reflect a prime case of sun-and-sea tourism development. In the Dominican Republic, for example, tourism income increased from 8.6 percent of exports of goods and services in 1977 to over 30 percent by 1986 (Itzigsohn 2000: 47). By the late 1990s tourism was to generate at least 30 percent of the GNP in twelve Caribbean countries (Weaver and Schlüter 2001: 173).

This brings us to contemporary patterns of tourism demands. My research in Peru and Chile is focused on this period. The 1990s saw a fragmentation of the conventional mass tourism model and the corresponding growth of tourism that emphasizes

individuality, activity, learning, skill-acquisition, and authenticity (Salvá Tomás 1999). In contrast to the conventional mass tourism model, research suggests that new tourism forms favor a larger range of resources (e.g. pristine nature, historical sites, and indigenous handicrafts), more specialized markets, smaller groups, and more ordinary accommodation (Weaver 1998: ch.1). Along this line is Poon's (1993) concept of "new tourism," which hypothesizes a movement away from mass-oriented standardized tourism products to customized tourism based on individualized patterns of consumption. According to Mowforth and Munt (2003), this development has followed a larger shift from Fordism to Post-Fordism, that is, the qualitative movement from mass production and consumption to flexible forms of production and specialized forms of consumption.

The fragmentation of standardized conventional mass tourism has led to a significant growth in nature, cultural, and historical tourism, some of the fastest growing tourism segments worldwide since the 1990s (WTOUR 2001). Let us take a closer look at these.

Nature tourism has become a major segment of the tourism industry over the past fifteen years (Brandon 1996; Honey 1999). In a nutshell, eco/nature tourism refers to persons who visit a destination in order to experience and enjoy some aspect related to the natural environment, which can encompass visits to national parks, nature reserves, waterways, or other natural assets such as wild-life parks.³⁷ Estimates cited in Campbell

³⁷ With respect to ecological tourism, over 80 different definitions have appeared in the tourism literature (Dowling and Fennell 2003). A definition often used by ecotourism observers is provided by The International Ecotourism Society (TIES), which defines ecotourism as "responsible travel to natural areas which conserves the environment and sustains the well-being of local people." This definition is more appropriate for studies specifically focusing on the environmental and social impact of ecotourism (see Brandon, 1996).

(1999) suggest that in 1998 there were between 157 and 236 million international nature tourists, which generated US\$ 93 to \$233 billion in revenues worldwide.

An overlapping segment of nature tourism is adventure tourism, which has become an important growth niche in many developing countries. Put simply, adventure tourism entails the coming together of travel, sport, and outdoor recreation coupled with the qualitative component of risk. It often involves a plethora of nature oriented activities, including backpacking, mountaineering, hiking, bicycling, diving, kayaking, rafting, trekking, rock climbing and hang-gliding (Weber K. 2001). Another variation of nature tourism is rural tourism, which generally entails tourism activities carried out in non-urban areas where the local community is part of the attraction. A growing segment within rural tourism is agrotourism, which refers to farm holidays. Agrotourism generally involves local production, where accommodation and other services are carried out by family units as a means to generate supplementary income (Iakovidou and Turner 1995).

In Central America, Costa Rica, which has a well-developed national park system covering approximately 25 percent of the country, stands out as a significant nature tourism destination worldwide (Weaver 1999). According to a visitor survey in the mid-1990s, about two-thirds of all international arrivals in Costa Rica visited at least one protected area (Weaver and Schüter 2001). Nature tourism is also increasingly prevalent in Mexico, illustrated by efforts to link natural attractions with mass beach tourism, e.g. scuba diving activities around pristine coral reefs. Natural resources also drive tourism development in Belize, where forests and barrier-reefs attract an increasing number of

foreign tourists (Weaver 1998). Although less developed, nature tourism has underlined development strategies in Guatemala, Panama, Nicaragua and El Salvador over the past decade.

In South America, nature tourism has also grown steadily in the past decade, but is still under-exploited (Weaver and Schüter 2001). A prominent ecological attraction in South America is the Amazon Basin, which encompasses Brazil, French Guyana, Suriname, Venezuela, Colombia, Ecuador, Peru and Bolivia. Aside from the Amazon Basin, the Andean region - a large mountain range shared by Colombia, Ecuador, Peru, Chile, Argentina, and Bolivia - provides a wide variety of nature tourism assets. In addition, the Patagonia region, which spans southern Argentina and Chile, has large tracts of nationally-protected areas linked to recent tourism growth (Weaver and Schüter 2001). For instance, the striking blue glaciers of Chile's *Tierra del Fuego* have helped draw in increasing volumes of European and American tourists. In Argentina, Bariloche's surrounding national parks has been integral in fomenting domestic and international tourism growth.

Aside from natural attractions, Latin American tourism has been, and will be, shaped by contemporary tourists' growing appetite for cultural, heritage, ethnic and/or historical assets (Chant 1992; Lumsdon and Swift 2001: 128-45). Cultural-historic tourism involves a plethora of activities that entail the use of unique assets related to a population (food, music, dance, dress, and folklore) or more tangible resources such as historical towns, museums, castles, ruins, art, historical buildings and archaeological sites (McKercher and du Cros 2002).

In South America's Andean region, pre-Columbian archaeological sites and handicraft industries of indigenous populations increasingly underlay new tourism development. Peru can be seen as the continent's leader in this arena, highlighted by the ancient Inca ruins of Machu Picchu. Meanwhile in Mexico, *El Maya Mundo* (Maya World) has become an increasingly important tourist attraction along the coastline in the state of Quintana Roo (Walker 2003). In fact, a "Maya route" is being developed through Guatemala, Honduras, and Mexico in hopes of increasing cultural and historical tourism across Central America (Weaver and Schüter 2001).

Taken as a whole, the emergence of new tourism forms has considerable development implications for this dissertation's case-study countries of Peru and Chile, as well as for Latin America. In contrast with the conventional mass tourism phase, where third world tourism was concentrated in countries with tropical beaches and strong international alliances (e.g. Caribbean), new tourism facilitates tourism growth in countries with pristine forests, historical artifacts and/or unique cultural products. New or "customized" tourism, it is argued, may also promote smaller scale development that privileges locally owned enterprises and is more ecologically friendly than the conventional mass tourism model (Weaver 1998). According to Richards (2003: 165), it is only after growing numbers of people began to appreciate the natural and cultural environment through tourism that national parks and reserves began to emerge in significant numbers.

While insightful, our analysis of changing tourism demands is only half the story. To arrive at a deeper understanding of new patterns of tourism in Latin America, it is

important to look at the structural conditions of the region, which constantly interact with global tourism demands.

CHANGING DOMESTIC FACTORS AND LATIN AMERICAN TOURISM

This section discusses some of the supply-side factors (or domestic variables) shaping contemporary tourism in many Latin American countries. To begin with, it is important to recall that most Latin American countries were essentially left out of the initial international tourism boom of the 1960s and 1970s. Of particular interest here is why tourism has only recently become a salient economic activity for the wider region.

A critical endogenous factor that plagued Latin American tourism during the 1960s, 1970s, and 1980s relate to politics, i.e. military coups, political instability, and domestic terrorism (Lumsdon and Swift 2001).³⁸ Looking at Cyprus, Greece, Turkey and Israel, Theocharous (2004) reinforces the relationship between political stability and tourism – those countries with less tend to host less international tourists (see also Hall 1994). Apart from political instability, the inward looking development strategy (ISI) implemented by many Latin America's countries from the 1950s-1980s served to downplay the salience of tourism development.³⁹ That is, international tourism did not tend to draw the attention of government officials interested in promoting heavy industrialization and internal market expansion.

³⁸ Attempting to explain weak tourism growth in Latin America during the 1970s and 1980s, tourist industry commentators have pointed to the distant thesis, which contends that Latin America, especially South American countries, are severely handicapped in the global tourist market because of their distance from high-tourist emitting countries (e.g. U.S.A., Germany). While providing some insight, this argument cannot account for the attractiveness of long-haul tourism to Europe, the Caribbean, and parts of Asia from the 1970s onwards.

³⁹ With the notable exception of Mexico.

By the mid-1980s and early 90s, however, various socioeconomic and political changes in many Latin American countries would prove favorable to the tourism industry. For one, the international image of the region would begin to change as democracy swept across the region and political and social problems improved.⁴⁰ The 1980s and 1990s also saw a general decline in travel costs (sparked by the opening of internal markets to foreign investment), the further shrinking of spatial distances due to advances in technology (transport, internet), and increasing globalization. Moreover, although poverty and inequality clearly persist in Latin America, the 1980s and 1990s saw a growth of Latin Americans with access to credit, private vehicles, and employment prospects, such as in Chile, Mexico, and Brazil. This development has begun to spur a modest level of domestic tourism in some countries and has helped encourage more intra-regional tourism such as Brazilians visiting Peru's Machu Picchu.

An additional point has to do with the congruence between the tourism industry and the adoption of a neoliberal outward looking economic strategy in the 1980s and 1990s. An outward oriented development strategy means that increasing economic global integration is now embraced as a central goal by much of the Latin American region. Tourism promotes free-trade, as there are relatively fewer tariff and quota protection policies affiliated with the sector as compared with others such as manufactured or agricultural exports. International tourism can also generate much needed foreign exchange earnings, capital, and local employment, all of which are important elements to the success of an outward-oriented strategy. Finally, tourism-

⁴⁰ Having said that, Latin America still must overcome its negative image of safety that remains today in many advanced industrialized countries, e.g. health, street crime (Lumsdon and Swift, 2001.: 86-7).

related development can encourage the production of goods and services for new or non-traditional external markets - a key element of any outward oriented regime.

Attesting to the affinity between tourism and neoliberal economic strategies is the ability of many Latin American countries to capture external funds to pursue tourism development projects. To this end, multilateral institutions and regional development banks such as the World Bank, United Nations, USAID, the Inter-American Development Bank IDB, and the European Union, began to encourage ecological and cultural tourism in a host of countries in the 1990s. There are numerous examples of such involvement. To name a few, the UNDP United Nations Development Program began a small grants program US\$50,000 in the early 1990s based on environmental sustainability. This fund has provided support for a number of community-based groups or NGOs that work on nature based tourism development projects, e.g. training and capacity building programs in Chile, Brazil, Costa Rica, Dominican Republic (Hawkins and Lamoureux 2001). From 1998-2000, the European Union's Tourism Program contributed millions of dollars to a Peruvian government program aimed to help incorporate indigenous groups and *campesinos* in tourism markets (PROMPERU 2001). In 2003, The World Bank initiated a large program in Peru focused on restoration projects near Machu Picchu (CBC and CIES 2003). In 2002, Brazil received a US\$ 240 million dollar loan from the IDB for sustainable tourism projects in Brazil's Northeast region (IDB 2002).

Taken together, the factors outlined above have spurred the interest of many Latin American governments in using tourism as a development tool. Many important

questions, however, remain. What explains why some Latin American countries have been able to capture new global tourism flows better than others? After all, there are many Latin American countries that have rich ecological and cultural resources, but only a few that have clearly been able to take advantage of those in a way that promotes meaningful and sustainable development. To what extent can domestic tourism help encourage tourism market growth in individual countries? To begin addressing such questions, we must turn our attention back to an essential actor in development - the state.

THE STATE AND TOURISM: SETTING THE PARAMETERS

This section teases out the general relationship between the state and tourism markets. As argued in Chapter 2, the state can serve to advance or hinder emerging industries in developing countries. Tourism provides no exception.

A number of common economic considerations motivate states of the developing world to promote tourism. For one, tourism offers a way to boost foreign exchange earnings and hence improve balance of payments constraints and total export earnings.

Other strategic objectives associated with tourism include:

- Increasing national economic activity: GDP, employment;
- Diversifying the national economy and external sector;
- Spurring regional and local development;
- Improving equity and social needs; and
- Decentralizing economic activity away from large metropolitan areas

When discussing state-tourism market relations in the developing world, we find a sector that both converges with and challenges some of the conventional assumptions

posed in the development literature. On the one hand, tourism is like any form of development that is outward oriented. It is produced by local populations and mainly consumed by foreigners or at least by those who derive income outside of the local area. It is demand-driven and often relies heavily, like other outward oriented industries in the developing world, on external financial capital and/or technological expertise.

Unlike other outward oriented development, however, tourism is consumed in the same national space as it is produced. This characteristic means that tourism has great potential to create both positive and negative local impacts. Tourism is also a unique productive activity because its comparative advantage in the developing world vis-à-vis advanced industrialized countries is increasingly derived from domestic assets that have long been perceived as features of underdevelopment, such as natural capital, historical resources as well as the prevalence of traditional or unique cultures. In other words, the primary commodity of tourism is not simply linked to a material object bought and sold through market transactions, but rather unspoiled natural, historical and cultural resources.

In this context, the tourism sector presents some common development challenges for states in the developing world, where infrastructure may be inadequate, institutions weak, access to financial capital scarce, and the local private sector more limited. For one, severely poor countries devoid of suitable infrastructure and human resources or those characterized by political, economic, and/or social instability, do not hold great international tourism potential. Tourism activity, if it is to take place on any scale, requires good airports, roads, hotels, sanitation and medical facilities. It also obligates a

country to have a favorable image, as the selling of tourism internationally has much to do with tourists' perception of the host country (foreign investors too). Meanwhile, once the tourist arrives, countries must provide standards of food and accommodation that are often *supralocal* or even *supranational*, that is, not consistent with local patterns of consumption. Finally, the travel and tourism industry requires the coordination of a large range of actors - travel agents, tour operators, guiding service outlets, accommodation and restaurant entities, transportation, marketing services, and entrepreneurs.

Despite the difficulty in making generalizations about the roles that states play in the tourism sector, some general observations can be made. On a general level, international tourism (and domestic but to a lesser degree) may exaggerate certain fundamental market functions of any given state. For example, while export products are typically shipped abroad for foreign consumption, tourism production and consumption takes place in the host country. This quality brings the general institutional environment to the fore, such as political stability, rules of the game, and even health conditions.

Apart from shaping the general institutional environment, states often engage in a complex blend of sectoral roles in tourism. Since tourism activity requires good airports, roads, and sanitation facilities, states seeking to promote tourism may take on a "producer of collective goods" role. The state may also play "promotional" as well as "incentive-giver" roles as tourism must be promoted intensely internationally and the private sector may need a jump-start to engage in certain tourism development projects.

In terms of politics, evidence suggests that state success in promoting tourism is not necessarily dependent on political regime type. Successful state promotion of

tourism development surfaced in Greece, for example, after a dictatorship was imposed in 1967. During the 1970s, international tourism growth helped the Marcos regime of the Philippines gain political legitimacy (Hall 1994: 24). Intensive tourism promotion was taken up by Mexico's bureaucratic authoritarian PRI regime during the late 1960s and 1970s. With that said, the political system will inevitably influence the way states go about mobilizing tourism development (e.g. degree of centralization/decentralization, control of tourism markets, input from civil society). Moreover, there is evidence that democratic regimes can help improve a country's international image, which in turn, facilitates the growth of tourism. The rapid growth of international tourism shortly after the reinstatement of democracy in Chile in 1990 illustrates one such case.

The roles that states choose in tourism and how well they play them also depend on the institutional capacity of the state in question. As Evans (1995), Wise (2003) and other development scholars have clearly demonstrated, state institutional capacity is in short supply, especially in the developing world context. State involvement in tourism, as in other sectors of the economy, will also be shaped by the larger development context. To illustrate the intersection of the aforementioned points, let us take a brief excursion to Mexico, the most successful tourism economy in Latin America and the seventh largest tourist receiving country in the world by 2000 (WTOUR 2001).

Tourism Promotion and the State under an ISI Model: the Case of Mexico

A classic case illustrating how state involvement in tourism is rooted in the larger socioeconomic context is Mexico from the late 1960s - early 1980s. Historically, tourism in Mexico was insignificant, isolated to Acapulco and some towns boarding the USA. By the mid-1960s, a Bank of Mexico publication made it clear that Mexican tourism lagged behind similarly-situated markets, such as in the Caribbean and Hawaii where sun-and-sea tourism was expanding rapidly. Around the same time, the Mexican economy faced problems related to the second stage of ISI (the move from consumer to higher value intermediate goods), including balance of payments constraints, lack of local employment and overpopulation of metropolitan areas (Clancy 1999). In this context, the government identified tourism as a priority sector, which if developed, could generate foreign exchange earnings for the state as well as encourage employment in regional areas and thereby slow urban migration. Following this analysis, Mexico entered what Clancy (2001) calls a “tourism export push.”

After securing the 1968 Olympic Games and the World Cup in soccer in 1970, Mexican state officials began pursuing an aggressive resort development program. The strategy was focused on developing international tourism in five distinct poles located across different coastal regions of the country, Cancun, Ixtapa, Huatulco, and Los Cabos/Loreta (Aquilari 1994). The state’s objective was twofold: to encourage local growth and employment in poorer backward regions and to generate foreign revenue, which would help Mexico contend with rising international debt. Taking the lead in

planning in the early 1970s was the state tourism ministry SECTUR along with the National Trust Fund for Tourist Infrastructure (INFRATUR) and later FONATUR (National Tourism Fund).

Since some of the resort cities, such as Cancun, had to be essentially created from the ground up, the state built airports, water and sewage facilities, roads, and even a golf course (Clancy 2001). Concomitant with planning and infrastructure inputs, the Mexican state assumed an array of entrepreneurial risks. Hoping to kick off private sector hotel investment, the state built and operated some of the first hotels to open in Cancún, Ixtapa, and Loreto. The Mexican state also offered a variety of incentives to the private sector; FONATUR, for example, was to ensure potential hotel investors with loan guarantees and subsidies (Clancy 2001: 64). In an effort to attract foreign tourists to new Mexican tourism destinations, the state enhanced its promotional role abroad and created tourism technical schools throughout the country to increase human capital in the sector (ibid.: 61).

The result of Mexico's state-led tourism development project is generally viewed favorably. In terms of promoting regional employment and foreign revenue earnings, tourism became one of Mexico's top export earners and employment generator by the 1980s (Clancy 2001; Torres 2000). As for the social consequences, the result of Mexico's state-led tourism development model appears more mixed. Given the large-scale and external focus of Mexico's tourism push, the major beneficiaries of tourism expansion has been most often large national and international firms, which could provide the capital, technology, and market expertise needed to support sun-and-sea mass

tourism oriented toward external markets (Clancy 2001). Locals often filled only lower level service jobs, which are relatively low paying.

Altogether, the experience of Mexico reveals numerous points important for the overall argument of this dissertation. To begin with, Mexico shows the important role of the state in shaping one of the developing world's most robust tourism industries. It also highlights the significance of state institutional capacity in taking advantage of tourism development opportunities. According to Clancy (2001), state capacity in Mexican tourism was a function of the considerable knowledge and technical know-how of state tourism officials, coupled with their access to financial resources, both internal and external.⁴¹ As for state autonomy, the lack of organized domestic interest groups surrounding the tourism industry in the 1960s and 1970s meant that state officials were not beholden to any special interest groups, and as a result: "had more room to maneuver before tourism became a mature industry" (Clancy 2001: 118).

The Mexican case also sheds light on how the larger development context shapes the style of state intervention in tourism. The top-down highly centralized nature of the decision-making during Mexico's state-led tourism export push was wholly consistent with an ISI model of development; so too was the state's willingness to take on entrepreneurial roles such as building hotels. As Clancy (2001: 67) concludes: "one simply cannot argue that tourism dynamism took place due to market forces alone..." but rather, emerged from interventionist strategies where the state essentially set out to "induce" tourism industrialization through market-altering activities and alliances with

⁴¹ Funding for INFRATUR and later FONATUR came from the institutions own resources as well as sizable loans made by the Inter-American Development Bank (IDB) and the World Bank initiated in 1971.

the private sector. Finally, Mexico's tourism boom also relied on the ability of state planners to seize upon changes in global opportunities, namely the growth of sun-seeking tourists from the USA.

Tourism Promotion and the State under a Neoliberal Model

The movement from an ISI to a neoliberal development model changes the context in which states go about encouraging tourism development. Indeed, the kinds of sectoral inputs provided by the Mexican state during the heyday of its tourism push seem unlikely in the contemporary period. For example, under the current development context, private sector funding would be more important in the early stages of the creation of resort towns. It may also be that governments would not have sufficient financial resources or the political will to forge large-scale and capital-intensive tourism projects such as Mexico during the 1960s and 1970s.

At the same time, the widespread adoption of neoliberal economics in Latin America is likely to make tourism more significant to a wider set of Latin American governments than in the past. As noted earlier, tourism can offer the state a valuable alternative to heavy industrialization and a way to spur non-traditional growth and foreign investment. With that said, the current socioeconomic model has complicated how states get involved in promoting development. Will the neoliberal economic approach adopted by most Latin American countries make it difficult for states to take advantage of new market opportunities in tourism? To what extent and how can the state

apparatus in late tourism developers such as Chile, Panama or Peru attempt to stimulate tourism market activity given the current development context?

According to the World Tourism Organization, the state remains a prominent actor in tourism development for several reasons: (a) it provides the legal and institutional framework for public-private sector cooperation; (b) it creates laws and regulations to protect the environment and cultural resources; (c) it builds most of the infrastructure; (d) it promotes programs for training and education in tourism and; (e) it devises plans for tourism development (Harrison 2001b: 34). According to Elliott (1997: 8): “the public sector has a crucial role to play in providing [tourism] the necessary policy guidelines, and the environment, infrastructure and management needed in both the economic and non-economic spheres.” In a review article, Brohman (1996: 62) asserts: “without state intervention, tourism development will likely lack the cohesion and direction necessary to sustain itself over the long term.”

To shed light on the complex way in which the state remains an important actor in tourism development in a neoliberal context, Table 3.5 presents a simple theoretical outline of various state functions in tourism - minimalist and supportive.

Table 3.5: State Involvement in Tourism under a Market-Led Approach: Selected Functions

FUNDAMENTAL	SECTORAL
<p>Minimalist Functions</p> <ul style="list-style-type: none"> • General policy framework • Legislative (e.g. Rule of law, contracts, Land-use regulations) • Monetary policies • Macroeconomic stability • Political stability • Voice and accountability 	<p>Minimalist Functions</p> <ul style="list-style-type: none"> • State institutions created to deal with tourism • Sets objectives and goals for the sector • Regulator: Legislative action and protection of resources (environmental and cultural) important to tourism • Information Provider (Signaling)
<p>Supportive/Competitive Functions</p> <ul style="list-style-type: none"> • General Infrastructure in place (electricity, telecommunications) • Good public health • High degree of public order and security • Investment incentives (broad) • Educational level of society (High human capital) • Clear rules of the game. Institutional framework for foreign investment (e.g. laws, contracts). 	<p>Supportive/Competitive Functions</p> <ul style="list-style-type: none"> • Promoter: State as provisioner of tourism marketing and promotion • Financier: <ul style="list-style-type: none"> -Direct investment by state -Grants or loans at preferential rates for private sector -Special credit facilities for tourist projects • Producer of collective goods: <ul style="list-style-type: none"> -Government operated/supported tourism institutes or training -Roads/airports in tourism areas -National parks zoned for tourism

Table 3.5's first column sketches out some of the important functions of the state in shaping tourism at the fundamental level. Here, I wish to draw attention to the relationship between a country's institutional infrastructure (laws, political and macroeconomic stability, and human capital) and tourism development. Put simply, a county's institutional environment sets the boundaries that condition the viability of tourism markets. The sharp drop off of international tourism after political violence in

the Philippines (terrorist violence), Fiji (1987 coups), Egypt (terrorist attacks in early 1990s), Thailand (1992 coup) and China (Beijing's T'ian-an-men square), attest to the sensitive nature of tourism to global perceptions of internal political stability (Hall 1994: ch. 4). A more supportive function of the state at the fundamental level relates to general level of infrastructure and/or rules of the game related to the economy.

Apart from the general institutional environment, states interested in fomenting tourism get involved at the sectoral level. A basic function here is the creation of tourism-oriented state institutions, which set sector goals and regulations.⁴² States may also be important “incentive-givers” at the sectoral level. Here, states can offer a wide range of incentives to spur private tourism investment, including tax holidays, tariff exemptions, worker training subsidies to private companies, and/or special grants or loans at preferential interest rates (Wanhill 2000: 236-7). Finally, states often play an important “promotional role” in tourism. State-led promotion of tourism as Hall (1994:42) notes: “has developed because of the perceived need to promote destinations and establish a distinct destination identity and image in the market-place.” In marketing national endowments (indigenous culture, historical sites or natural resources) abroad, states can help carve out a country's comparative advantage in global tourism markets.⁴³

⁴² For example, in the context of nature and cultural tourism growth, natural and cultural tourism resources are becoming increasingly important sites for regulatory strategies of the state (Wanhill 2000: 226). Schlüter (1999) offers a nice example of how the creation and zoning of national parks has helped fuel tourism growth in Southern Argentina over the past forty years.

⁴³ Several justifications guide state-led promotional activities in tourism. For one, states claim that the local private sector lacks the coordination and/or financial resolve to provide collective promotional inputs. Also, while the private sector has an invested interest in competing for market share, the state can focus on the entire tourism market across different regions of the country, which can help spread out tourism flows across geographical space.

IMPLICATIONS FOR CASE-STUDIES

Since the post war period, tourism has become a major element of the international economy as well as a viable development option for many third world countries. While concentrated in advanced industrialized countries, international tourism has followed a pattern of spreading out over historical time. Beginning in Europe and North America and then expanding to sun-and-sea destinations of the South, international tourism has become more disperse, segmented, and specialized. Since the 1990s, changing tourism demands, lowering travel costs, technological improvements, and heightened globalization on the international level, combined with increasing political stability and the adoption of an export-oriented economic model in Latin America, have prompted the increasing use of tourism as a development tool in a wider set of countries within the region. This development is likely to be accelerated in the foreseeable future given the current pace of globalization and the diffusion of sophisticated technology in Latin American countries.

In sum, the issues raised in this chapter add credibility to my choice to examine tourism in Peru and Chile - two emerging tourism destinations in Latin America which are currently using natural and cultural-historic resources to promote tourism development. This chapter's analysis also establishes a link between tourism development and core themes raised in the general development literature. One key point is the continued importance of the state in the tourism sector, especially in the developing world context. To what extent can the state in late or "new-wave" tourism developers stimulate tourism market activity under a neoliberal approach to development? How do

domestic institutional structures mediate state activities that attempt to take advantage of unique cultural and/or natural resources? These questions are relatively open ones as little empirical research exists on this topic. The following chapters begin to address this gap by examining the interplay between the state and institutions and the emerging tourism sectors of Peru and Chile.

CHAPTER IV

STATE INVOLVEMENT IN PERUVIAN AND CHILEAN TOURISM: THE POST-WAR PERIOD TO PRESENT

The next four chapters assess the case-studies of Peruvian and Chilean tourism in a number of ways. As a departure point, this initial case-study chapter examines the problem from the most general level, sketching out the sectoral histories of tourism in each country over the past three decades and broad tendencies of state involvement therein.

At the heart of this chapter is an attempt to address two important threads of the development literature: (a) the debate about the changing developmental role of the state in the developing world context; and (b) the extent to which institutional factors act as a basis through which the state gets involved in the development process. This chapter poses two primary questions to broach these themes. First, how has state involvement in tourism in Peru and Chile evolved overtime? Tracing the sequencing of state activities in the tourism industry in each case is a useful means to explore changes in the state's role in development over historical time and extent to which states get involved in emerging industries in the global liberal period. Second, to what extent has domestic institutions, namely the institutional capacity of the state, shaped the selection and implementation of state strategies in tourism? While there are no easy answers, the following analysis

fleshes out some of the important institutional structures that have mediated patterns of state intervention in Peru's and Chile's tourism sector both in the past and currently.

This chapter's analysis is embedded in a theoretical framework that pays particular attention to general tendencies of state policy/activity in a particular industry and the extent to which institutional state structures mediate this process. I adapt the analytical categories devised in Chapter 2 (particularly Table 2.2) to assist my comparative examination of linkages between the overall state institutional system and state-tourism relations in Peru and Chile. To deepen my analysis, I also consider the general development and political context in each country.

The analysis presented in this chapter, as in those that follow, is based on a variety of evidence. One crucial source of information is over 70 key-informant interviews with public and private sector tourism leaders. Other important sources of evidence include: (a) government documents, (b) available statistics, (c) newspaper reports, and (d) my own field observations (see methodology section of Chapter 1 for more information).

The first part of this chapter sketches out the sectoral history of Peruvian tourism and state involvement therein from the 1960s-present. Three distinct patterns of state involvement are identified and elaborated upon: "interventionist", "minimalist", and "promotional." This is followed by an analysis of the interplay between the state and Chilean tourism from 1973-present. In the Chilean case, three periods of state involvement are also distinguished: "minimalist", "more active", and "toward competitive." For each case, I discuss the general thrust of state activities in tourism for

each designated phase, while at the same time, highlighting some of the important domestic and international variables that have shaped such activities. The final section offers a comparative institutional analysis of the cases.

PERU - A FIRST PHASE (1960s-1990): TOURISM UNDER A WEAK INTERVENTIONIST STATE



The first phase of state involvement in Peruvian tourism parallels the country's state-led ISI development period. In the 1960s, Peru adopted an ISI model of development, thereby reversing historical trends of minimal state involvement in an economy geared toward primary exports (Thorp and Bertram 1978). Two key factors encouraged the adoption of a state-led model of development in Peru during this

time: (a) declining growth in traditional primary exports such as mining, and (b) growing social demands linked to increasing urbanization, poverty and inequality (Wise 1997: 77).

Similar to ISI development programs in other countries, Peru's inward-looking model prompted the state to take a more active approach in the economy. To this end, the Velasco regime (1968-75) took an unprecedented producer role in the economy,

nationalizing all or parts of key industries such as *PetroPerú* (petroleum), *AeroPerú* (airline), and *MineroPerú* (mining) (CEPAL 2003). Reflecting these trends, public expenditures as a percent of GDP rose dramatically, from a 15.2 percent average during the years 1953-62 to 30 percent by 1974, rising to 40 percent by the early 1980s (Wise 1994: 80).

Against this backdrop, the state carried out a number of actions that would shape the early development of Peruvian tourism.

The Early Years

Although tourism was not a top priority during Peru's ISI period, reform of state bureaucracies during this time would signal the state's growing interest to oversee the tourism industry. To this end, Fernando Belaúnde Terry's first administration created the state-run Peruvian Tourism Company in 1964 (*La Corporación de Turismo del Perú*, COTURPERU hereafter), which quickly consolidated control of all state-owned tourism businesses such as *Hotel de Turistas*, a hotel chain administered by the National Tourism Company ENTUR-PERU (*Empresa Nacional de Turismo*).⁴⁴ Some years later in 1978, tourism would become institutionalized at the ministry level with the creation of the Ministry of Industry, Tourism, and Foreign Trade (Desforges 2000: 181). This new bureaucracy was to set the policy and rules for the industry, such as hotels, travel agencies and tour operators. Shortly thereafter, Peru added another layer of state

⁴⁴ This move gave the state more centralized control over tourism production. This state company ENTUR-PERU continued to expand and operate hotels across Peru (46 establishments) until it was privatized in 1994 by the Fujimori administration (Talavera 2003: 189).

bureaucracy to promote tourism domestically and abroad - the Tourism Promotion Fund (*Fondo de Promoción Turística*, FOPTUR).

Another prominent institutional actor to come on the scene was the National Institute of Culture (*El Instituto Nacional de Cultural*, INC hereafter), which was created in 1971 and placed under the Ministry of Education. Emerging from the notion that the state should do more to protect Peru's rich cultural-historic heritage, INC has played a central role in Peruvian tourism through the management of heritage and archeological sites. The important relationship between INC and tourism will be discussed in greater detail in the next chapter.

Aside from institutional reform, the state carried out a number of actions in tourism during the 1960s and 1970s that reflected the interventionist orientation of the state: (a) the expansion of state-run tourism oriented businesses such as national airlines and travel agencies; (b) the implementation of protectionist regulations on tourism-related markets, such as the closing of the country's internal air transport markets to foreign competition; (c) the promotion of human capital important to the tourism sector such as the National School of Tourism (*Escuela Nacional de Turismo*) and later the Center of Tourism Training (*Centro de Formación en Turismo*, CENFOTUR).⁴⁵

With that said, clearly the most "developmentalist-like" state activity in Peruvian tourism during the specified time period was *Plan COPESCO - Integral Development Plan for the Cuzco-Puno Area*.⁴⁶ In conjunction with external technical (Organization of

⁴⁵ Interview with Pablo López de Romaña, former director of *Nacional de Turismo del Peru* and former president of Consejo Superior del CENFOTUR (Lima, October 2003).

⁴⁶ Plan-COPESCO is shorthand for "Tourism and Cultural Plan of the Special Commission Peru-UNESCO". The program began in 1965 when state officials forged an alliance with UNESCO to help

American States) and financial (Inter-American Development Bank) support, Plan-COPESCO represented a relatively massive development project that aimed to spur tourism growth within the Cusco-Machu Picchu area. The first and completed stage of the project ran from 1969 to 1974 and was valued at close to US\$ 100 million, whereby the Peruvian government covered 70 percent and two Inter-American Development Bank (IDB) loans met the remaining balance. The second stage consisted of investments totaling US\$ 236 million, financed in large part by external loans.⁴⁷ Important state actions associated with these projects included: (a) constructing and paving roads (including a touristic loop linking Cusco City to the Sacred Valley), (b) building a new airport in Cusco, (c) developing transportation and electricity links in regional urban hubs, and (d) restoring archeological sites with tourism potential (Maxwell 2004: 138; Villena 2002: 82).

The consequences of such investments have proved significant as it would create the early basis for concentrating Peruvian tourism in the Cusco-Machu Picchu area.⁴⁸ In fact, even by the late 1970s, trends suggest a positive association between *Plan-COPESCO* and Peru's integration into global tourism circuits. From 1970 to 1980, foreign visitors to Machu Picchu exploded from 17,657 to 100,534 (Talavera 2003: 302).

restore the ancient ruins of Machu Picchu, which at this time did not have adequate touristic infrastructure necessary to support international tourism. During this process, the Organization of American States (OAS) financed a study to identify the potential of Peru's tourism sector (Desforges 2000). Results showed that Peru had important but underdeveloped comparative advantages in international tourism, such as Machu Picchu and Cusco.

⁴⁷ In both stages, the tourism sector would receive the bulk of COPESCO's spending (Organization of American States OAS 1977: Table 3.9).

⁴⁸ Related to Plan-COPESCO were the actions of CENFOR (natural resource management state agency). In 1978, CENFOR put forward official plans to make Machu Picchu a protected historic sanctuary under the Ministry of Agriculture. In 1981, the plan was accepted. This move is seen as a significant precursor to the designation of Machu Picchu as an official World Heritage Site in 1983 (Maxwell, 2004). Chapter 5 discusses this development and its consequences for tourism with more detail.

Meanwhile, total foreign earnings derived from tourism increased from US\$ 44 million in 1970 to \$201.6 million in 1979, increasing to almost six percent of the country's export base (ibid.: 306-307).

Despite some success, state involvement in Peruvian tourism during the 1960s and 1970s cannot be characterized as developmentalist. First, state intervention was not underpinned by a clear tourism development strategy as the kind found in Mexico during the same time period (see Clancy 2001). Rather than growing out of a comprehensive strategy, state activities in tourism were more of a reflection of the state's overall interventionist orientation toward the market, which in turn, encouraged "stop-and-go" support that did little to enhance the overall productive capacity of the sector. Second, inefficiency, corruption, and weak ties with the private sector hampered state engagement in tourism development at this time. The presence of phantom projects and estimates suggesting that only 40-50 percent of government tourism projects were in fact completed by the mid-1980s (Desforges 2000) reflect some of the problems related to the weak institutional capacity of the Peruvian state.

Peru's Lost Decade: the 1980s

While the absence of a coherent tourism development strategy was problematic for Peru's fledging tourism sector during the 1960s and 1970s, the industry would confront bigger challenges in the 1980s - a period of severe institutional, political, and economic crises.

The 1980s, Latin America's so-called lost decade, saw economic and fiscal crises in many countries; this was especially the case for Peru. Hitting crisis levels with the García administration (1985-1990), hyperinflation beset Peru and growth rates were negative for much of the late 1980s (see Table 4.1 below; also Crabtree 1992). Real income also experienced major declines as high budget deficits and international debt beleaguered government spending (Stokes 2001: 160).

Table 4.1: Macroeconomic Indicators of Peru, Selected Years 1983-1990

SELECTED INDICATORS	1983	1985	1987	1989	1990
GDP growth rate %	-12.3	2.3	8.5	-11.6	-5.4
Public sector expenditure (as % of GDP)	8.7	6.1	4.4	3.5	2.5
Annual Inflation rate (dec.-dec.)	111.2	163.4	85.8	3398.7	7481.7
Foreign Direct Investment (in \$ millions)	38	1	32	59	41
Total external debt (in \$ millions)	11,339	12,879	17,485	18,577	20,064

SOURCE: Wise (2003: Table 5.1, 213)

Such discouraging economic patterns gave way to political instability and violence through the country, most notably the anti-state Maoist movement the Shining Path (*Sendero Luminoso*). While traditionally based around Ayacucho, the Shining Path's activities expanded greatly in the late 1980s, prompting over sixty percent of the country to be placed under some form of emergency law (Desforges 2000; Palmer 1992). Peru became probably the most hazardous country in the region from the mid-1980s to early 1990s, and as a result, was considered a high-risk country for foreign tourists as well as outside investors (Marsano 2003: 152). In this context Peru's tourism industry was hit hard (see Table 4.2 below). Adding to the industry's woes was the outbreak of

cholera in Lima in 1988, the first case in the Western Hemisphere since the 1920s. In Desforges (2000: 184) words tourism: “became simply one more industry caught up in the maelstrom of political and economic chaos that ensued.”

Table 4.2: The Unravelling of Peruvian Tourism, Selected Years: 1978-1992

Year	International Tourist Arrivals	Foreign Exchange Earnings from International Tourism (in US\$ millions)
1978	293,447	169
1979	338,468	202
1985	299,958	189
1990	316,871	217
1991	229,965	225
1992	216,534	156

SOURCE: Talavera (2003), Tables 3 & 4: 298-300

To sum up, despite differences in the five distinct military and democratic administrations, the Peruvian state generally played an interventionist role in development from 1963-1990. While expanding tourism was not a top priority for any of these governments, the tourism sector experienced the kinds of involvement characteristic of interventionist state strategies - direct state involvement in production (e.g. state-run hotels), growth in state bureaucracies involved in tourism, burdensome barriers to foreign tourism investment, and the implementation of the large-scale and centralized development project Plan-COPESCO.

However, the most important factor conditioning Peruvian tourism during this time period was the country's broad institutional environment. In a context marked by a lack of political and macroeconomic stability, any public or private effort to deepen tourism development was essentially thwarted. The result was a tourism industry left well behind countries such as Mexico and Costa Rica by the early 1990s.

A SECOND PHASE (1990-2000): NEOLIBERAL REFORMS AND PERUVIAN TOURISM

A second pattern of state involvement in Peruvian tourism is linked to the country's transition to a neoliberal model of development. In the context of severe economic and political crisis stemming from the 1980s, neoliberal reforms were imposed in Peru shortly after the surprise presidential victory of Alberto Fujimori in 1990.

Pursuing a set of radical structural adjustment policies that came to be known as "Fujishock" (Crabtree 2001; Stokes 2001), Fujimori's neoliberal reforms aimed to restore macroeconomic stability, broaden the role of markets and the private sector, and reintegrate Peru in the international economic system (Wise 1997). To achieve these goals, the state drastically reduced its role in the economy. It cut back subsidies and tariffs, eased domestic price controls, opened the domestic market to foreign investment, and privatized key industries (Sheahan 1994). Trade was also liberalized. Average tariffs on imported goods dropped from 64 percent in 1985 to 15 percent in 1992 (Stokes 2001: 163) and primary and non-traditional exports such as tourism and textiles became the engine of growth. According to Abugattas (1998: 61), the implementation of such

measures was: “. . . perhaps the most intense and rapid of any Latin American country in recent times.”

As these measures took hold, together with the curtailment of political violence marked by the 1992 arrest of Abimael Guzmán the leader of the Shinning Path, the Peruvian economy started to look up. In fact, Peru enjoyed a booming economy in the mid-1990s, growing at a rate of 13 percent in 1994 and 7.5 percent in 1995 (Wise 2003b: 185). Meanwhile, inflation was brought under control and foreign investment skyrocketed as Peru became a good investment option in the international arena (Stokes 2001: 163).

A “Hands-off” Approach and Peruvian Tourism in the 1990s

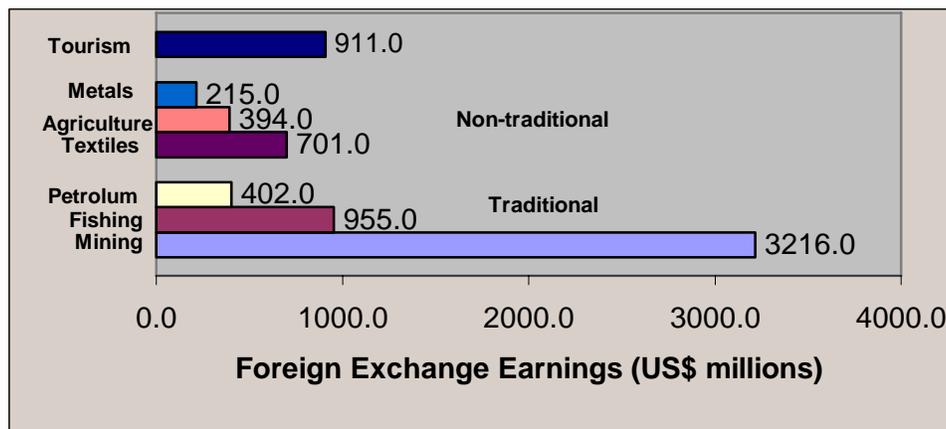
Fujimori’s “hands-off” approach to development provoked a rapid set of changes for Peruvian tourism. Aiming to give the private sector a larger role in Peruvian development, the state halted investment in tourism superstructure, as in hotels, and lifted restrictions on foreign capital.⁴⁹ Over 70 state-run enterprises were privatized by the mid-1990s, including the state-run hotel chain *Hotel de Turistas* (Speer 1993). Neoliberal reforms also had repercussions for tourism-oriented state bureaucracies. In the early 1990s, the Ministry of Industry, Tourism, Integration and Commerce (MINTINCI) reduced its payroll from 2700 to 300 (Desforges 2000: 186). Meanwhile, FOPTUR, the state agency in charge of tourism promotion for almost two decades, was

⁴⁹ After much negotiation, a large concession was also granted to a German MNC (Flughafen Frankfurt Main) to manage Peru’s main international airport in Lima, traditionally operated by the state company CORPAC. In accepting the 30-year concession from the state, the German company agreed to make a \$1.2 billion investment commitment and accepted to pay 46.5 percent of their profits to the Peruvian state. During the first year of operations, the German company paid the Peruvian state \$43 million (CEPAL 2003: 86).

dismantled and in its place a new state agency concentrated on enhancing the global competitiveness of tourism and other outward oriented sectors - PROMPERÚ (*Comisión de Promoción del Perú*).⁵⁰

During the 1990s, Peruvian tourism saw a reversal of fortune. Foreign tourist arrivals in Peru grew at an annual rate that far exceeded world averages, jumping from 216,534 in 1992 to over one million by 2000 (PROMPERU 2002).⁵¹ In the same period, foreign earnings derived from international tourism more than tripled, increasing from US\$ 156 million in 1992 to \$911 million in 2000. As a result of this growth, by 2000 international tourism was to represent Peru’s leading non-traditional export and third overall export, surpassed only by mining and fishing (see Figure 4.1 below).

Figure 4.1: Foreign Exchange Generated by Leading Export-Oriented Sectors, Peru 2000



SOURCES: Banco Central de Reserva del Peru (2001); PROMPERU (2001) and Talavera (2003: Chart #7, 305).

⁵⁰ PROMPERÚ was created in February 1993 for the purpose of promoting global competitiveness of various productive activities. One important goal of PROMPERU has been to promote Peru’s tourism industry, especially in more lucrative markets such as the USA, Germany and England (Boza 2000).

⁵¹ Within this figure, an estimated 71 percent principally visited Peru for “vacation purposes”, followed by business reasons (14%), visits to family and friends (7%), conferences and seminars (4%), health reasons (2%), and without specification (2%) (PROMPERU 2002).

Tourism's dramatic growth in Peru during the 1990s resulted from the convergence of several factors. The first has to do with the opening up of the economy to foreign investment. Given the limited nature of domestic capital and the relative underdevelopment of tourism at the beginning of the 1990s, I would argue that liberalization was an inescapable process for tourism sector growth in Peru. One result of this change has been the development of more competitive tourism services, especially in the hotel and transport sectors.⁵² For example, in the 1990s large international hotel corporations made their first big investments in Peru, such as the Hilton (\$55 million), the Marriott (\$52 million) and the Swiss run hotel Oro Verde (\$42 million) (PROMPERU 2000).⁵³

A second factor underpinning tourism growth in the recent decade relates to institutional state reforms and their impact on Peru's macroeconomic and political stability. A more predictable institutional climate made Peru more stable and safe for international tourists as well as outside investors (Chacaltana 2002; Marsano 2003: 154). Tourism growth in the 1990s can also be attributed to market forces. Surges in adventure and cultural-historical tourism worldwide during the 1990s proved a favorable trend for Peruvian tourism, which is based on showcasing unique cultural-historic resources to the lucrative markets of the USA and Europe (PROMPERU 2000b: 29).

⁵² For example, the tearing down of protectionist policies in Peru's internal transport markets promoted the diversification of internal flight routes, better customer service, more flexibility, and competitive rates for domestic flights (Talavera 2003: 236).

⁵³ Furthermore, the 1990s witnessed the entrance of a diverse set of international air carriers in Peru's external and internal air market, such as LAN-CHILE and TACA.

Does, then, the temporal association between Peru's deepest tourism expansion and the adoption of a "hands off" neoliberal approach in the 1990s suggest that strategic state involvement is an insignificant element in emerging tourism markets? There are various reasons that suggest no with respect to Peru. One argument is that tourism growth in Peru during the 1990s benefited from the existing concentration of touristic infrastructure in the Cusco-Puno area. To recall, much of this infrastructure grew out of state-led initiatives forged in the 1970s (Plan-COPESCO). In addition, Peru's tourism industry remains highly dependent on the state for infrastructure inputs, as much of the country is still characterized by poor quality roads and difficult mountain and jungle terrain, which essentially limit tourism activity to certain areas of the country (O'Hare and Barrett 1999).

Another reason is that to conclude that Peruvian tourism sector operates in a free market is a dubious assertion in itself, as there continue to be many fetters. An example is found in Peru's most important tourism resource assets, which continue to be controlled by two large and highly centralized state bureaucracies. Furthermore, given the persistence of "red-tape culture" within the Peruvian state apparatus (De Soto 1989), there remains numerous and convoluted procedures for business registration and licenses, which impose high transaction costs for formal enterprises operating in Peru's tourism market.

A final argument begins by asking whether tourism performed as well in Peru in comparison with other Latin American countries in the 1990s, e.g. Brazil, Costa Rica. While Peruvian tourism took-off in the mid-1990s, Brazil was South America's fastest

growth point during the decade. Meanwhile, Costa Rica consolidated its reputation as *the* ecological tourism destination of the region. Another crucial issue which will be taken up in the following section has to do with the mediocre performance of small local tourism producers in the context of high tourism growth rates.

A THIRD PHASE (2001-PRESENT): ENHANCING THE STATE'S PROMOTIONAL ROLE

I now consider the current thrust of state involvement in Peruvian tourism. By the early 2000s, it was clear that Peru's full fledged adoption of "going-global" had added significance to the position of tourism in the national economy and political milieu. This was reflected in President Alejandro Toledo's (2001-present) vow to: "convert tourism into one of principal pillars of Peru's development" (MINTINCI 2002: 5).

However, Peru would continue to confront a number of obstacles in using tourism as a development strategy. First, being a late-developer in tourism means that sustained tourism growth in Peru involves a gradual process of catching-up, building productive capacities and international competitiveness to contend with earlier tourism developers such as Mexico and even Costa Rica. A second obstacle relates to the increasing spatial concentration of Peruvian tourism in the Cusco-Machu Picchu area, which has provoked a number of social and environmental problems. Finally, while Peru's institutional environment improved dramatically in the 1990s, a seemingly perpetual challenge for the country remains a lack of solid political and macroeconomic stability, which continues to encourage uncertainties in tourism markets.

These obstacles coupled with accentuated domestic demands to expand economic opportunity have resulted in a more activist state approach in Peruvian tourism in the 2000s. Particularly noteworthy is recent legislative action (N°27889) underwriting the National Fund for Tourism Promotion and Development (*Fondo para la Promoción y Desarrollo Turístico Nacional*). Spearheaded by state tourism officials in 2001, this new program overcomes the traditional difficulty of finding sufficient resources to promote tourism from normal budgetary procedures by deriving its financial base from a new \$15 tax on all foreigners arriving in the country by air (MINCETUR 2003).

As a strategy to deepen tourism development, the National Fund for Tourism Promotion and Development would signal a clear departure from past, where state promotional efforts in tourism were more limited. In its first year of execution (2003), the Tourism Fund generated over US\$ 10 million and by 2005 is expected to generate \$14 to \$18 million (*El Comercio*, September 8, 2003). Such resources have prompted more concerted state support for tourism along two distinct lines (see Table 4.3 below): (1) eighty percent of the fund goes toward enhancing the promotional activities of PROMPERU, a semi-autonomous state tourism promotion division under the Ministry of Foreign Trade and Tourism (MINCETUR); (2) the remaining twenty percent underwrites the provision of touristic infrastructure through Plan-COPESCO, a division of MINCETUR. Since these activities are derived from a new tax on foreign arrivals (who most likely do not realize they pay the tax) and not directly from the national budget, the state is afforded more autonomy in pursuing related development activities.

Table 4.3: National Fund of Tourism Promotion and Development, Peru

Kind of State Action	Resources Assigned in US\$ (2003)
Promotional Activities (PROMPERU)	8,222,978
Tourism Infrastructure (COPESCO)	2,055,743
TOTAL	10,278,721

SOURCE: MINCETUR (2003).

Global Promotional Role of the State

Looking at expenditure patterns associated with the new Tourism Promotion and Development Fund, I found the enhancement of several forms of state promotional actions. For one, the state is currently conducting more market studies and gathering information on global tourism trends than previous years (MINCETUR 2003). Another aspect involves the state's enhanced participation in international tourist fairs or trade conventions, where thousands of travel agencies, tour operators, potential tourists, and the international press convene.⁵⁴ The state even paid an extra US\$ 1.2 million to host the *ITB-Berlin* in March 2004, the most important fair of the industry.

The cornerstone of Peru's new Tourism Promotion and Development Fund lies in an aggressive global marketing campaign. Toward this end, in 2003 PROMPERU spent over US\$ 5 million dollars (out of \$8 million destined for promotional activities) in

⁵⁴ Interview with Sandra Doig, Representative PROMPERU (Lima, November 2003).

marketing tourism in the United States, the country's current target market.⁵⁵ But should such a poor country spend such resources on marketing tourism abroad? State officials justify new marketing activities on development grounds, arguing that new promotional campaigns in the USA alone will generate an additional 35 to 40 thousand American tourists annually, resulting in an increase of national tourism income by US\$ 32 million (*El Comercio* September 8, 2003).

At the same time, state officials argue that the state's new global marketing campaign can help alleviate the spatial concentration of tourism in the Cusco-Machu Picchu area. In this way, PROMPERU has deliberately broadened its promotion from six to ten tourist zones by the early 2000s, including the coastal (e.g. Kuelap, Tumbes, Nasca Lines, Arequipa), Andean (e.g. Huaraz) and Amazon territories (e.g. Iquitos, Puerto Maldonado). Despite these efforts, I found that state-funded marketing materials remain focused on the Cusco-Machu Picchu area. While this is understandable given the concentration of tourism businesses in Cusco and the predominance of Machu Picchu in tourists' mental map of Peru, an enhanced promotional focus on Machu Picchu may, in the long run, create contradictions for the state as well as the private sector. For instance, the more Peru is successful in attracting international tourists through Machu Picchu and Cusco City, the more conservation problems related to the industry's concentration in this area will emerge. As one PROMPERU representative explains:

⁵⁵ Meanwhile, the state only spent \$500 thousand in all other countries combined during the same year. The medium of promotion in the US market ranged from 30-second commercials on cable outlets like the Travel Channel and CNN to advertisements in national newspapers such as the New York Times and the Washington Post.

Some have criticized us for only selling Machu Picchu, Machu Picchu, Machu Picchu. We face a dilemma. For one, we are reflecting market forces and the majority of tour operators who use Machu Picchu to sell their product. What we are trying to do, then, is capitalize on *what we are known for*, what we are recognized for ...But from there, once we attract the tourist, we can and want to encourage other destinations...”⁵⁶

Providing New Touristic Infrastructure

In addition to enhancing the state’s promotional role, Peru’s new National Tourism Promotion and Development Fund broadens the state’s role as provider of infrastructure. Supplying touristic infrastructure does not, however, imply building hotels as it once did under an import-substitution model, but instead involves strengthening the infrastructural foundation under which local actors engage in tourism production.

Table 4.4: National Tourism Development Fund, Infrastructure Projects - COPESCO, 2003

PROJECTS	Value in \$US
Conservation work on the archeological monument- Kuelap	250,000
Project Lago Titicaca	289,795
Project Amazon- Iquitos-Nauta	170,000
Commercialization and Touristic Project – Caral	180,000
Touristic Project Rajada-Tucume	150,000
Urban renewal and development of historical centers in Machu Picchu pueblo	1,015,948
TOTAL	2,055,743

SOURCE: (MINCETUR 2003).

⁵⁶ Interview with Sandra Doig, PROMPERU (Lima, November 2003).

Table 4.4 (above) summarizes state tourism infrastructure investments in 2003. One interesting aspect of the data is the placement of projects in various emerging destinations throughout the country, such as restoration work in the archeological ruins of Kuelap or small construction inputs (e.g. interpretation centers) in the Amazon region and Lake Titicaca. While such activities could help encourage the diversification of tourism away from the Cusco-Machu Picchu area, a closer look at Table 4.4 reveals a concentration of infrastructural provisions in the Machu Picchu area - over 50 percent of COPESCO's spending. On the one hand, such investment is clearly necessary given the emerging conservation and planning problems in Machu Picchu, but on the other hand, it will likely perpetuate the concentration of tourism supply and demand in Machu Picchu.

Pushing Equity Concerns Aside

The last issue to consider in this section relates to microeconomic state strategies in tourism, that is, relations between the state and the distributive dimension of tourism production. Aside from promoting products abroad and investing in public or quasi-public goods domestically, scholars increasingly point to the importance of development policies that address as Wise (2003: 293) calls it: "microeconomic challenges." These include factors of growth that have long afflicted Latin America, such as a highly skewed income distribution, poor efficiency, and lack of local firm competitiveness.

From this standpoint, some crucial gaps emerge in new state strategies in Peruvian tourism. Part of this is tied to the state's incapacity to address the growing difficulty of smaller local tourism producers to take advantage of, and benefit from, new

economic opportunities linked to tourism expansion. For example, lacking the capital and “know how” requirements, local entrepreneurs often are unable to enter or to compete in Cusco’s burgeoning tourism market. This situation is especially visible in higher-end niches (e.g. luxury hotels, fine restaurants, air, and train transport), which tend to be dominated by foreigners or elites from Lima (O’Hare and Barrett 1999; various interviews 2003).

In addition to this, dualistic tendencies between locals and non-locals are present in the country’s prime tourism labor market of Cusco. Although there are no hard data on the labor market characteristics of high-end versus low-end tourism enterprises, evidence from my interviews and fieldwork in Cusco City suggest that the higher the niche a tourism enterprise occupies the more likely its workers are drawn from the Lima or even the foreign labor pool. One reason for this is the prevailing stereotype of local human capital in the Cusco area, which is often seen as inferior to Lima. In other words, a degree from a tourism training school or university in Lima trumps its equivalent from Cusco, especially in high-end market niches such as four and five star hotels.

All of this is not to argue that there is a shortage of local producers or laborers in Peruvian tourism. Due in part to the lack of alternative economic opportunities, Peruvian tourism growth has encouraged a boom of small local tourism enterprises, which are often unregulated or informal, e.g. small hostels/hotels. This pattern is illustrated by the relative amount of one-star hotel establishments (1,312) and uncategorized lodging establishments (2,963) across the country in comparison with a total of 49 four and five star hotels (INEI 2001:567).

While the plethora of one-star hotels and informal merchants selling handicrafts around tourist centers may suggest economic benefits to a large number of locals with little capital, small tourism producers in Peru face numerous obstacles. A prime obstacle is local competitiveness in the face of growing international involvement.⁵⁷ One aspect is unequal access to financial capital between locals and foreigners. In fact, the state's broader fiscal policies have even encouraged such a dilemma. Consider Law N°26962, which exonerated foreign hotel investors from paying local taxes from 1998-2003 (Hauyón 1998:272). While this tax exemption was admittedly not very substantial as it only absolved foreign hotel investors from paying certain annual local taxes, it illustrates a problem with Peru's tourism-related fiscal policy, which has had the unintended consequence of hindering the competitiveness of local entrepreneurs who already face stiff national let alone foreign competition. The Director of Cusco's municipal tourism division viewed this situation as follows: "it is easier for a foreigner to invest than a Cuzqueño [local resident of Cusco]. Why? Because a Cuzqueño has to pay a series of local taxes to be able to invest in tourism...in contrast, a foreigner no."⁵⁸

Aside from unequal access to financial capital, a recurring problem for a typical local entrepreneur is his/her lack of "know how" and accumulated experience (when compared to elites from Lima or foreigners) to carve out more lucrative niches in the tourism market.⁵⁹ This gap - of access to information, product design, and technology -

⁵⁷ Authors own field observations in Cusco and Lima and interview with Valerio Paucarmayta Tacuri, Economist, CBC-Centro de Estudios Regionales Andinos Bartolomé de las Casas (Cusco, December 2003).

⁵⁸ Interview with Julio Campana Villa, Director of the tourism division, Municipal of Cusco (Cusco, December 2003).

⁵⁹ Moreover, there is an over supply of hotel and restaurant establishments within lower-end niches of Peru's tourism sector. One consequence of this situation is illustrated in the low occupancy rates at smaller hostels and hotels, which O'Hare and Barrett (1999) estimated to be 10-20 percent in the late 1990s.

puts local businesses at a competitive disadvantage as they attempt to compete against supralocal firms.

Taken together, my analysis raises an important question for the state in the context of tourism growth - how can local tourism enterprises and professionals surmount the entry and competitive barriers required by more established high-end tourism market niches and a more mature tourism market. As the Peruvian state along with the established private sector have yet to face this problem, local producers and tourism professionals from places like Cusco continue to fend for themselves, scrambling for the crumbs of the tourism pie.

SEQUENCING AND INSTITUTIONAL SHORTCOMINGS OF PERUVIAN TOURISM

The preceding analysis identifies three distinct patterns of state involvement in Peruvian tourism since the 1960s. The first (1960s-1990) is distinguished by interventionist state involvement, followed by Fujimori's "hands-off" minimalist approach (1990-2000). The final period (2001-present) is characterized by renewed, albeit qualitatively different kind of state support to the sector. Table 4.5 (below) summarizes these relative changes.

Table 4.5: Relative Patterns of State Intervention in Peruvian Tourism, 1960s-2004

Period	State-owned enterprises in tourism	Public provision of touristic infrastructure	Public promotional action ^a	Public sector technical support to tourism businesses	Public sector grants, loans or subsidies for tourism businesses /or related NGOs
1965-1990	High	Medium (copesco 1970s)	Very Low	No	No
1990-2000	High to Low (selling)	Low	Low	No	No
2001-2004	No	Medium (copesco)	High	No	No

SOURCE: Authors own elaboration based on interviews (2003-2004) and analysis of government documents.

No = No evidence of state activity in specified area

Low = Evidence of limited state action in specified area

Medium = Evidence of average level of state action in specified area

High = Strong Evidence of state action in specified area

^a Promotional support includes provision of market information, attendance at international trade fairs, publication of brochures and advertisements (commercials).

In retrospect, the sectoral history of Peruvian tourism shows an industry that has come far since the 1980s. Hampering the early development of tourism was the presence of macroeconomic instability and political violence perpetuated by the Shining Path, which nearly brought tourism to a screeching halt in the early 1990s. Another crucial factor has been the chaotic and inefficient nature of the state apparatus, which did little to advance any economic sector in the 1970s and 1980s, let alone a new and complex one like tourism (see Cameron and North 1998 for an example of ineffective state involvement Peru's agriculture sector during this time).

However, during the 1990s Peru's tourism sector experienced a turnaround, facilitated on the domestic front by neoliberal reforms and growing political and

socioeconomic stability; and on the international front by a shift in global tourism demands in favor of Peru's tourism resource assets. Despite significant growth rates in the 1990s, the tourism sector would need more state support and guidance if it were to truly become an integral component of Peru's development strategy. While concerted state efforts to deepen tourism expansion seemed doubtful in the face of Fujimori's "hands-off" approach, changes were to come under the Toledo administration. At this time, a lack of alternative outward oriented industries coupled with Peru's comparative advantages in global tourism prompted state involvement in ways that would clearly exceed the spirit of Fujimori's minimalist state model.

While a more active but market-friendly approach in tourism since the early 2000s points to an enhanced willingness and capacity of the Peruvian state to support emerging industries, the state's own institutional weaknesses continue to contribute to a number of crucial shortcomings in Peruvian tourism. First, the state has yet to deliver a solid rule-governed environment in which tourism markets can grow. The state vented one prominent tourism entrepreneur in Cusco: "lacks the ability to lay down clear rules, and when they do they use poor criteria to make those rules, which are anyway poorly enforced and supervised... this is a major obstacle to Peruvian tourism."⁶⁰

A second shortcoming is the state's *go-it-alone* approach, which leads to a number of deleterious consequences for the sector, e.g. an under-mobilization of resources, lack of congruency between state and private sector efforts. This is clearly illustrated in Peru's new international tourism marketing campaign, which is exclusively financed by public coffers rather than a public-private partnership arrangement as

⁶⁰ Interview with Franco Negri, Executive Manager EXPLORANDES, (Cusco, December 2003).

practiced in many countries. Such a situation, I contend, is not only a result of a limited domestic private sector, but more importantly, a lack of institutional structures enabling public-private coordination.

Promotion, however, is only part of the story. Consequently, another gap in Peru's current approach to tourism rests in the state's growth-at-all-costs orientation, that is, a preoccupation with increasing total tourist numbers without adequate consideration to the distributive or microeconomic challenges of the sector (i.e. local tourism competitiveness). Mediating this situation is an excessively centralized state with a long history of weak ties with civil society. This situation, in turn, undercuts the basis for collective action or joint-projects between the state and small local producers and/or NGOs involved in tourism development projects. Put another way, the provision of promotional inputs such as global marketing campaigns, rather than targeted support geared toward local capacity building, comes easier to a highly centralized state with weak connections with the private sector and especially civil society (e.g. NGOs). This important issue will be taken up at the end of the chapter and will become more apparent when compared against the Chilean case.

CHILE - A FIRST PHASE (1973-1989): NEGLECT THROUGH A “HANDS-OFF” APPROACH

Although it is not my objective to provide detailed historical analysis of the socioeconomic and political backdrop of Chile, a brief overview is in order. Among the



most important comparative points is that Chile was the first country in Latin America to launch far-reaching neoliberal reforms more than three decades ago (Weyland 1999). While a state-led development model characterized Chile’s immediate post World War II experience, all would change abruptly when General Pinochet Ugarte usurped Allende’s democratically elected socialist government through a military coup on September 11, 1973.

The installment of Pinochet prompted a swift move to a neoliberal approach of development and by extension a minimalist state model. At this time, Chilean economists trained at the University of Chicago, dubbed the Chicago boys, sought to integrate Chile into the global economy as rapidly as possible through a liberal free-market model (see Martínez and Díaz, 1996 for more details). In turn, many public companies were privatized, price controls lifted, agrarian reforms reversed, and trade and labor liberalization schemes imposed.⁶¹

⁶¹ However, as Weyland (1999: 90) points out: “even the Pinochet regime did not privatize the copper firm CODELCO, thus keeping the country’s decisive export sector under state control.”

An important repercussion of Pinochet's market reforms was a shift in Chile's trade orientation from a focus on internal markets to international ones. From 1974 to 1989, exports as percent of Chile's GDP increased from 20.4 to 32.0 percent and during the same period the number of exporters grew from 200 to 3,465 (Martínez and Díaz 1996: Tables 2&3). Meanwhile, the country's export-income ratio grew from 11 percent in 1970 to 22 percent in 1980 to over 30 percent by 1990 (Mesner 1993). Tied to this was the expansion of non-traditional resource-intensive exports, such as forestry, fishery and agricultural products (Ffrench-Davis 2002; Weyland 1999: 75).⁶²

Tourism Patterns under Pinochet and Factors Conditioning Them

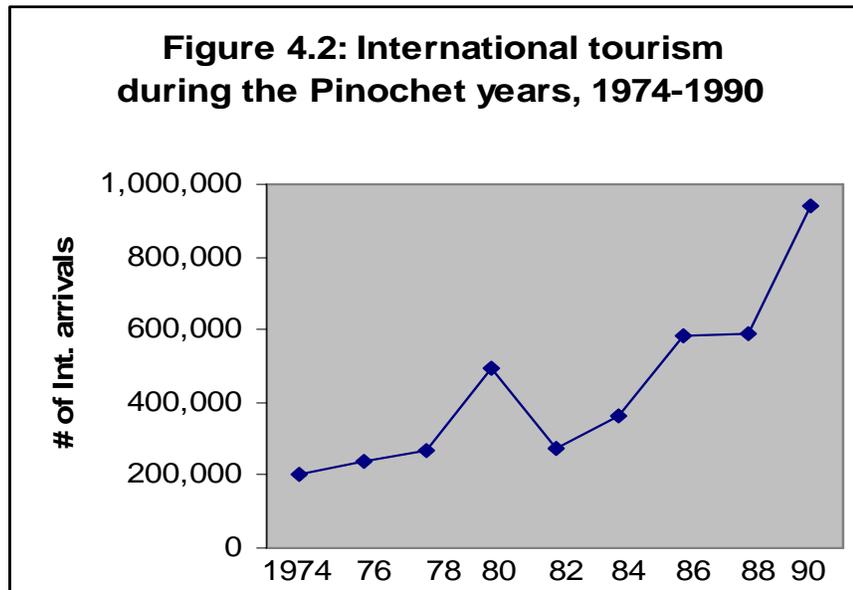
During the Pinochet regime (1973-1990), the state took a decidedly "hands-off" approach toward Chilean tourism.⁶³ A number of institutional reforms related to this are worth noting. One prominent reform was Law N° 1.224, which created the National Tourism Bureau (*Servicio Nacional de Turismo*, SERNATUR hereafter) in 1975 under the Ministry of the Economy (SERNATUR 1998). Replacing *la Dirección de Turismo* formed in 1960, SERNATUR was to: "orient the development of tourism in Chile, stimulating the competitiveness and transparency of the touristic market" (ibid: 33).

Pinochet's administration would also overhaul the National Forest Corporation (*Corporación Nacional Forestal*, CONAF) located under the Ministry of Agriculture.

⁶² Facing debt crisis and economic instability under the world economic recession and oil crisis of the early 1980s, Chile implemented an adjustment model that would modify market reforms of the early 1970s. At this time, the state was to begin to taking a more hands on approach in development, creating incentives for foreign investment and exports instead of just controlling inflation (Sheahan 1997).

⁶³ Under Pinochet's administration, state-run hotels and transportation enterprises were quickly privatized.

While not specifically created to deal with tourism, CONAF was to become increasingly important to Chilean tourism as it was to manage natural resources and protected areas with the dual mandate to promote conservation while developing forest resources. Most notable for the tourism sector was the formation of the National System of State Protected Areas in 1984 (Law N° 18.362), which would create the regulatory framework underpinning some of Chile's most salient comparative advantages in tourism in the contemporary period.



SOURCE: Servicio Nacional de Turismo (cited in Vivallo, 1994:106).

By and large, Chile was left out of the global tourism boom from the 1970s-1988 (see Figure 4.2 above). In the 1970s, international tourism arrivals in Chile stagnated, and from 1980-1982 foreign arrivals actually decreased around 44 percent due in part to the international oil crisis and economic recession. By the late 1980s, foreign arrivals began increasing at an improved rate of growth, but the country's tourism sector

remained effectively noncompetitive internationally, especially in more lucrative long-haul markets (i.e. Europe, USA). In this context, Chile's tourism industry would lag behind its more successful neighbor Argentina, which would host two times more (2 million) foreign tourists than Chile by 1990 (WTOUR 2001: 33).⁶⁴

Several political and institutional factors help explain Chile's failure to capture a larger share of international tourists and tourism investment during this period. Aside from the distance constraint (Chile is far from high tourist-emitting countries), a primary obstacle was the country's negative international image during the 1970s and 1980s. Under military rule, it is reasonable to assume that many would-be international tourists and potential investors saw Chile as an unattractive tourism destination. The national director of Chile's adventure-tourism business association CATA corroborated this assertion during an interview: "we were a country under a dictator and thus not attractive to many long-haul travelers, especially in Europe."⁶⁵

A lack of supportive state policies also go a long way in explaining the lackluster performance of Chile's tourism sector from 1970s-1989. This explanation is pointed out in SERNATUR's 1990 publication *National Tourism Policy*, which links Chile's mediocre tourism performance in the 1980s to the absence of state leadership and poor record of promoting tourism abroad. Argentina, a country with much stronger international tourism growth in the 1980s, is cited as a case where the state invested much more in developing tourism than Chile. Related, the state took little interest in promoting

⁶⁴ Still, it should be noted that Chile hosted about twice as many foreign arrivals as Peru did by the end of the 1980s. Much of this difference can be attributed to Chile's strong links with Argentina, which comprised more than half of all foreign arrivals in Chile during the 1980s (Vivallo 1994: 106).

⁶⁵ Interview with Cristina Sánchez, President of CATA, (Santiago, January 2004).

nature tourism. According to many public and private sector interviewees, most national parks in Chile during the 1970s and 1980s were seen as closed islands with little infrastructure and incentive for tourism investment.

All told, Pinochet's administration showed a lack of interest in supporting tourism development. In addition to the state's hands off orientation to development, a prominent factor explaining this situation lies in the success of both traditional and non-traditional resource-intensive exports during the 1980s, which made it less likely that tourism would be considered an important component of Chile's external sector. The end result was an underdeveloped industry by the late 1980s.

A SECOND PHASE (1989-MID-1990s): DEMOCRACY AND INCREMENTAL SUPPORT FOR CHILEAN TOURISM

Moving from military to democratic rule in 1989-90, Chile's economic strategy shifted to a second phase of neoliberal reforms marked by a more active state approach to the country's insertion in the global marketplace (Messner 1993). This does not mean that Chile was to follow the East Asian model. As Weyland (1999: 76) notes:

This intermediate option between a free-market model and a heavily state-interventionist strategy would build on Chile's current advantages...yet over time would improve those competitive advantages by adding physical capacity, technology, and human capital to production processes. International markets, not the state, would decide what specific products Chile could export most profitably, but the state would promote export development. It would supply infrastructure, technology, investment capital...working training, and general education inside Chile and would promote Chilean products..."

Against this backdrop, a second pattern of state involvement in Chilean tourism can be distinguished (1990-mid-1990s), when tourism would gradually but not fully become incorporated into Chile's broader competitive strategy. Illustrative of a more activist state approach in tourism during this time were changes to the state's global promotional role. Recognizing the fact that Chile needed to play catch up in international tourism markets, in 1994 state tourism leaders spearheaded the creation of a mixed public/private organization specifically dedicated to promoting Chilean tourism abroad - The Tourism Promotion Corporation of Chile (*Corporación de Promoción Turística de Chile*, CPT hereafter).⁶⁶ The creation of CPT would not only signal a more significant public push to promote tourism but also reflect the beginnings of Chile's public-private partnership approach in the sector. Instead of assuming a "go-it-alone" approach to global marketing as in Peru, the Chilean state leveraged its own investments to foster private sector commitments to global promotion. Consequently, CPT's budget was to draw from a mixed public/private fund, roughly 51 percent from the private sector and 49 percent from the public (CPT 2002: 40). The benefits of this public-private partnership arrangement were clear in the view of CPT's current president:

The advantage of the mixed management is to bring together both public and private actors, who originally came from environments where they were not well understood... So when we sat down and thought about how to provide a unique image of Chile when we go out to do promotion, we were able to synergize our costs in order to make our dollars more effective.⁶⁷

⁶⁶ Interview with Helen Kouyoumdjian, President of CPT (Corporacion de Promocion Turistica-Chile), (Santiago, January 2004).

⁶⁷ Interview: *ibid.*

The Numbers: Tourism Growth in Chile, 1989 to Mid-1990s

From 1989 to mid-1990s, Chilean tourism experienced a boom. From 1989 to 1995, international tourist arrivals grew a total of 93.1 percent, an annual average of 11.6 percent, and by 1996 the country was to host over 1.4 million international tourists (SERNATUR 2002). As a result of this growth, foreign earnings from international tourism shot up from US\$ 123 million in 1985 to \$ 900 million by 1995 (SERNATUR 2002; WTOUR 2003). Meanwhile on the domestic front, strong national economic growth in the 1990s and a growing professional class with better access to credit, private vehicles, and employment strengthened Chile's domestic holiday market. Second-homes and resorts catering to urban elites began to spring up in areas such as the Lake District in the south (9th and 10th regions).

Facilitated by Chile's peaceful transition to democracy, private tourism investment also grew substantially during this time. Between 1990 and 1995 private tourism investment totaled a significant US\$ 817 million (SERNATUR 2002b). A significant portion of this new investment is linked to an influx of foreign capital, more specifically the construction of multinational hotel chains such as the Hyatt, Holiday Inn, Sonesta, Radisson and Best Western. While concentrated in metropolitan Santiago, tourism investment has also favored some peripheral areas, most notably the Atacama region in the north and Lake District and Patagonia regions of the south (SERNATUR 1999: 5).

Despite this growth, Chile's tourism industry had yet to consolidate the global tourism market niches that similarly positioned countries had occupied since the late

1980s (e.g. the nature and adventure tourism markets of Costa Rica, New Zealand).

Awareness of this situation, coupled with the consolidation of the government's competitive and growth-with-equity agenda, prompted a third and the current pattern of state involvement in Chilean tourism.

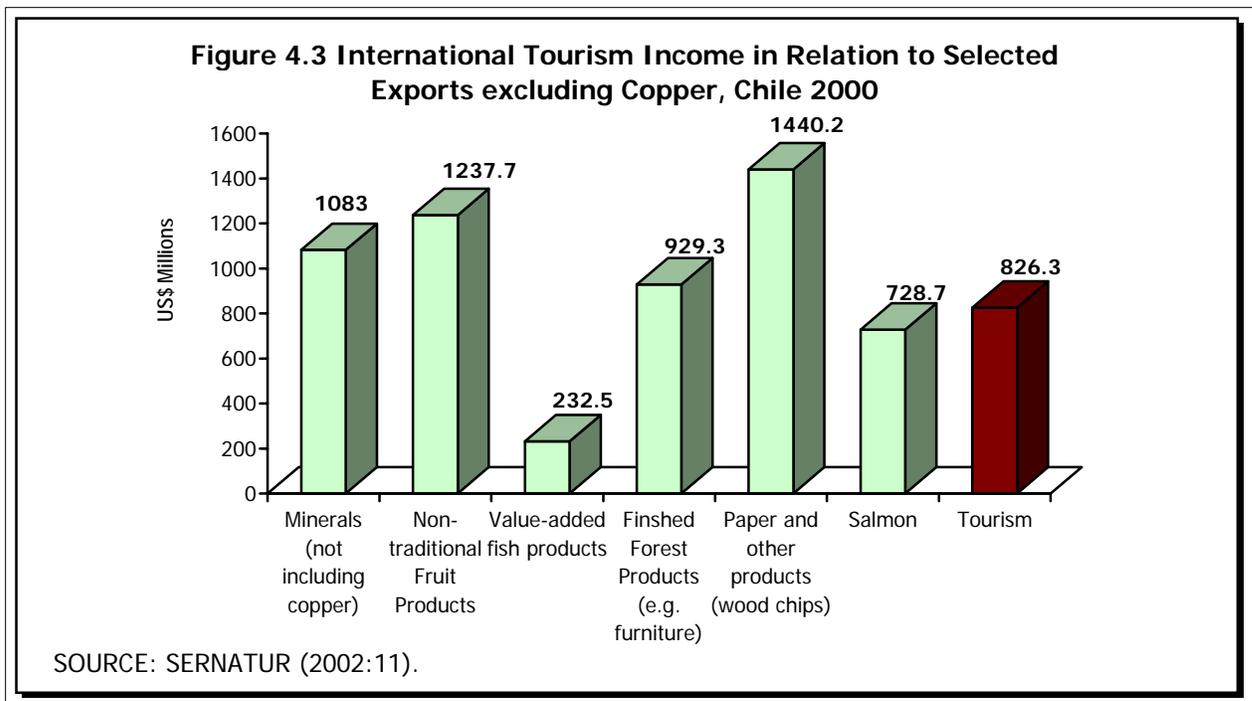
A THIRD PHASE (1997-PRESENT): A MORE COMPETITIVE STATE IN CHILEAN TOURISM

While the early to mid-1990s brought more active state support to tourism, it was not until the late 1990s that tourism would begin to be more fully incorporated into Chile's larger competitive strategy of development. Forces driving this situation relate to tourism's growing weight in the national economy combined with a shift in global tourism trends in favor of Chile's comparative advantages in nature tourism. Put bluntly by one private sector tourism leader: "there were good foreign exchange earnings in tourism and for that reason the government has opened its eyes to the potential of the industry ..."⁶⁸

During the 1990s, international arrival growth in Chile was to outpace global growth rates (Chile: 6.3% / World: 4.3%). By 2000, Chile would host over 1.7 million international tourists, which generated US\$ 826 million in foreign revenues in 2000, equivalent to approximately 4.6 percent of total exports by economic sectors (SERNATUR 2003: 9). In comparison with other exports (see Figure 4.3 below), tourism income represented 11.3 percent of foreign exchange derived from copper exports (Chile's number one export), 76.3 percent of all other mineral exports, 66.8

⁶⁸ Interview with Cristina Sánchez, President of CATA, (Santiago, January 2004).

percent of fruit products and 88.9 percent of forest products (Banco Central de Chile cited in SERNATUR 2001: 14-15). With respect to employment, estimates suggest that tourism activity accounted for 159,000 direct jobs in Chile in 2000, twice the amount of employment generated by the mining industry and more than twelve times of Chile's famous salmon industry, which employs approximately 12,000 people (SERNATUR 2002: 11).



While expanding, Chilean tourism currently faces several obstacles that should be noted. For one, it remains highly segmented internationally. In 2002, approximately 67.4 percent of all Chile's international arrivals were short-haul or regional tourists, originating mainly Argentina followed by Brazil (SERNATUR 2003: 4-6). More lucrative markets such as the United States and Europe, while having increased their

share in recent years, comprised 25 percent of all foreign tourists in Chile. However, because North American and European tourists tend to spend more, they contributed almost 50 percent of all foreign earnings derived from tourism in 2002 (SERNATUR 2003: table 1, 5). Other obstacles for the industry are found in nature tourism niche, which remains relatively underdeveloped and under promoted internationally. The combination of these trends helped bring about more active state involvement in Chilean tourism in recent years.⁶⁹ Let us take a closer look.

The Contemporary Climate

So, then, what is new since the late 1990s? To begin with, the Chilean state is playing a more active global promotional role than years past, increasing “image-making” funding to CPT from approximately US\$ 800 thousand in the late 1990s to over \$2.2 million in 2002 (SERNATUR 2002: 15). Combined with an increase in private sector contributions, the Tourism Promotion Corporation of Chile was to operate under a US\$ 4.5 million budget in 2002, the largest promotional budget for tourism in history (CPT 2002). Such resources have enabled CPT to advance a more aggressive global marketing strategy focused on long-haul tourism markets in Europe (Spain, Germany, United Kingdom) followed by the United States (CPT 2002: 43).⁷⁰

⁶⁹ It shifting to a more active approach in tourism, it is helpful to note that state officials in Chile are able to draw on numerous comparative advantages not present in Peru. For one, Chilean tourism is facilitated by the country’s more modern transportation infrastructure, which has received substantial public and private investment in the past decade. When compared to Peru, the Chilean state also has numerous institutional advantages, which become clear in the following section.

⁷⁰ While CPT’s 1999-2003 budget was a relatively promising sign for the industry, it should be noted that state investment in the promotion of Chilean tourism lags behind other countries. For example, while private (51%)/public (49%) contributions pushed the Chile’s total global promotional budget to over \$4.5 million in 2002, Argentina spent \$13 million, Brazil \$30 million, Costa Rica \$7 million, Peru \$8 million, and New Zealand \$45 million (*El Mercurio*: July, 26 2001).

Another recent innovation in state tourism strategies involves the formulation of a quality program, which provides guidelines to help enhance the overall supply of the industry. A comprehensive plan is presented in the 2000 publication *Integral Plan of Touristic Quality in Chile: 2001-2006*, which identifies five thematic clusters:

- Strategy to develop human capital in the sector;
 - Strategy to promote better management of service quality in tourism;
 - Strategy to promote the sustainability of Chile's tourism destinations;
 - Strategy to develop and diversify the industry's products; and
 - Strategy to position the image of Chilean tourism abroad (marketing)
- (SERNATUR 2000: 18).

The state has also intensified its role as information provider. A comparison of available tourism statistics and market information provided by the state in Peru and Chile shows that Chile offers almost double the amount of studies than Peru.⁷¹ Also reflecting the state's growing interest are efforts to facilitate better coordination among public and private institutions involved in tourism. To this end, SERNATUR's Secretary Oscar Santelices, who was appointed by Lagos's administration (2000-present), quickly created a Tourism Working Group (*Mesa de Trabajo del Turismo*). Consisting of over 150 public and private representatives, the Tourism Working Groups' first action resulted in the adoption of a 14-point agenda, which would guide future tourism policy and initiatives across the public-private divide.⁷²

⁷¹ In addition to stepping up the provision of market information, SERNATUR recently launched an initiative that promotes domestic tourism for the elderly (*Vacaciones Tercera Edad/Vacations for Seniors*) in an attempt to offset the seasonality of Chilean tourism, which is normally low from July through October.

⁷² One prominent component of the new agenda calls for more state promotion of Chilean tourism. While moving up the state hierarchy in recent years, Chile's National Tourism Bureau continues to vie for more political clout within the general state apparatus.

Aside from SERNATUR, new types of targeted intervention in Chilean tourism have emerged in response to recent favorable market trends.

Advancing Tourism Growth and Equity Concerns through Targeted Programs

The final element to consider in this section relates to the activities of a number of meso-level state development agencies since the late 1990s. As noted in the previous section on Peru, relations between the state and tourism markets can go well beyond the provision of global promotional campaigns, policy guidelines, and infrastructure. A case in point is illustrated by various Chilean state agencies (e.g. CORFO, SERCOTEC, INDAP, and FOSIS), which have recently taken a more activist approach to improving different social groups' capacity to take advantage of new economic opportunities afforded by tourism growth. The recent activities of these agencies, as we shall see, contrast nicely with the Peruvian case, where state involvement in tourism is more economic, distant (from civil society), centralized, and located in a few specific state agencies.

Constituting the first example is the Chilean Economic Development Agency (*La Corporación de Fomento y Producción*, CORFO hereafter).⁷³ Since Chile's democratic transition in 1990, CORFO has undergone a major overhaul, becoming focused on improving the competitiveness of small and medium-sized firms engaged in export-

⁷³ Established in the 1939, CORFO began as a national development bank and was responsible for the administration of key state enterprises during Chile's ISI period; such as the National Electric Company (ENDESA), the National Petroleum Company (ENAP), and the Pacific Steel Company (CAP). As a response to Pinochet's neoliberal economic strategies, CORFO assumed a market-oriented approach (Perez-Aleman 2000).

oriented activities (Duquette 1998). While CORFO's mandate is multi-sectoral and does not have an *a priori* tourism budget, the agency has become more involved in the sector in recent years. A good indicator of this is CORFO's 2003 portfolio of *Proyectos Asociativa de Fomento* (Development Projects, Profos hereafter); out of approximately 400 Profos in execution in 2003 fifty percent were involved in agriculture and around five percent in tourism. While this may not appear favorable for tourism on the surface, such a distribution reflects enhanced state support for small and medium-sized tourism businesses explains an executive manager in CORFO: "ten years ago practically no Profos were operating in the tourism sector."⁷⁴

In tourism as in other sectors, Profos consist of provisions that can be characterized as business development services - consulting, technological development, and business networking programs (Castillo and Nelson 2003: 71). A national program director of CORFO elaborates: "we help enterprises with the knowledge aspect of their business... we ask them [entrepreneurs] to identify their problems...we help them improve management issues and identify strategies to grow their business..."⁷⁵ A key institutional element facilitating such provisions is public-private collaboration. Development projects, which typically last for three years, are even partly financed by participating private firms; CORFO typically funds 70 percent in the first year, 60 in the second and 50 in the final year.

Similar patterns of state involvement are found in *El Servicio de Cooperación Técnica* (Technical Co-operation Agency, SERCOTEC hereafter). An affiliate of

⁷⁴ Interview with Mauricio Silva Celis, Executive of Fomento, Corporación de fomento de la producción CORFO (Santiago, January 2004).

⁷⁵ Ibid.

CORFO, SERCOTEC's principal mission is to improve the organizational, technological, and knowledge aspects of micro-enterprises. Since the late 1990s, there has been a clear strengthening between SERCOTEC and the tourism sector. In working with tourism micro-enterprises, SERCOTEC provides several types of developmental inputs that again depend on public-private ties. The agency provides business services such consulting and worker training workshops. SERCOTEC's programs also aim to build social capital between similarly situated micro-enterprises. The idea is to improve the organizational capacity and networks between similarly positioned businesses so that they can work with each other, exchange information, and build competitiveness in a collaborative manner (SERCOTEC 2001).⁷⁶

Another salient example entails the new National Rural Tourism Program (*El Programa Nacional de Turismo Rural*), which is administered through INDAP (*El Instituto de Desarrollo Agropecuario*) under the Ministry of Agriculture.⁷⁷ Created in 1962, INDAP aims to facilitate, develop, and modernize productive activity in Chile's rural milieu. While tourism has not been a traditional component of INDAP's mandate, favorable rural tourism trends encouraged the agency to spearhead a national rural tourism program in the later half of the 1990s. Seeking to facilitate rural development alternatives at a time when many smaller farmers in Chile face economic difficulty, INDAP's Rural Tourism Program has ambitious objectives. These include: (a) to

⁷⁶ In 1999, SERCOTEC granted assistance to approximately 665 tourism enterprises over the entire national territory (SERNATUR 2001b).

⁷⁷ The following discussion draws from the author's interviews with representatives from INDAP in Santiago, Temuco, and Puerto Montt.

diversify and provide a supplement to farm income; (b) to help generate new rural employment alternatives; and (c) to foster small business development in rural tourism.

Through a competitive grant-like process, the National Rural Tourism program targets agricultural families seeking to improve or set up complementary tourism-related enterprises. Interventions are typically channeled through rural tourism networks, which are: “organizations of small tourism entrepreneurs that work together on a project.”⁷⁸ INDAP provides technical assistance (consulting), small loans at below market interest rates, small seed grants, and training programs in areas such as accounting and hospitality skills. INDAP also produces a number of marketing materials on behalf of the program’s participants such as glossy brochures, booklets, and a nice webpage (see www.viajesrurales.cl).

Although relatively new, Chile’s rural tourism program illustrates a state initiative that has fostered the emergence of entrepreneurial groups that: “probably would not have existed without the push and support of INDAP.”⁷⁹ Although profits tend to be low, interviews with program managers and some beneficiaries suggest that the program has helped improve the quality of life for many of its participants, while at the same time, encouraging environmental conservation and revalorization of rural heritage.⁸⁰

⁷⁸ Interview with Luis Martínez Figueroa, Executive Director National Rural Tourism Program, INDAP (Santiago, January 2004).

⁷⁹ Interview with Ricardo A. Salinas Guerrero, Region X Director of Rural Tourism Program, INDAP (Puerto Montt, February 2004).

⁸⁰ Author’s interview with Mapuche woman Irena Huache Meliqueo, proprietor of *Weche Ruka*, is a prime example of the positive potential of INDAP’s rural tourism program. Starting a small bed-and-breakfast in a traditional Mapuche community outside of Temuco with the support of INDAP, the interviewee claims that the income generated from this activity, although modest, is an important complement to her yearly income. She also claims that being a small tourism provider is a good opportunity for her and the community to share Mapuche culture with ‘outsiders.’

The Social Solidarity and Investment Fund (*Fondo de Solidaridad e Inversión Social*, FOSIS hereafter) is yet another state agency that has become more active in promoting the tourism sector. FOSIS is a major social policy state institution in Chile and focuses on combating poverty through targeted programs. While tourism certainly is not a principal focus of FOSIS' programs (such as health), the agency has come to see tourism as a vehicle to foster rural employment opportunities for disadvantaged groups. As a result, there has been an increase in FOSIS-related tourism development projects since the late 1990s (Schaerer and Dirven 2001: 42). One example of this is FOSIS' Rural Tourism pilot program in the region of Los Lagos, which aims to help local inhabitants: "begin working in tourism with the little resources that they possess, improving the infrastructure little by little, and in this way generating new sources of employment" (FOSIS and DED 2003). To achieve such goals, the program has offered technical support, training workshops, and small infrastructure grants to local governments and inhabitants.⁸¹

⁸¹ Interview with Loreto Cerda Mena, Tourism Consultant, FOSIS- 10 region (Puerto Montt, February 2004).

Table 4.6: Selected ‘Targeted’ State Programs that Impact Tourism

State Agency	Broad Objectives	Instruments/Support	Targeted Actors in Tourism	+ support in tourism since
CORFO	Co-finance actions that improve the competitiveness of small to medium-sized enterprises in strategic sectors	a) Technical assistance b) Enterprise networking c) Technological development	Small to medium-sized enterprises	Late 1990s
SERCO-TEC	Co-finance actions that improve the capacities and competitiveness of micro-enterprises in strategic sectors	a) Technical assistance b) Network building (INFOCENTROS) c) Targeted subsidies/grants to support technology transfer	Micro enterprises	Late 1990s
INDAP	National Rural Tourism Program. Encourage rural tourism development and promote alternative income sources for rural families/youth	a) Technical assistance b) Small low interest loans or seed grants c) Marketing inputs d) Training programs	Rural inhabitants (agricultural families)	Late 1990s
FOSIS	Provide employment opportunities for local inhabitants with little resources. E.g. Rural Tourism of FOSIS—pilot program in the 10 th region.	a) Small infrastructure inputs b) Training workshops c) Technical advice to clients and local govns.	Disadvantaged groups and/or NGOs	Late 1990s/ Early 2000s

SOURCES: Authors elaboration based on semi-structured interviews (2004) and analysis of government documents.

SEQUENCING AND INSTITUTIONAL FOUNDATIONS OF CHILEAN TOURISM

Despite being an early developer in Latin America (Roberts 1995), Chile is a late developer in tourism. One pivotal domestic factor hampering significant tourism expansion during the 1970s and 1980s was national politics. Pinochet’s violent military coup and ensuing dictatorship for obvious reasons made Chile less attractive to potential

European and American tourists as well as investors. Another factor was relatively sluggish state support for the sector due to Pinochet's "hands-off" orientation combined with the success of other non-traditional exports such as forestry and agricultural products.

While the Chilean state has been slow to demonstrate its resolve to back tourism, it has clearly intensified support for tourism in recent years. This change has been prompted by processes on the international front, e.g. global tourism demands trending in favor of Chile's natural resources; combined with the domestic front; e.g. increasing state support for non-traditional outward looking sectors. While narrow neoliberal perspectives of development generally imply that states follow a pattern of less and less intervention in the economy overtime, the present analysis suggests that favorable market forces have triggered more not less state involvement in Chilean tourism. Put another way, while the Chilean state has not led the tourism market, it has begun to actively respond to it. Table 4.7 (below) summarizes these changes.

Table 4.7 Relative Patterns of State Intervention in Chilean Tourism, 1973-2004

Period	State-owned enterprises in tourism	State provision of touristic infrastructure	State promotional action in tourism ^a	State technical support to small tourism businesses	State offers grants, loans or subsidies for small tourism bus. or NGOs
1973-1990	No (quick privatization)	Low	Low	No	No
1990-1997	No	Low	Low	Low	Low
1998-present	No	Medium	Medium	Medium to High	Medium and increasing (e.g. CORFO, NGOs)

SOURCE: Authors own elaboration based on interviews and government documents.

No= No evidence of state activity in specified area

Low= Evidence of limited state action in specified area

Medium= Evidence of average level of state action in specified area

High= Strong evidence of state action in specified area

^a Promotional support includes provision of market information, attendance at trade fairs, publication of brochures and advertisements (commercials).

Interestingly, new state involvement in Chilean tourism is not characteristic of an interventionist nor minimalist state model, but rather a competitive one, where public provisions are geared toward supporting private initiative, efficiency, and local competitiveness. Such involvement is dependent on particular state institutional structures; for example, public-private ties at the elite and non-elite level have acted as the basis through which state intervention in Chilean tourism has been, and is, articulated. On the elite side, the state's global promotional role in tourism is contingent on alliances with established private sector groups, such as the airline group LAN-CHILE. Partnerships also seem to be increasing between the state and non-elite social groups. Productive ties between state officials and small and medium-sized tourism businesses, for example, make the implementation of CORFO's and SERCOTEC's programs

possible. At the same time, more socially grounded tourism development initiatives, such as the National Rural Tourism Program, relies on collaborative relations between state officials and ordinary or disadvantaged actors.

While the result of such types of intervention will certainly be less spectacular than the creation of a large international tourism hub like Cancun, it is in some ways more complex. For instance, sharing a global promotional role with the private sector may not be feasible in a country without institutional structures facilitating public-private partnerships. Likewise, targeted public provisions aimed at building the capacities of local tourism producers would not come easy in a context marked by an absence of established structural ties and trust between the state and ordinary societal actors, at the central and sub-national level.

TOWARDS A MORE ACTIVE NEOLIBERAL STATE?

While case studies render a limited ability to generalize, the sequencing of state involvement in Peruvian and Chilean tourism over the past three decades offers important insights for development thinking. On the similarity side, this chapter shows a marked difference between state tourism strategies of earlier periods and the contemporary situation. One common feature of the two countries is that supportive public action in tourism has not been rolled back as market-oriented policies have matured but rather intensified, albeit differently in each country. Put another way, the unfolding of the neoliberal project in both countries has not weakened state support for new productive activities, but instead has made coherent state responses more necessary as the private

sector and civil society have been forced to grapple with increasing globalization and economic realities. This leads us to consider the flexible and perhaps opportunistic, rather than hand-tied manner in which states respond to global market forces under a neoliberal framework.

This basic commonality lends support to the picture of the state and Third World development presented in recent literature, particularly Wise's (2003) three-pronged model of state development approaches (interventionist, minimalist, competitive) in Latin America. Indeed, state approaches in tourism across both countries passed through an interventionist period (Peru 1960s-1990, Chile pre-1973), followed by a "hands-off" one (Peru 1990-2001, Chile 1973-mid-1990s), and finally the current period where public provisions share the quality of being more supportive to the industry. This convergence can be linked to the interplay of three fundamental factors: (1) the current economic context, which privileges non-traditional export development; (2) the modernization and the institutional reform of the state, which encourages more efficient state intervention in emerging niches such as tourism; (3) the shift in global tourism demands in favor of Peru's and Chile's resource assets.

With that said, such responses – their selection, style, and implementation - are bounded by domestic institutional structures through which development strategies are articulated. With respect to the current period, this relationship can be seen in Peru's standard *go-it-alone* approach as against Chile's *public-private partnership* one.

To tease out this characterization, let us begin by looking at global marketing, a role which both states have intensified in recent years. In Peru, global promotional

provisions in tourism do not come from the private sector, but from the state. While such intervention has responded to Peru's limited domestic private sector, which may not have the capital or the organizational capacity to forge collective pushes to advance tourism, it is also reflective of weak state-society relations.⁸² While improved, public-private dialogue related to Peruvian tourism is typically characterized by meetings where state officials and elite private sector tourism actors discuss their own views on the sector, without productive collaboration. This was reinforced by the vast majority of private sector agents I interviewed in Peru, who generally view state officials as isolated bureaucrats that pay lip service to the domestic private sector, but rarely strive to create new alliances with them. Such a situation can be seen as a missed opportunity for public-private synergy, which could provide the basis for more robust and efficient global promotional inputs in Peruvian tourism.⁸³

By contrast is the public-private partnership approach to global marketing of Chilean tourism. While still limited compared to other countries, global promotional inputs have increased substantially in tourism since the mid-1990s thanks to public-private collaboration channeled through the Tourism Promotion Corporation of Chile. The payoff of public-private ties here is not only the mobilization of scarce resources, but also a more coordinated and participative framework to promote the country as a tourism

⁸² This situation, however, is certainly not unique to the tourism sector nor is it a new trend in Peru. Wise (1994: 77) has noted that since the adoption of the ISI model of development in the 1960s relations started "...to turn sour between the state and the private sector...".

⁸³ However, it should be pointed out that with respect to dollar value the Peruvian state currently provides more by way of resources for global marketing of tourism than does its Chilean counterpart. This difference is explained in part by the fact that promotion resources in Peru come from a tax on foreign travelers (not the central budget) and by the strong belief of state officials that global marketing is the key factor in increasing total tourist numbers.

destination. The President of the tourism division of Chile's National Chamber of Commerce, Services, and Tourism (CONSETUR) reinforces this idea:

Nowadays, there is cohesion in the sector that works directly with tourism. Private and public agents have strong relationships... SERNATUR is our partner and in that there is a very strong relationship that I believe allows us to advance many things.⁸⁴

This leads us to a final and perhaps more crucial distinction between current state involvement in tourism across my two case-studies - that of standard (Peru) versus competitive (Chile). With regard to Peru, a standard approach in tourism refers to the state's failure to combine new forms of promotional support with microeconomic policies (see Table 4.8 below). On the whole, the Peruvian state has demonstrated little capacity to pursue targeted policies in tourism of the kind found in Chile. Contributing to this deficiency is an absence of productive ties between the Peruvian state and societal actors coupled with the excessively centralized nature of the state apparatus.⁸⁵ As Wise (1997: 89) has noted: "...when compared with most of its neighbors in the large middle-income Latin American states, Peru is off to perhaps the latest start of all in attempting to launch a more constructive and productive working alliance between the state and domestic capitalists."

One consequence of this situation is a lack of any support toward tackling the problem of local producer competitiveness (e.g. access to information, product design, and technology). The long-run risk of such a situation is that local tourism producers will

⁸⁴ Interview with Bárbara Aubert Ferrer, President CONSETUR (Santiago, January 2004).

⁸⁵ The socioeconomic and development context of Peru could also be mentioned as a constraining factor. Being a low-income country, one of the poorest in Latin America, tourism and other economic activities remain a lower priority (especially for international aid) than critical social issues such as health, education, and basic infrastructure.

be even more likely to be squeezed out of the market as tourism grows, and in turn, non-local entrepreneurs with more financial capital and know-how enter the market. In the scenario, tourism could become a major part of the Peruvian economy without contributing to meaningful development.

**Table 4.8: Standard versus Competitive State Approach:
The Case of Tourism in Contemporary Peru and Chile**

PERIOD	Promotional Policy in Tourism		State & Society Links in Tourism	
	<u>Standard</u> Generic Liberalization	<u>Competitive</u> Global promotion of tourism: Tax incentives, credits, subsidies, and/or technical assistance to support local tourism producers.	<u>Standard</u> Weak links between state, business, civil society, and NGOs in tourism	<u>Competitive</u> Strong links between state, business, civil society (e.g. NGOs) involved in tourism
Chile 1974-1990	†	Low	†	----
Chile 1990-1998	†	Partial	Partial	Partial
Chile 1998-present	†	†	----	†
Peru 1974-1990	----	Low*	†	----
Peru 1990-2000	†	Partial (promotion)	†	----
Peru 2000- present	†	Partial (promotion)	†	Partial (improving)

SOURCE: Authors own elaboration. Categories based upon Wise (2003: 303, figure 7.2).

---- = Little degree of attribute in specified area

Low = Isolated examples in specified area

Partial = Limited to moderate attribute in specified area

† = Clear existence of attribute in specified area

*Aside from Plan-COPESCO

In contrast is the case of Chile, where an increase in state promotional support has been accompanied by targeted interventions aimed at shaping the strategies of new market actors and building their capacities. There is no equivalent in Peru, for example, to Chile's National Rural Tourism Program or CORFO's and SERCOTEC's technical assistance to small and medium-sized tourism enterprises. Underpinning this situation are various domestic institutional factors. On a broad policy level, interventions in

tourism are clearly aided by the country's larger competitive strategy as well as its social development agenda. Consequently, while preoccupied with increasing total tourist numbers like their Peruvian counterparts, Chilean state officials often express a deeper concern to enhance the ability of local groups to seize new productive opportunities presented to them by an increase in tourist numbers.

Aside from the general policy context, the presence of targeted policies in Chilean tourism must also be seen as a repercussion of state institutional structures, namely the state's administrative capacity, efficiency, sub-national coherency, and cooperative ties with the private sector and civil society. For example, structural ties across the public-private and central-sub-national divide fosters repeated interaction between state and societal actors involved in Chilean tourism, which in turn, make it possible for the state to provide targeted inputs (e.g. business development services) to local tourism producers.

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The present analysis thus enables us to appreciate how the institutional character of the state and the domestic context in which it is embedded serve as the basis through which state involvement is articulated in new types of development. More specifically, my research suggests the benefit of public-private ties in exploiting new market opportunities and in attempting to ensure more social inclusion in this process. Thus, Peru's current go-it-alone standard approach can be seen as a symptom, or more boldly as

⁸⁶ Aside from these important factors, one might also mention Chile's general level of development. A higher level of development means that Chile has more financial resources to work with than Peru. While issues such as health, education, and basic infrastructure continue to be the state's priority, the relatively higher level of development in Chile means that the state has more room to address the subtler side of economic development, such as designing and implementing programs that aim to make emerging industries more competitive.

a perverse repercussion, of the weak institutional structures that underlie the state apparatus, namely the lack of collaborative state-society action.

By contrast, Chile's more partnership-like competitive approach is facilitated by the institutional capacity of state organizations, their sub-national coherency, and their established ties with the private sector and civil society. Such institutional advantages not only produce an environment favorable to the mobilization of scarce resources, but also allow the state to promote tourism development more holistically, in a way that at least attempts to address deeper socioeconomic issues such as the competitiveness of smaller local tourism producers. This finding reinforces revelations of recent development literature suggesting that broad public-private networks, underpinned by a favorable institutional context, benefit developmental goals (e.g. Evans 1996; Wise 2003).

In sum, as much as any current government sees increasing total tourist numbers as the bottom line measure of success for their tourism promotion policies, the ultimate measure will rest on the capacity of the local private sector to take advantage of and create new economic opportunities associated with favorable domestic and global trends. While the state under a free-market system can obviously not force any tourist to consume particular types of local tourism services, the Chilean case suggests that in addition to providing global marketing inputs, the state, if supported by favorable institutional structures, can enhance local competitiveness and help create new market actors therein. While such roles are not likely to produce the next Cancun, they just may squeeze out more local benefits from tourism production.

But there is much more to the story. The contemporary role of the state in an emerging tourism sector in countries such as Peru and Chile goes well beyond the general kinds of involvement stressed in this chapter. In the context of nature and cultural-historic tourism growth, there is a growing need for the Peruvian and Chilean state to promote sustainable resource use, while at the same time, encouraging the exploitation of those resources as a means to deepen tourism development. How each state responds to this challenge is largely a question of its institutional character. This is the topic of the next chapter.

CHAPTER V

RESOURCE ASSETS AND TOURISM: BRINGING IN THE STATE

INTRODUCTION

This chapter takes a focused look at tourism resource assets and the role of the state in shaping such resources. It examines the resources that underpin Peru's and Chile's emerging tourism sectors and the influence of state institutional structures on the dilemmas associated with the development of these resources.

The extent to which countries can seize economic opportunities from "endowed" resources, while maintaining the sustainable development of those resources has been a topic of ongoing interest in the development and economic literatures (Grossman and Krueger 1995; Redclift 1987; Redclift and Goodman 1991). While many external and internal factors shape the way developing countries use their resources (Brown and Pearce 1994; Rugman and Kirton 1998), the state and its institutional foundation play prominent roles in shaping resource-intensive industries (Lheem 2003).

In Latin America, economic development has long depended on resource exploitation (Roberts 1995). In recent years, increasing globalization, the adoption of

outward-looking strategies and the existence of plentiful natural resources have underlined the growth of both old (mining) and new patterns of resource-intensive export production, as in non-traditional forestry (Katz 2000), fishing (Aguilar et al. 2000) and agricultural industries (Barham et al. 1992; Bee and Vogel 1997; Carter et al. 1996; Daminani 2003). While expansion of these industries represents new sources of economic growth in many Latin American countries, it has also prompted growing criticism of the environmental (Clapp 1998) and social (Schurman 2001) costs associated with them. Aguilar et al. (2000), for example, link the recent growth of export-oriented fish production in Peru, Chile, and Mexico with growing environmental costs. Carruthers (2001) argues that the expansion of forestry production in southern Chile during the 1990s has produced major ecological conflicts.

While not often identified as such, tourism, especially “new tourism”, is salient to this discussion. In Latin America, recent tourism expansion has been linked to the high quality and uniqueness of the continent’s natural and/or cultural-historic assets, particularly scenery, wildlife, remote beaches, forests, lakes, mountains and archeological sites (Budowski 2001). Such resources have, for example, become increasingly important to the tourism industry in Brazil (Antonio Puppim de Oliveira 2002), Costa Rica (Honey 1999), Cuba (Muñoz 2003), Dominican Republic (Vere Slinger 2002), Mexico (Clancy 2001), Peru (Deforges 2000), and Chile and Argentina (Santana 2001).

While generally viewed positively by the international development community, nature and cultural-historic tourism can create a paradox for developing countries, exemplified by the need to exploit or sell fragile resources as a means of economic

expansion, while safeguarding the quality of those resources so that they do not lose their value. On the one hand, tourism can help justify and finance the protection of fragile natural and cultural-historic resources and increase local environmental awareness (Mayaka 2002; Mowforth and Munt 2003). On the other hand, resource attractions must be accessible, open to the public, and promoted intensively to lure tourists. As resources, such as pristine forests or historical sites, become more popular with tourists they also become more vulnerable to environmental degradation, which in the end could threaten the foundation of the tourism industry itself (Mathieson and Wall 1982; Mowforth and Munt 2003: ch.4). The crucial problem, then, is the extent to which countries can use their resource assets as a means to advance tourism development and economic growth without compromising resource quality or integrity.

To shed light on this puzzle, this chapter examines linkages between the state and the resource assets of two emerging tourism destinations. This is an important focus because the state's capacity to manage tourism resources, and formulate and implement development strategies around them, can shape both the economic viability and environmental sustainability of the tourism sector. I develop this argument in light of empirical evidence drawn from Peru and Chile, where recent tourism growth is based on the quality/uniqueness of natural or cultural-historic resources managed by the state. A comparison of these two countries is fruitful not only because of the aforementioned similarity but also due to important differences, namely the institutional quality of state structures. The different character of state institutional structures in Peru and Chile, I

posit, will differentiate the capacity of the state to respond to development dilemmas associated with nature and cultural-historic tourism.

As an analytical strategy, this chapter focuses on those resources that constitute a key component of each country's tourism sector and the regulations, state institutions and activities that shape the use of those resources. I bring together institutionalist and developmental state perspectives with recent literature on tourism and environmental sustainability to guide my understanding of the problem. Evidence is derived from key informant interviews, government documents, secondary materials (newspapers, industry magazines), and my own field observations.

This chapter makes several important contributions to the literature. Most basically, it gives empirical evidence highlighting the importance of the state in shaping the form, scale, and attractiveness of tourism resource assets in the context of increasing economic liberalization and globalization. It also lends insights into new ways that the state is becoming involved in development and how domestic institutional characteristics shape state effectiveness therein. For example, my analysis suggests that the environmental and socioeconomic impacts of nature or cultural-historic tourism are not merely conditioned by tourism demands, the type of resource, and the volume and density of visitor patterns, but also on the institutional capacity of the state and its bureaucratic style of governance, which shapes a country's tourism resource assets, how they are protected, and who benefits from their use.⁸⁷

⁸⁷ 'Carrying capacity' is an important tourism management concept often employed to help understand the relationship between environmental degradation and tourism activity. While there are various perspectives on this concept, it generally refers to the "...maximum number of people who can use a site without an unacceptable alteration in the physical environment, and without an unacceptable decline in the quality of

The chapter proceeds in the following manner. The first section sketches out the primary tourism resource assets of each case country. The chapter then identifies the primary state institutions linked to the management of these assets. Following this is an examination of the role of the state and institutions in a central resource development dilemma faced by each country's tourism sector. Using a comparative institutional approach, I identify various institutional structures as shaping the economic and/or environmental sustainability of resources important to an emerging tourism sector. The concluding section broadens out my comparison of the cases.

RESOURCES AS TOURISM ASSETS

As detailed in Chapter 3, high quality and unique natural and cultural-historic resources have become important comparative advantages for the tourism development prospects of developing countries. Peru and Chile represent two countries currently caught up in this trend.

Peru's Post-Industrial Gold Mines

In Peru, whose coast-line cannot compete with the white-sanded beaches of Brazil or Mexico, natural and cultural-historic resources are increasingly good for the tourist trade. With respect to natural resources, Peru is considered one of the few mega-diverse

the experience gained by visitors" (Mathieson and Wall 1982: 21). There are various factors limiting the preservation, conservation, and social sustainability of resources used by the tourism industry (see Collins 1999; Williams and Gill 1994). This chapter focuses on one important and understudied agent in this process—the state.

countries worldwide, boasting 84 of the 103 known ecosystems.⁸⁸ Some of Peru's most popular natural assets are found in the Amazonian lowlands, where tourists participate in a variety of nature and adventure tourism activities.

It is cultural-historic resources, however, that form the cornerstone of Peru's burgeoning tourism industry. Marsano (2003: 161) estimates that 94 percent of Peru's tourism attractions are associated with some kind of unique cultural-historic asset, which includes the most intact archeological remnants of Pre-Columbian societies in the Americas.⁸⁹ Not all cultural-historic resources, however, are created equal. As a result, there is a high degree of international and domestic tourism concentration around particular cultural-historic assets despite the spatial dispersal of relatively attractive cultural-historic resources throughout Peru. Machu Picchu, the Inca Trail, and Cusco City, which lie in the southern Andean region of Cusco, constitute Peru's principal comparative advantages in the international tourism market. In fact, these sites have become some of South America's most renowned tourist destinations and are almost obligatory stops for any South American Grand Tour (Chacaltana 2002; O'Hare and Barrett 1999).

Aside from Lima, where most international tourists pass through for one to three days, Peruvian tourism is highly concentrated in the Cusco region. While prevalent as far back as the 1930s and 1940s (Maxwell 2004: 123-125), tourism in the Cusco region has changed dramatically since post-World War II, especially in the 1990s with the demise of

⁸⁸ Estimates suggest that Peru's diverse ecosystems encompass 18.5 percent of world's bird population, 9 percent of animal species, and 7.8 percent of plant varieties (PROMPERU and UNALM 2002:23-4).

⁸⁹ Cultural-historic attractions include historical parks, churches, archeological sites, and museums. Recreation opportunities refers to trekking, hiking, or mountain biking.

the guerilla movement Shining Path and the corresponding shift in international perceptions of safety issues in Peru (van den Berghe and Flores 2000). There are numerous factors that help account for the concentration of Peruvian tourism in the Cusco region. For one, Cusco has the most developed and efficient air transport links with Lima in the country. It also provides a high variety of tourism services, illustrated by the fact that Cusco has the highest amount of accommodation and restaurant establishments per capita in the entire country, with the exception of Lima (INEI 2001: 566). Cusco has also benefited from public resources and promotional activities geared toward tourism development over the past 30 years (O'Hare and Barrett 1999).⁹⁰

To be sure, a crucial factor has to do with the quality and uniqueness of the region's cultural and historical resources. We must start with Machu Picchu - the country's premier tourism attraction. Constructed in 1450 at the height of the Inca Empire, Machu Picchu possesses some of the most well-preserved ruins of the Inca civilization, which were designated a national historical sanctuary in 1981 and inscribed on UNESCO's World Heritage Site list in 1983. While a little more than 17,000 international tourists visited Machu Picchu in 1970, it has since become hailed as one of the world's greatest travel destinations, portrayed by travel writers as a site of mystical and historical significance (Rachowiecki 2004; Wright and Zegarra 2004). Since the 1990s, the growth of international visitors in Machu Picchu has been unprecedented, exploding from under 100,000 international visitors in the early 1990s to more than 300,000 by 2000 (see Figure 5.1 below). When domestic tourists are added into the

⁹⁰ To a certain degree, state initiatives in the 1970s through the COPESCO project laid the seeds for the concentration of touristic infrastructure and tourists in the Cusco-Machu Picchu area. See also O'Hare and Barrett (1999), which offers a nice analysis of the regional distribution of Peruvian tourism.

equation (estimated at 100,000 annually), Machu Picchu was to receive more than 400,000 annual visitors during the early 2000s (PROMPERU 2000: 32).



Aside from Machu Picchu, there is the rising popularity of The Inca Trail (*El Camino Inca*). Constructed over 500 years ago as a communication route from Machu Picchu to Cusco City, the Inca Trail now consists of a 64-kilometer long trail where tourists take a 2 to 4 day guided trek that begins high in the Andean Mountains near Cusco and ends up at the ruins of Machu Picchu. Estimates of international tourism flows corroborate the Inca Trail's increasing significance to Peru's tourism sector; hosting just over 6,000 international tourists in 1984, foreign tourists swelled to 15,000 in 1994 and 60,000 by 2000 (INRENA 1999: table 28, 275; PROMPERU 2000: 32).

Becoming an international tourism hot spot, the Inca Trail has witnessed substantial growth of tourism infrastructure in the recent decade, including private bus services that drop off tourists to different trailheads, guiding services that lead tourists along the trail, and porters who carry tourists' camping equipment.⁹¹

As the gateway city to Machu Picchu and the former capital of the ancient Inca civilization, Cusco City constitutes another integral element of contemporary Peruvian tourism.⁹² The number of foreign and domestic visitors to Cusco City has increased considerably since the Second World War, and in the 1990s Cusco City was to experience an unparalleled tourism boom (Maxwell 2004). By 2000, estimates suggest that Cusco City received approximately 500,000 foreign tourists annually (PROMPERU 2001).

Chile's Eco-resources as Tourism Assets

Within Chile's 4,300-kilometer long borders, natural resources have played an important role in the economy over the past three decades. Since the late 1970s, Chile has pursued a resource-intensive development strategy characterized by the export of minerals (e.g. copper), forestry (e.g. wood chips), fish (e.g. salmon) and agricultural (e.g. luxury fruits, wine) products (Ffrench-Davis 2002; Katz 2000). The economic benefits linked to the growth of such exports have not, however, come without environmental

⁹¹ Maxwell (2004: 216) estimates that the Inca trail provides work to over 3,000 people as guides, porters, and cooks.

⁹² Tourists typically begin their stay in Cusco City by taking a "city tour", which includes visits to museums exhibiting colonial Spanish and Pre-Columbian Inca art, as well as several impressive colonial churches. Tourists then often do day-trips to the "Sacred Valley" and participate in all or some of *El Boleto Turístico*; an inclusive entrance pass to more than a dozen impressive cultural-historic attractions in and around Cusco City (i.e. Sacsayhuamán, Tambo Machay, Pisac, and Ollantaytambo).

costs. Clapp (1998), for example, argues that forestry production, an important growth sector for Chile during the 1990s, has induced considerable environmental damage in southern Chile.

Whereas most of Chile's outward looking sectors (e.g. mining, forest) are allied to resource extraction, the country's emerging tourist trade is associated with resource preservation - particularly desert landscapes, lakes, forests, beaches, and mountain areas. The prioritization of natural resources as tourism assets is illustrated by the national tourism marketing slogan implemented since the late 1990s - *Naturaleza que Conmueve* or "Nature that Moves You".



SOURCE: CONAF (2004)

Notes: 1. Includes National Parks (31), National Reserves (48), and Natural Monuments (15).
2. Includes domestic and international visitors.

While precise data on the number of nature tourists in Chile as in other countries does not exist, a rough approximation can be gauged by looking at the evolution of visitors to protected natural areas, some of the few places where natural forests and mountain landscapes remain pristine. Between 1978 and 2000, the number of annual visitors to Chile's National System of State-Protected Areas increased from 243,290 to over one million (see Figure 5.2 above). While domestic tourists make up the majority of visitors to Chile's protected areas, the growth rate of foreign visitors has outpaced domestic visitors since the early 1990s, increasing over 250 percent from 1990 to 2000.⁹³ By 2003, international tourists would represent roughly 40 percent of all visitors to Chile's protected land areas (CONAF 2004).⁹⁴

This growth can be partly attributed to natural resources in southern Chile. In fact, visitors to protected areas in the southern region of Los Lagos alone accounted for almost half of all national and international visitors to state-protected areas in 2000, namely the National Parks of Puyehue (290,699) and Vicente Perez Rosales (171,548). Meanwhile, Torres del Paine National Park in Patagonia country received a significant 71,092 visitors in 2000, almost 70 percent of which were foreign (SERNATUR 2001: 48-50).

Protected natural areas have also fueled recent tourism growth in the northern Chile, which encompasses the Atacama Desert, the driest desert in the world. In the *altiplanos*

⁹³ Interview with Angel Lazo A., Executive Manager of Public Use: Department of Natural Heritage CONAF (Santiago, January 2004).

⁹⁴ According to a recent market study carried out by Chile's National Tourism Bureau, an estimated 41.5 percent of international tourists in 2000 (out of 1.7 million) carried out tourism activities in beaches and coastal areas. Meanwhile, 30.3 percent visited cultural-historic sites, followed by recreation in Chile's protected natural areas (21%). Other important activities of international tourists included mountain and other adventure sports (8.8% of total) and cruise and boating expeditions (4%) (SERNATUR 2002c: 15).

(high plateau) of Region I, a prominent attraction is Lauca National Park, which was declared an UNESCO World Biosphere Reserve in 1981.⁹⁵ In Region II, *Los Flamencos* National Reserve and the nearby historically-rich town of San Pedro de Atacama represent a burgeoning international tourism destination.⁹⁶

Looking comparatively at Chile's tourism resource assets, we find a situation that is more geographically disperse and segmented than in Peru. Resources that attract European and North American tourists lie in a variety of destinations; to the north the Atacama Desert and the beaches of La Serena; to the south, the Lake and Volcano District where mountains, lakes, wildlife, hot springs, and ethnic groups (i.e. Mapuche) are becoming considerable tourism assets. The abundant fjords and mountainous glaciers of Patagonia country also constitute prominent attractions for Europeans and North Americans. Meanwhile, Argentinean tourists, Chile's most important traditional tourism market, tend to concentrate in popular beach resorts (Viña del Mar, Valparaíso, La Serena) and southern lake and coastal areas (e.g. Pucón, Valdivia) during the summer season (SERNATUR 2002c: 17-24).

Finally, the comparative importance of domestic tourism in Chile is worth noting. With a national income of US\$ 4,390 per capita, Chile has a much larger internal tourism market potential as compared to Peru with a national income of US\$ 2,150 per capita (income figures from World Bank 2004). Some important domestic tourism hubs in Chile geared toward natural resources include Pucón, Villarica, Puerto Varas, Puerto

⁹⁵ A popular destination of the park is Chungara Lake, one of the world's highest lakes located at the base of the snowy Payachata twin volcanoes.

⁹⁶ Chile uses Roman numerals to designate regions. There are 13 regions in Chile, sequenced from north to south.

Montt, and the Isla de Chiloé in Regions IX and X. Also significant are the beach destinations of Viña del Mar and La Serena. From a development perspective, Chile's domestic tourism market is important as it may facilitate a more diverse range of tourism resources and services, helping foster new economic opportunities for locals with limited capital and technological capacity. Part of this is due to the characteristics of domestic tourists who often have less rigid consumption demands than international tourists.

RESOURCE MANAGEMENT REGIMES AND TOURISM

To better understand the complex relationship between the state and tourism resource assets, it is first important to identify the state institutions involved in regulating/managing the resource attractions described above.

With respect to Peru, the “adequate protection of natural and cultural heritage” corresponds to the state apparatus (PROMPERU 2000: 36). The state agency in charge of natural resource management is the National Institute of Natural Resources (INRENA hereafter) and therein the *Peruvian System of State Protected Areas* (SINANPE), which was created in 1990 to manage natural areas under state control. Since the 1970s, the state has expanded formal protection status to a number of unique and ecologically-rich areas (Maxwell 2004: 181). By the early 2000s, 53 natural areas enjoyed protective status, representing 15.3 percent of the national territory (PROMPERU and UNALM 2002).⁹⁷

⁹⁷ SINANPE includes an array of different classifications such as: National Parks (9), National Reserves (9), National Sanctuaries (6), Historical Sanctuaries (4), Reserved Zones (14), Protected Forests (6) and, Communal Reserves (2).

More important for our present discussion is Peru's National Institute of Cultural (INC hereafter), a semi-autonomous state agency located in the Ministry of Education. Created in 1971 under the Velasco regime, INC took the place of the *Casa de la Cultural del Perú* with objective to promote, protect, and diffuse Peru's culture patrimony and heritage (INC 2002: 8). Since then the size and salience of INC has expanded; to date, INC has declared more than 130 *National Cultural Heritage Sites*, which fall under national heritage protection laws (INC 2002b). Many but not all of these sites involve archeological restoration projects, which aim to *puesta en valor* (increase their value) by developing their tourism potential. Some sites, such as Machu Picchu and the Inca Trail, are co-managed by INC and INRENA because they possess a mixture of both natural and cultural-historic resources.

As in Peru, the Chilean state plays a prominent regulator role in tourism-oriented resources. One crucial aspect here is associated with Law N° 18.362, which created the National System of State-Protected Areas in 1984 (SNASPE hereafter). This legislation would create the regulatory framework that underpins the protection of some of Chile's most stunning natural areas, which include a total of 94 protected areas (31 National Parks, 48 National Reserves, and 15 National Monuments), equivalent to 19 percent of the national territory (Lazo 2001). Many of these protected land areas, namely national parks, have become important tourism assets, especially given the growth of nature tourism in Chile and abroad since the 1990s.

The principal state institution associated with protected land areas in Chile is the National Forest Corporation (CONAF), a semi-autonomous state agency established in

1970. Since its inception, CONAF has been charged with two seemingly conflicting mandates - economic development and conservation.⁹⁸ These objectives have prompted quite separate actions overtime marked by preservation on the one hand and promotion of resource exploitation on the other. While CONAF has emphasized forestry as a way to both promote economic development and conservation (Carruthers 2001), the recent growth of nature tourism has prompted a new focus on using natural resources (i.e. national parks) as a means to advance tourism development. Such a shift has become increasingly visible since the late 1990s and will be discussed in greater detail later in the chapter.

It is also important to mention recent activities of Chile's Ministry of National Goods (*El Ministerio de Bienes Nacionales*, MBN hereafter). Created in 1977, MBN's mandate is to recognize and manage public lands in a way that helps elevate the quality of life in local communities. At present MBN administers around 8.6 million hectares of land or 36.5 percent of all public owned land. While the promotion of nature tourism was not associated with MBN's work in past periods, it has become a more important component of the Ministry's work in recent years.⁹⁹ For example, since 1996 the Ministry has worked to attract tourism investment on public lands encompassing waterways and canals in the southern regions of Aysén and Magallanes. Development plans currently in formation include the construction of an eco-lodge, trails, signposts,

⁹⁸ According to Chilean law, all forest harvests must have the explicit authorization of CONAF. In native forests, CONAF typically permits solely selective harvesting. Compliance of forest management plans, however, is often frustrated by a lack of financial resources in CONAF (Clapp 1998).

⁹⁹ Interview with Maria Angélica Palacios Martínez, El Ministerio de Bienes Nacionales (Santiago, March 2004).

and an educational interpretation center in a relatively remote area bordering the 11th and 12th regions (Ministerio de Bienes Nacionales 2004).

Another Chilean state institution that has moved toward developing the tourism potential of natural and cultural resources is INDAP (*El Instituto de Desarrollo Agropecuario*), which operates the National Rural Tourism Program as described in Chapter 4. Aside from providing technical and financial inputs to small rural tourism enterprises, INDAP produces a number of slick marketing materials that essentially use cultural and natural resources as a vehicle for rural tourism development. In this way, the state is involved in recasting the meaning and value of resources in the rural milieu.

Table 5.1 (below) summarizes a number of state agencies that shape the raw materials important to the tourism industries of both case countries.¹⁰⁰ By protecting some resources over others, the state has conditioned the exploitation of national assets, the type of development therein, and the mechanisms through which a significant portion of the tourism development process has emerged in Peru and Chile. The deeper question of the influence of state policy and its institutional character on the practices of tourism activity based on such resources remains to be examined.

¹⁰⁰ Although space does not permit a detailed discussion, the presence of Chile's National Environmental Commission (CONAMA) should be noted (see Carruthers 2001 for general discussion). Created in 1994, CONAMA has various lines of action related to Chilean tourism. For one, all tourism projects that are located in or around state protected areas must gain permission from CONAMA. In addition, is CONAMA's on-going project '*Sendero de Chile*' (Chile Trail) seeks to create a countrywide walking trail along the Andean Mountains. The project draws on an array of different funding sources (still to be completely determined) and is hoped to generate tourism activity and local employment opportunities when completed (estimated 2008).

Table 5.1: State Resource Management Agencies Important to Tourism Assets

PERU		
State Institution	Broad Mandate/ Resources	Activities most important to tourism sector
National Institute of Natural Resources (INRENA)	Manage/protect natural areas under state control. Peruvian System of State Protected Areas (SINANPE) - 53 protected land sites, including Machu Picchu/the Inca Trail.	Protect and maintain quality of resource in protected areas coming under environmental stress due to tourism. Promote those resources that have tourism potential but are under-exploited (e.g. Amazon region). Tourism zoning in protected areas. Agency resources/policies are highly centralized.
National Institute of Cultural (INC)	Promote, protect, and diffuse Peru's culture heritage. Manage National Heritage Sites, including Machu Picchu, the Inca Trail and Cusco City.	Enforce national heritage protection laws. ' <i>Puesta en valor</i> ' (increase value) cultural/historic resources through archeological restoration projects. Zoning of National Heritage sites. Agency is highly centralized.
Machu Picchu Management Authority (UGM)	Promote more efficient public administration of Machu Picchu. Initiate more sustainable tourism patterns	Broker disparate interests involved in the management of Machu Picchu. Create sustainable development framework.
CHILE		
State Institution	Broad Mandate/ Resources	Activities most important to tourism sector
National Forest Corporation (CONAF)	Development and conservation of natural resources through National System of State-Protected Areas (SNASPE) - 94 natural/cultural areas under protective status	CONAF is currently working with NGOs and other institutions to help build tourism infrastructure and development around tourism-rich areas, e.g. Torres del Paine National Park in Patagonia. Agency is de-concentrated with field offices in every region and many localities. Sub-national units have some degree of expenditure autonomy.
Ministry of National Goods (MBN)	Manages "less regulated" public lands, 36.5 percent of public owned land.	Recently has begun to promote nature tourism through ecotourism concessions or the sale of public resources. To do this, MBN has put together a portfolio of public lands for tourism development. Deconcentrated organizational structure.
Institute of Agricultural Development (INDAP)	Implements National Rural Tourism Program	Provides "business services", small loans and grants to small rural entrepreneurs. Uses natural and cultural resources as a way to foster rural development alternatives.

STATE INSTITUTIONAL CAPACITY AND TOURISM RESOURCES

To analyze the interplay between the state and tourism resources, this section explores a prominent tourism resource dilemma facing each case country. From the outset it must be clear that Peru and Chile have very different resource development challenges associated with tourism. In Peru, a concentration of domestic and international tourism around a few cultural-historic resources has produced significant concerns about the environmental sustainability of tourism expansion. Meanwhile, a critical issue facing Chile's tourism resources is the underutilization of natural assets by the tourism sector. While these dilemmas may appear quite distinct, they are common insofar as the state has played, and is playing, a significant role in mediating these development challenges. The central argument that follows is that the state and its institutional character impact the formulation, implementation, and effectiveness of strategies that attempt to address the major tourism development resource dilemmas in each case country.

Peru's Dilemma: Loving Cultural Heritage to Death?

With Machu Picchu as a centerpiece, Peru has become the premier culture-historic destination of South America since the 1990s. Despite the optimism generated by this situation, there is increasing evidence of sustainability problems.

Sustainable tourism is a rather elusive concept, much like the broader concept of sustainable development, defined by the Brundtland Commission as development that

can meet the needs of the present without compromising future generations' ability to meet their own needs (WCED 1987: 43). Following this definition, tourism can be viewed as sustainable if the amount of stress from tourism activity does not provoke discernible harm to the stock of resources or environmental systems that support it.¹⁰¹

Conventional mass tourism is often associated as an unsustainable form of tourism, causing the destruction of habitats, species, local culture, as well as pollution, trash, and general social and environmental disruption (Harrison 2001). By contrast, nature and cultural-historic tourism have an image as a more sustainable or light form of tourism (Brohman 1996; Honey 1999). Recent evidence from Peru, however, suggests that the relationship between cultural-historic tourism and sustainability may not be as unambiguous as some literature would have it.

The growing concentration of Peruvian tourism around particular cultural-historic resources has produced increasing environmental costs. Mounting environmental conflicts have been cited, for example, in Machu Picchu pueblo (*Aqua Calientes*) - a tourism-oriented service center located just outside of the ancient ruins but still within the Historical Sanctuary. Pressing issues here include uncontrolled population growth, a significant increase in temporary labor migrants, pollution, sanitation problems, and unregulated housing and commercial development. Poor sanitation is also a clear dilemma in other villages falling within the Cusco-Machu Picchu tourism circuit (e.g. Ollantaytambo and Urubamba) and on the Inca Trail, which also suffers from erosion due

¹⁰¹ Some strategic goals of sustainable tourism can be identified: (a) to encourage awareness of the linkages between tourism, the environment, and the economy; (b) to foster the protection of fragile resources; (c) to promote benefits for the local or "host" community; (d) to offer visitors a high quality experience; and (e) to maintain environmental quality of the resources employed by the tourism industry.

to increasing tourism activity.¹⁰² Degradation to archaeological sites has also been noted around destinations experiencing high volumes of tourism activity, particularly Machu Picchu (CBC and CIES 2003; *Economist* 2001).¹⁰³



Figure 5.3: What tourists leave behind. Machu Picchu Pueblo, 2003 (source: photograph courtesy of *El Centro Bartolome de Las Casas, Cusco*).

The sustainability of Peruvian tourism was brought to a head after top UNESCO officials recommended that Machu Picchu be placed on the endangered World Heritage

¹⁰² Interview with Jorge W. Pacheco del Castillo, Executive Director, La Unidad de Gestión Santuario Histórico de Machu Picchu, UGM (Cusco, December 2003).

¹⁰³ For example, in 2001 a piece of the famous sundial (*Intihuatana*) of the Machu Picchu ruins was destroyed during the filming of a national beer commercial.

Site list in 2004 (*El Comercio* June 27, 2004).¹⁰⁴ This moral sanction to the Peruvian government was based on several points. One prominent concern is the volume of tourists visiting Machu Picchu and the Inca Trail. At times, as many as 2000 tourists enter Machu Picchu's ancient ruins in one day, and even more if tourists in the adjacent village (Machu Picchu pueblo) are considered. UNESCO claims the number should be cut to 800 tourists daily. Other cited deficiencies leading to Machu Picchu's endangered status include: (a) development of tourism without control; (b) "urban chaos" in Machu Picchu pueblo, which is literally packed with locally-owned but unregulated restaurants, hotels, and other tourism services; (c) the lack of natural disaster planning; and (d) the failure of the government to implement Machu Picchu's Master Plan (*El Comercio* June 27, 2004).¹⁰⁵

Commenting on sustainability issues in Machu Picchu, a UNESCO representative I interviewed noted: "Machu Picchu is a disaster... almost 1,800 inhabitants, 2,000 daily service providers, and more than 3,500 tourists per day are causing significant problems right in the heart of the Sanctuary..."¹⁰⁶ Echoing these comments, a prominent tourism entrepreneur from Cusco stated that: "Aguas Calientes [Machu Picchu Pueblo] is a debacle, local migrants looking for work and tourism businesses have occupied the

¹⁰⁴ Although UNESCO has no legal authority in Machu Picchu, it is able to take away Machu Picchu's 'World Heritage' status if they do not conform to particular standards of management. UNESCO's criticisms are not taken lightly by Peruvian state and private sector actors, which have an invested interest in maintaining 'World Heritage' status of particular destinations. A World Heritage status, among other details, promotes tourism and also facilitates the capture of external funds for conservation projects.

¹⁰⁵ The lack of urban planning in Machu Picchu pueblo, otherwise known as Aguas Calientes, was tragically highlighted in April 2004, when a series of landslides provoked by heavy rains destroyed 32 homes leaving 6 locals dead. Although numerous completed studies in the area had warned of the possibility of destructive landslides in the populated area, a hostel was being constructed right in the landslide path. According to local sources, scientific information apparently remained in the filing cabinets of some local bureaucrat (*El Comercio* April 11, 2004).

¹⁰⁶ Interview with Ciro Caraballo Perichi, Specialist in Cultural Heritage Program, UNESCO (Lima, October 2003).

village space without any planning criteria in place.”¹⁰⁷ As for Cusco City, the director of INC-Cusco recently acknowledged: “If we do not do something in the next ten years, the city will lose its attractiveness” (*El Comercio* Dec. 9, 2003b).

Yet, Peru’s foremost tourism assets are not unprotected; in fact, there are numerous regulations on the books. As for Machu Picchu and the Inca Trail, the state owns all of the land, and as a result, can define what types of activities the private sector can pursue and what agents can pursue them. Recognizing escalating conservation problems associated with tourism growth, the state has even enacted several *ad-hoc* regulations. In the late 1990s, state officials limited the number of tourists that can begin The Inca Trail to 500 per day and made it mandatory for tourists to use porters and guide services on the Trail. With respect to Cusco City, there are a growing number of requirements for all new building constructions and augmentations in the historic part of this World Heritage city.

Nonetheless, there is no clear evidence that formal state protection has helped mitigate environmental problems arising around Peru’s most prominent tourism resource assets.

State Institutional Character and Tourism-induced Environmental Problems

According to a recent World Bank report (2003: 10): “environmental and social stress reflect the failure of institutions to manage and provide public goods...and to broker

¹⁰⁷ Interview with Franco Negri, Director Manager *Explorandes* (Cusco, November 2003).

differing interests.” This section attempts to unpack this assertion in the context of increasing environmental stress in Peru’s most prominent tourism destination.

Important stakeholders in tourism are perhaps some of the first actors to cite the state as the weak link in the protection of Peru’s tourism resource assets. A prominent industry leader that operates in Machu Picchu stated during an interview that:

The state has not provided sufficient support, above all in the theme of regulation. While there are numerous rules and regulations for travel agencies, tour operators on the Inca Trail and Machu Picchu, there is *no clear regulation* for the tourism sector as a whole... there is a lack of long-term vision on the part of the state.¹⁰⁸

Along similar lines, former president of Peru’s National Association of Adventure and Ecological Tourism argues: “the current passiveness [of the state] is contributing to the continuing deterioration of the Machu Picchu, caused by different economic actors and bureaucrats that only worry about tourism income or the exercise of power...” (Koechlin Von Stein 2001).

Why, then, has the state not been able to help maintain the quality of resources that underpin one of Peru’s most important foreign exchange earners and employment generators? While the state’s preoccupation with increasing total tourist numbers reflects a basic explanation to this question, there are deeper institutional factors at play. The following analysis highlights a number of key institutional arrangements that limit the capacity of the state to promote more environmentally and socially sound growth patterns in its premier cultural-historic destinations.

¹⁰⁸ Interview with Raul Montes, Former President of the Cusco Association of Adventure and Ecological tourism in Peru (APTAE) (Cusco, December 2003).

Policing

The enforcement capacity of the state - the ability to implement and enforce existing regulatory measures - is a critical component conditioning the quality of tourism resources, especially in a context where tourism is concentrated and expanding rapidly. Regulatory frameworks, according to a World Bank report (1997: 6): “can help societies influence market outcomes for public ends. Regulation can help protect consumers, workers, and the environment.” Regulation, however, entails vigilance on the part of the state. If regulations are to have an impact, state officials must monitor rules and penalize those who break them. With respect to tourism-oriented resources, the state must force compliance of environmental standards and regulations that seek to uphold the quality of the resource asset in question.

In Peru, the state lacks the capacity to enforce compliance of many resource regulations, especially outside of Lima. As a result, there is substantial evidence that regulations associated with cultural-historic and nature-based tourism are poorly enforced and lack legal certainty. Consider the recurring local “invasions” in important cultural-historic sites across the Cusco region, where the state seems unable to cope with the plethora of unplanned and unregulated housing, hotels, restaurants, and street vendors at the base of Machu Picchu and Sacsayhuamán (*El Comercio* May 12, 2004). Put simply, prompt enforcement of compliance standards would require of the state (INC and INRENA) more financial resources and manpower than these agencies can afford. Aside from this, there is the larger question of the state’s organizational capacity and bureaucratic management style.

Bureaucratic Incoherence and Inter-Agency Discord

The state's failure to promote more sustainable patterns of tourism activity is also a question of organizational and administrative capacity.¹⁰⁹ In Peru, the state apparatus has traditionally suffered from a lack of organizational capacity and coherency, especially outside of Lima (Mauceri 1995; Wise 2003). Moreover, the Peruvian state continues to reflect an old bureaucratic management style, which controls by implementing rigid rules and procedures that cause extreme bureaucratic delay and red-tape (De Soto 1989).

This lack of organizational strength coupled with an old bureaucratic style of management hinders the state's ability to manage and respond rapidly to tourism resource dilemmas. Take the two large and disconnected state bureaucracies that oversee Machu Picchu and the Inca Trail: the National Institute of Natural Resources (*Instituto Nacional de Recursos Naturales*, INRENA) and the National Institute of Culture (INC).

Organizational weaknesses that constrain these bureaucracies' capacity to address emerging environmental conflicts are numerous: confusion over agency functions, lack of legal certainty, complex and overlapping legislation, duplicate administrative procedures, lack of clear rules of the game, absence of horizontal coordination, and inter-agency turf wars.¹¹⁰

One repercussion of such organizational deficiencies is the state's inability to address environmental problems efficiently even when substantial international funds are available. The mediocre outcomes related to the US\$ 6 million nature-for-debt swap

¹⁰⁹ Of course, on some level policing capacity, financial resources and the organizational capacity of the state are related.

¹¹⁰ Field observations and interview with Ciro Caraballo Perichi, Specialist in Cultural Heritage Program, UNESCO (Lima, October 2003).

agreement between the Peruvian and the Finish government is a nice illustration of this. Initially signed in 1997, this agreement became known as Program Machu Picchu (PMP), a series of environmental projects that would seek to improve public administration of the sanctuary. While having principled goals, the implementation of PMP was much slower than anticipated, as inter-agency rivalries (INRENA, MITINCI, INC) hindered consensus on project selection, design and spending. By 2001, reports documented numerous problems and the sluggish nature of program implementation (*Economist* 2001; Muñoz-Nájjar 2001). The inability of the state to implement PMP rapidly and effectively are significant given the lack of scientific studies on the environmental impacts of tourism in Machu Picchu and the absence of public awareness campaigns to sensitize local citizens to related environmental issues.

Another example illustrating how state organizational capacity impacts the sustainability of rapid tourism growth is the current fate of the *Unidad de Gestión de Santuario Histórico de Machupicchu* (Machu Picchu Management Authority - UGM hereafter). Following recommendations from UNESCO's World Heritage Committee and national institutions, Peru created the UGM in 1999. The launching of this new state agency aimed to promote more efficient and effective public management of Machu Picchu. To this end, UGM was to consist of a number of advisory committees that would ostensibly broker participation of disparate interests involved in Machu Picchu's management. UGM's "executive committee" consists of four governmental bodies: INRENA, INC, MINCETUR, and the president of Cusco's regional government;

meanwhile, the “management committee” (*Comité de Gestión*) brings together an array of local representatives from the public and private sector.¹¹¹

Despite these efforts, the UGM has had negligible success, quickly becoming another weak institution within the Peruvian state apparatus. The failure of UGM to fulfill its mandate is a result of numerous factors: (a) insufficient financial and human resources; (b) lack of political clout; and (c) the tendency of committees to squabble rather than arrive at any consensus (CBC-CIES 2003). It is also linked to the state’s old bureaucratic style of management based on rigid procedures and centralization of state bureaucracies. Thus, the INC and INRENA have shown little flexibility and political will to relinquish any bureaucratic power to UGM. The executive director of UGM elaborated on these points during an interview:

The UGM was supposed to be the authority that was going to bring about the comprehensive management of Machu Picchu, [but now] it is losing that capacity, so much so that all of our staff has been transferred to INRENA. As a result, the UGM management is currently made up of only *three persons*, which is obviously is not sufficient...We do not have economic or administrative autonomy, nor do we have adequate levels of staff, legal representation, and resources. In these conditions, it is very difficult to do *anything* (emphasis of interviewee).¹¹²

An old bureaucratic style of management has also encouraged a bloated state resource management regime, which acts as an obstacle to NGOs and small and medium-sized enterprises that want to carry out conservation projects in protected areas. This

¹¹¹ Members include municipal governments of Machu Picchu and Urubamba, INC-Cusco, INRENA-Cusco, Ministry of Industry and Tourism Cusco (DRIT), as well as a number of business associations such as the Association of Adventure and Ecological Tourism (APTAE) (CBC and CIES 2003).

¹¹² Interview with Jorge Pacheco del Castillo, Executive Director, Unidad de Gestión Machu Picchu, UGM (Cusco, December 2003).

point was reinforced by my interviews with private sector actors, who view state resource management agencies as at best rigid and slow and at worst corrupt. A prominent local entrepreneur in the Machu Picchu-Cusco area noted:

We have a lot of projects and ideas for this area, but we have not been able to begin many. For example, we had a project in Machu Picchu Sanctuary, where we were going to develop a historical interpretation center. We rented some land from a local family, but a small portion of their land lies in the jurisdiction of INC. So, we went to them to present our project, we had a formal environmental impact study and everything...But in the end INC and INRENA did not want to accept the project because some of the family's land was property of the state. Also, many of our projects have been 'under review' for four years, we have everything ready but we are still waiting to hear from the state so we could execute the project...This makes no sense because our project is within the law, but the state bureaucracy here is really mafia, if we gave them a bribe, then we could do it, but we won't do that, we are trying to do things in the most correct manner.¹¹³

Lack of Political and Institutional Continuity

Another clear element that emerged from my interviews was that an absence of continuity between different governments has hindered the state's ability to respond to environmental problems linked to tourism growth. As one interviewee put it: "every time the government changes, the personnel changes with it, this damages the ability of the state to manage natural and cultural-historic sites under pressure from tourism."¹¹⁴

This matter clearly mirrors Peru's larger political context, where a change of government has traditionally meant a vast change in policy direction (Alvarez 1995; Wise 1997, 2003). The recent scrapping of Machu Picchu's first real management plan established by the Fujimori administration (*Maestro de Santuario Histórico de*

¹¹³ Interview with Franco Negri, Director Manager *Explorandes* (Cusco, November 2003).

¹¹⁴ Interview with Ciro Caraballo Perichi, Specialist in Cultural Heritage Program, UNESCO (Lima, October 2003).

Machupicchu) is one illustration. With the advent of the Toledo administration (2001-present), this document has been effectively abandoned and discredited as politically motivated and without solid technical and conservation criteria (*El Comercio* December 9, 2003).¹¹⁵ The current government is thus beginning to draft yet another plan, which to date has yet to be published let alone implemented. From a theoretical perspective, this situation supports Hiskey's (2005: 33) recent remarks on the linkages between economic growth and institutions: "government officials operating in an unstable institutional context where the rules of the game are in question will be more likely to base economic and social policy decisions...on political rather than economic criteria."

Centralized Decision-Making and Weak State-Society Ties

Another institutional obstacle that helps explain the precarious situation of Peru's primary tourism resources is the excessively centralized control of those resources and a lack of productive state-society ties, especially at the local level. These concerns intersect with a growing body of literature suggesting that both community participation and decentralized state mechanisms provide a more effective approach in the management and development of fragile resources (Barkin 2000; Bramwell and Lane 2000; de Kadt 1992; Klooster 2003; Ostrom 1990; Véron 2001; Yüksel, Bramwell and Yüksel 1999). Mayaka's (2002) study in Cameroon, Africa, for example, argues that an excessively centralized decision-making reduces the government's capacity to address environmental problems, while a decentralized and collaborative approach involving state agencies, the private sector and civil society, is more likely to enhance it. Yüksel,

¹¹⁵ State official and many local actors complain that the Plan looked to privatize the national heritage of Peru. For example, the Plan recommended certain moves toward the privatization of The Inca Trail.

Bramwell, and Yüksel's (1999) analysis of tourism planning in Turkey identifies excessive centralism of government agencies as an important factor hampering preservation and development of the Pamukkale World Heritage Site.

The case of Peruvian tourism draws attention to such concerns. Paralleling De Soto's (1989) broader analysis of the historical legacy of Peruvian centralism and old bureaucratic management style, the state has tried to manage important tourism resource attractions such as Machu Picchu through top-down uniform regulations which have little meaning in local society. Despite concerted efforts on the part of local inhabitants, municipal governments to reverse this situation, local institutions do not have the capacity and authority to face centralized control of tourism resource assets (CBC-CIES 2003; various interviews 2003).

Such a situation, I found, produces an atmosphere inimical to development and conservation efforts. A particularly contentious issue has been centralized state control of entrance fees collected at important cultural-historic sites across Peru. At the time of writing, it costs visitors 20 dollars to enter Machu Picchu and 50 dollars for the combination Inca Trail/Machu Picchu option. Such user-fees add up to over US\$ 15 million of state income annually.¹¹⁶ The bulk of this amount is not, however, reinvested in Machu Picchu itself, as a Peruvian law actually dictates, but rather is diverted away from the locality in order to support the centralized administrative functions of two large state resource management bureaucracies in Lima (INC and INRENA). A prominent entrepreneur in the Cusco region elaborated on this point during an interview:

¹¹⁶ A percentage of this amount goes to INRENA and 10 percent goes to Machu Picchu pueblo's municipal government (Aguas Calientes).

The problem is that the money collected by the state for access to Machu Picchu and the Inca Trail is not reinvested in the park itself... the only thing they pay for is a couple of security guards and supposedly the clean-up and disposal of garbage...but the maintenance of the parks is very poor... For example, there is a lot of garbage in the case of the Inca trail...¹¹⁷

Excessive government centralization also precludes the formation of productive state-society ties, especially at the sub-national level. In my analysis of interviews and government documents, I did not find one instance of a public-private partnership that seeks to address the environmental costs of Peruvian tourism. Even NGOs doing development/conservation work related to tourism in the Cusco region, such as Swiss Contact and Hope, have weak relationships with the state, which is seen by many in the NGO community as part of the problem rather than solution.¹¹⁸ This absence of public-private collaboration in turn hinders the state's ability to respond effectively to environmental (as well as social) problems related to tourism growth. For example, the absence of public-private ties limit the capacity of state policymakers, who often have limited experience in tourism, to formulate policy that takes account of local business realities and institutions.

Perhaps more troublesome, recent moves toward decentralization in Peru have had little success in creating meaningful participatory mechanisms where common citizens and sub-national government actors can define their development priorities and resolve discrepancies with centralized agents. In other words, there is a clear lack of local participation in the management and development of Cusco's tourism resources.

¹¹⁷ Interview with Franco Negri, Director Manager *Explorandes* (Cusco, November 2003).

¹¹⁸ Interview with Toby Bloom, Consultant of Sustainable Tourism, Technical Institute KHIPU: Sustainable Tourism Department, Cusco (Cusco, December 2003).

Beyond this, Peru's top-down resource management style compounds the historical mistrust between the central and sub-national level. This is clearly demonstrated by the rise of public protests over the highly centralized control of cultural-historic tourism attractions in the Cusco region. In April of 2004, for example, over ten thousand local actors gathered in Cusco City to pressure the decentralization of the state's tourism management regime (*El Comercio* April 3, 2004). Such incidents, it can be argued, are ultimately reflective of the entrenched mistrust and lack of interaction between central and sub-national actors and by extension the highly centralized nature of the state apparatus with respect to management of tourism resources.

Broader Factors and Summary

Finally, it is important to identify some of the broader domestic factors that mediate the aforementioned institutional shortcomings. To be sure, the ability of public and private actors to work together towards common development challenges is made more difficult by Peru's diverse social and cultural context, especially in rural areas. In the Cusco region, one can mention the cultural and social gaps between white or *mestizo* elites from Lima (the government), the urban elite in Cusco, and the mostly Indian peasant population prevalent in rural areas. A related issue is the socioeconomic polarization and poverty prevalent in the Cusco area, which undoubtedly contributes to distributive conflicts related to tourism assets. Such concerns appear to be consistent with Evans (1996), which suggests that synergistic public-private partnerships are most difficult to form in highly stratified societies.

Taken together, the institutional arrangements identified in this section negatively reinforce each other, undermining the long-term sustainability of Peruvian tourism. While other Latin American countries face similar problems in balancing resource conservation with tourism development, such as *Corcovado National Park* in Costa Rica or *Podocarpus National Park* in Ecuador (Brandon, Redford and Sanderson 1998), the Peruvian case appears especially difficult given the country's particular historical legacy and the weak institutional capacity of the state. This is not to say that the state is solely to blame for the current conservation problems surrounding tourism, but rather hinders the country's ability to confront these problems rapidly and effectively.

We return to this theme at the conclusion of this chapter. The next section provides an analysis of Chile, which reveals a different set of challenges and dynamics between the state, institutions and tourism resource assets.

Chile's Dilemma: Gearing Natural Resources toward Tourism Activity

Chile faces a different configuration of development dilemmas surrounding its tourism resource assets. For one, Chile does not face pressing environmental problems due to tourism activity. The environmental costs associated with Peruvian tourism are less visible in Chile partly because the greater spatial dispersion of Chilean tourism, that is, the lack on one central and internationally renowned tourism resource asset such as Machu Picchu. In fact, Chile only started to seriously prioritize its natural resources as comparative advantages in tourism markets since the mid-1990s. This situation presents development opportunities but also significant challenges.

One prominent challenge for Chilean tourism relates to the environmental degradation associated with resource-intensive growth strategies encouraged by the state over the past three decades (Carruthers 2001). A case in point is the set of public incentives and subsidies bundled up in the Forest Law of 1974, which jump-started Chile's now internationally competitive forest product industry. Clapp (1998) asserts that this law laid the basis under which Chile's forests came under increasing threat in the 1980s and 1990s. Since nature tourists tend to eschew areas with visible environmental problems such as pollution or harvested non-native forests, such resource-intensive development (e.g. hardwood chip industry) has limited, either directly or indirectly, tourism activity to specific protected land areas. Thus, there is a clear separation in Chile between touristic zones (in national parks, beaches) and those areas where resource-intensive exploitation takes place.

Moreover, Chile's preoccupation with resource-intensive development over recent decades has effectively left an institutional vacuum around many natural resources with tourism development potential. Before the 1990s, for example, CONAF showed little interest in gearing state-controlled natural resources toward tourism development. Consequently, most national parks (those areas with strict environmental regulations) remained inaccessible islands of preservation during the 1970s and 1980s, where natural resources were not seen as tourism assets nor was tourism infrastructure (hotels, guide services) in adjacent areas encouraged. In this context, a critical issue for Chile is to find ways to build up supportive tourism infrastructure and promotional materials around natural resource attractions. A recent government document, for example, notes that the

National Wildland Areas “represent valuable capital to promote new forms of tourism, at the national level as well as to attract international tourists ... [but] large extensions of these areas are under-utilized by tourists, due to the lack of an integrated approach to ecotourism development” (SERNATUR 2002: 8).

On the flip-side, recent tourism growth may make the protection of natural and/or cultural-historic resources more salient to the state. Weyland (1999: 87) notes: “whereas stricter environmental protection may hurt other export sectors... it may make the country [referring to Chile] more attractive for tourists, an important growth sector...”

A case in point is the southern town of Puerto Natales, where prominent local actors such as Chamber of Commerce originally opposed the expansion of the *Torres del Paine* national park in 1975, arguing that strict land regulations would harm the local economy. By the late 1990s, however, Puerto Natales’s local economy would be largely based on dynamic tourism industry, which is dependent on the same national park opposed by local actors as economically harmful some thirty years ago (Weber 2001: 195).

CONAF’s Shifting Policy towards Tourism Resources

While the state showed little interest in using conservation as a means to promote Chilean tourism in the past, it has recently jumped on the nature tourism bandwagon. This shift in orientation became apparent in mid-1990s, when state agencies CONAF and SERNATUR (National Tourism Bureau) examined the country’s natural resources in relation to international tourism trends and local industry practices. The resultant report determined that Chile’s natural resources could become very competitive advantages in

the global tourism market but that they were underdeveloped. More specifically, the study cited 40 protected land areas that had significant tourism potential but lacked minimal tourism infrastructure as well as good promotion (Schaerer and Dirven 2001: 23). Shortly thereafter, CONAF published “Ecotourism in National Parks” (*Parques Nacionales para el Ecoturismo*). This document signaled a break from the old model where the state did little to nothing to develop tourism in or around protected areas. The state’s new focus included various strategic objectives:

- Improve and create tourism services within protected land areas using a sustainable development framework;
- Strengthen environmental protection and environmental education at the local level;
- Improve the quality of life for local rural communities living in areas bordering protected land areas;
- Promote ecotourism by granting concession to the private sector, which could provide tourism services in some national parks (Lazo 2001: 68).

In this context, CONAF has begun to pursue new lines of action, including research on the tourism potential of protected land areas, the documentation of environmental impacts associated with tourism activity in protected areas, and the realization of public awareness campaigns promoting ecotourism and sustainable resource management in local communities (Lazo 2001: 72). Another element resulting from the state’s prioritization of natural resources as tourism assets has been a push to increase concessions and development projects in or around protected land areas (Schaerer and Dirven 2001: 24). Granted through competitive auctions where private firms and/or NGOs present management plans to the government, concessions in national parks have two main objectives: to generate revenue for the state and by extension lessen CONAF’s administrative demands in protected areas; and to improve the tourism

competitiveness of protected land areas. In the words of an executive manager at CONAF: “one of the fundamental reasons for such a shift was ... the scarcity and inadequacy of existing infrastructure in the majority of protected areas to confront the growing and sustained visitor demand” (Lazo 2001: 68).

All of this is not to say that the private sector has been given open-access to protected land areas. The state retains ownership and management responsibilities of all protected areas, while concession awardees supply recreational services, e.g. guiding services, restaurants, campgrounds. Furthermore, regulations demand that private operators provide improved services, use low-impact instruments, encourage economic participation of adjacent rural inhabitants, and protect the natural and cultural environment (Palma et al. 2002). Such regulatory measures are spelled out clearly in recent government documents such as the “Policies for the Development of Ecotourism in National Wildland Areas” (*Políticas para el Desarrollo del Ecoturismo en Áreas Silvestres Protegidas del Estado*) and “Regulation for Ecotourism Concessions” (*Reglamento para Concesiones Ecoturísticas*).

Several factors help explain why the state has become more active in promoting tourism in protected land areas in recent years. There are economic motivations. In the context of favorable international and domestic market trends, the state effectively re-evaluated the use-value of protected land areas, which historically lacked the physical and service infrastructure (e.g. trails, maps, adequate guides, or hotels in adjacent areas) to attract a significant volume of nature tourists. Lacking the financial and technical resources to carry out substantive touristic infrastructure projects, state agency CONAF

realized that it could not go-it-alone.¹¹⁹ In this context, the state would emphasize building alliances with the private sector and civil society to make protected areas with tourism potential more competitive.

The state's new interest in nature tourism must also be placed in the larger development context and the political realities of the center-left administrations of Eduardo Frei (1994-2000) and Ricardo Lagos (2000-present), both of which have given more currency to the promotion of local and civil society participation in the development process. Encouraging nature tourism represents one concrete response to this context.

The next section takes a closer look at new public-private tourism partnerships linked to the development of Chile's natural tourism resources and the underlying institutional structures that have supported their formation.

Public-Private Tourism Partnerships and its Institutional Context

New efforts to develop nature tourism in Chile are embedded in a public-private partnership approach. It is first important to understand the broader context in which public-private tourism partnerships in Chile have emerged and provide some examples of them. To begin with, the state's growing emphasis on nature tourism is underlined by broader objectives to promote local economic stake in natural resources and to encourage new types of growth in remote or rural communities. An executive manager of CONAF's public use and ecotourism division explains:

¹¹⁹ For example, only 13% of SNASPE's \$5.2 million goes toward investment in parks. The rest goes toward bureaucratic costs (Lazo 2001: 68).

Years ago we were very focused on business, business, and business [referring to CONAF's focus on forest products]...but now we are focused on the social character of development---local and rural development... Since the 1990s, policy *has* changed, and we have broken the paradigm that the national parks are closed off. Nowadays, they are seen as source of local development, especially through ecotourism. This emphasis underlies the current national orientation focused on promoting participation of the people who live in and adjacent to national parks...around 18 thousand people...Our focus is on participation and the local community and ecotourism represents a means to carry out such a mandate.¹²⁰

NGO-implemented tourism projects in and around Chile's protected land areas are well suited to help the state achieve such objectives. A good example is the large Chilean NGO – *Fundación Chile*, which began to implement nature tourism projects in the late 1990s as a means to integrate environmental sustainability issues and local economic viability. With administrative (and financial) support from the state, the *Fundación* has implemented various programs, which are focused on supporting small tourism entrepreneurs living in or adjacent to various national parks (Bitrán 1999; Cortés Toro 2001). During an interview, the Director of the *Fundación's* tourism division in the 10th region elaborated:

We have an extraordinarily large national park system...but in the past there was not much tourism infrastructure in the parks...So what we are trying through numerous projects is to diversify the availability of tourism services in the interior of these parks... We only became involved in such projects as recently as several years ago...as CONAF began to change its approach to tourism.¹²¹

¹²⁰ Interview with Angel Lazo A., Executive Manager of Public Use: Department of Natural Heritage CONAF (Santiago, January 2004).

¹²¹ Interview with Javier Marín, Director Tourism Projects-Fundación Chile, X region (Puerto Montt, February 2004).

Another good example is the project *Ruta de los Volcanes* (Volcano Route), which was launched in 1998 through a partnership between CONAF and *La Fundación EuroChile* (EuroChile Foundation). *Ruta de los Volcanes* is directed at improving local tourism services and products (e.g. artisan work) in and around several protected areas in the 9th region (EUROCHILE 2004). To this end, EuroChile has provided technical assistance to various local communities adjacent to national parks, e.g. training in accommodation and/or guiding services, with partial financial and technical support from the state.

In addition to illustrating new types of collaborative action between the state and civil society, the above mentioned developments highlight the important role of institutional state structures in facilitating new development initiatives. For example, the relatively efficient legal framework for small businesses in Chile described in Tokman and Klein (1996) is mirrored in state resource management agencies in terms of the clearness and accessibility of ecotourism concessions in national parks. That is, a flexible and technically competent state apparatus helps NGOs apply and get permits to execute their development projects in a relatively efficient manner.

New tourism public-private partnerships also remind us of the importance of state-society ties. To recall, Chile has a relatively strong tradition in depending on public-private partnerships to solve development challenges (Perez-Aleman 2000, 2003; Silva 1996), and these patterns facilitate the creation of tourism partnerships. Such partnerships in turn help state officials learn more about the technical aspects of nature tourism development and its practices “in the field”, and hence contribute to the state’s

capacity to formulate more customized policies regarding nature tourism development. Public-private partnerships also help the state gain local embeddedness. This is particularly important when significant cultural and socioeconomic differences, if not hostilities, exist between state actors and local communities, as in indigenous Mapuche communities in the Chilean context.¹²² For example, local NGOs such as IMPULSA have been particularly important in formulating and implementing ‘ethnic tourism’ development projects with Mapuche communities in Lake Budi, 9th region.

Remaining Institutional Obstacles

Identifying some of the prominent institutional obstacles facing the development of Chile’s tourism resource assets is the final task of this section. While the state has recently prioritized Chile’s natural resources as a means to expand tourism development, some would argue that new state efforts have been half-hearted at best. This notion was expressed during interviews with various tourism entrepreneurs and civil society actors, who seem frustrated by incremental state action in promoting Chile’s natural tourism resource assets.¹²³ In this vein, the Director of *Fundación Chile’s* ecotourism division noted: “if Chile really wants to compete with New Zealand or Australia or South Africa

¹²² The recent history between the Chilean state and Mapuche communities is a relatively contentious one (see Richards, P. 2002 and 2003: 255-256).

¹²³ Interview with Lucia Montaner Lewin (Executive Manager) and Pedro Gutiérrez Ayala (President, Department of Tourism) of Temuco’s Chamber of Commerce, Services and Tourism (Temuco, January 2004).

much more creative and aggressive policy in its national system of parks is needed...we need to take advantage of existing domestic and international tourism demands...”¹²⁴

This condition is traceable in part to the state’s lack of experience in gearing natural and cultural resources to the benefit of the tourism industry.¹²⁵ Exacerbating this situation is the limited number of employees specialized in ecotourism in CONAF and other state agencies involved in tourism. While the situation is improving, there are still only a handful of ecotourism technocrats within the state’s national and sub-national apparatus, mostly due to budgetary constraints.¹²⁶ Moreover, although CONAF includes a staff made up of an interesting mix of environmentalists and commercial foresters (Clapp 1998), the latter group seems to have more political clout and available resources. This constraint was pointed out by a state-financed study on tourism development in Region X (Mazars and Integral Chile 2002), which recommends that CONAF hire more civil servants with expertise and field experience in nature tourism development.

BROADER IMPLICATIONS

This chapter shows the importance of the role of the state and its institutional character in shaping the way tourism resource assets in Peru and Chile have emerged, are shaped, and will evolve. My research findings demonstrate that as changing global

¹²⁴ Interview with Gonzalo Salomanca, Director of the Ecotourism Program, Fundación Chile (Santiago, January 2004).

¹²⁵ This is seen in San Pedro de Atacama, an increasingly important international tourism pole located in Chile’s northern desert region. Despite their tourism potential, many surrounding natural resource assets continue to be under-exploited, as in “*Los Geyseres of Tatio*” (Buitelaar 2001: 181).

¹²⁶ Interview with Angel Lazo A., Executive Manager of Public Use: Department of Natural Heritage CONAF (Santiago, January 2004).

opportunities (i.e. tourist demands) have favored Peru's and Chile's stock of resource assets, a principal theme for government and local capital in both countries centers on prioritizing particular state protected natural and/or cultural-historic resources as a means to advance tourism development. There is, however, considerable variation in the way each state responds to the existing development challenges related to such resources.

To explain why Chile's response seems more productive and effective than Peru's it is useful to look at state institutional structures. Turning to Peru, I found at least three institutional characteristics that encourage counterproductive development inputs: a) a lack of bureaucratic coherence at the central and sub-national level; b) excessively centralized intervention in protected areas with high tourism activity; and c) the absence of positive state-society ties. Such institutional arrangements, coupled with a bureaucratic apparatus bogged down by procedure, have reduced the state's capacity to respond to the environmental problems emerging in Peru's principal tourism destinations. This evidence goes beyond a neoclassical view of the state, suggesting that it is the incomplete nature of the institutional development of Peru's state apparatus, not its strangle hold on tourism markets, that better explains the emerging environmental costs of recent tourism growth in the Cusco region.

In contrast, Chile has clear institutional advantages over Peru in addressing major tourism resource development challenges - the presence of relatively strong state-society ties, administrative state capacity at the central and sub-national level, a more "managerial" style of governance based on technical efficiency and flexibility, and a more robust domestic tourism market that provides an alternative to the fickleness of

international tourism demands. Taken together, these factors have created a context more conducive to addressing the challenges associated with tourism resource asset development.

With respect to the recent formation of public-private tourism partnerships around the development of resource assets in Chile, several important theoretical points arise. First, it illustrates an innovative way that the state is attempting to promote new markets under the new socioeconomic model - engaging with civil society and coordinating private sector activities. Second, public-private ties can help a cash-strapped state with limited technical knowledge more effectively address development challenges. Third, public-private collaboration can provide the local embeddedness that can make the state more developmental, especially where significant cultural and socioeconomic gaps exist. Take, for example, the Chilean NGO IMPULSA, which carried out a tourism-based community development project with Mapuche communities during the early 2000s. An associate of IMPULSA commented during an interview that: "... there is no trust between the communities [referring to Mapuche communities of Lake Budi] and the state. But we have their trust because we have almost 11 years of experience in working in these communities."¹²⁷ It seems reasonable to assert that this particular NGO, which received some financial and administrative support from the state, would be more effective in implementing tourism development initiatives in Lake Budi, as against direct state intervention.

My research findings also point to the centralized character of the state apparatus as important state structure shaping the management of tourism resources. While

¹²⁷ Interview with Marcela Aguilar, Associate Fundacion IMPULSA (Santiago, January 2004).

budgetary considerations and general park regulations are indeed made in CONAF's centralized Santiago office, its sub-national field offices have some kind of planning and expenditure autonomy. Insofar as these state agents have leeway in the types of projects and civil society alliances they wish to pursue, the state can be more adaptive to local circumstances. A good example of this is found in joint projects between sub-national state officials, local tourism business associations and NGOs in region X, e.g. *La Red de Agroturismo de Chiloé*. Such relationships promote the mobilization of scarce resources and also information-sharing at the sub-national level, which can then be relayed to central actors.

By contrast is the case of Peru, where sub-national state agencies (e.g. INC-Cusco) have less room to adapt top-down resource management strategies. This institutional context, in turn, limits the state's embeddedness in local institutions as well as its capacity to respond quickly to emerging development challenges linked to tourism growth. For example, excessive centralization constrains the possibilities of forming productive partnerships between central and sub-national state actors and local NGOs doing tourism related development work in the Cusco region.¹²⁸

These observations reinforce several general arguments about the state and development in the global liberal period. First, state institutional capacity helps shape a country's integration in the global economy by mediating the way the state can mobilize and manage a country's endowed resource assets. Evidence from the two countries also makes a compelling case that natural or cultural-historic tourism can make conservation

¹²⁸ Interview with Toby Bloom, Consultant of Sustainable Tourism, Technical Institute KHIPU: Sustainable Tourism Department, Cusco (Cusco, December 2003).

more salient to the state. Put another way, the protection of natural and/or cultural-historic resources seems more probable if it can be linked to economic development, rather than something solely based on philosophical ideals about nature's intrinsic value. At the same time, it is important to point out that the more success countries have in deepening tourism expansion through the provision of unique resource assets, the more susceptible those resources will become to degradation. This dynamic is plainly observed in the Cusco region of Peru.

Altogether, this chapter suggests some of the complexities emerging from the new socioeconomic model. How, for example, can the state protect the quality of its resource stock while promoting economic growth and development based on those resources in the context of increasing globalization, liberalization, and the downsizing of state bureaucracy? To be sure, there are no simple answers. On the promotion side, states are now limited in the kinds of market-altering inputs that can pursue. On the preservation side, severely limiting human access (whether tourists or locals) to natural resources is not an imaginable option, especially in poorer countries where employment and growth concerns often prevail over conservation matters.¹²⁹ While the first policy step in tourism-related resource issues often entails the legal protection of important natural or cultural-historic attractions, this is not a long-term solution, as witnessed in Machu Picchu where the mere establishment of regulations is not ensuring resource preservation or local social harmony.

¹²⁹ For example, Bhutan, a small country located in Asia, has instituted strict tourist entry quotas in order to limit the influence of tourism on the country's strong cultural and environmental heritage. Of course, the adoption of this policy is not nor will be widespread.

A long-term avenue of action could be found in the concept of competitive state strategies, which not only emphasizes a stronger regulator role for the state in resource management, but also a more institutionally capable state with collaborative ties with the private sector and civil society groups at the central and sub-national level.

As the case of Peru shows, a highly insulated state apparatus is unable to cope with the distributive and environmental conflicts emerging from tourism growth in the hinterland. Peru also reveals that an old bureaucratic style of management based on highly centralized procedural rules and decision-making hampers the state's ability to respond rapidly to changing economic and environmental challenges.

The central point I wish to make is that new kinds of tourism development based on fragile resources relies a great deal on state institutional structures. Thus new approaches to develop Chilean tourism around natural resources are facilitated by an institutionally strong state with sub-national coherency and a tradition of public-private collaboration. New tourism strategies are also enhanced by a state apparatus that has moved more rapidly to a managerial style of governance based on flexibility and control based on results. This style seems particularly well suited to the development of natural/cultural resource based tourism, which requires more customized approaches than mass tourism development.

The next chapter extends many of the themes presented in this chapter by moving to the sub-national level. While sub-national government has traditionally played a minor developmental role in the economy throughout Latin America, decentralization reforms and the larger economic context are creating new avenues for sub-national state

involvement in the development process. I look at this situation in light of the tourism sector within two very different sub-national contexts – the Cusco region in Peru and the region of Los Lagos in Chile.

CHAPTER VI

SUB-NATIONAL GOVERNMENT AND EMERGING INDUSTRIES: TOURISM IN CUSCO, PERU AND LOS LAGOS, CHILE

INTRODUCTION

In contrast to the top-heavy state of the ISI period, the search for new types of economic growth in Latin America (like tourism) is occurring in the context of decentralization of the state, which represents a major political-institutional change to occur across the continent in recent years (Manor 1999; Roberts 2005; World Bank 2003).

The influence of decentralization on the state's role in the economy is not well understood. While economists have made some inroads in analyzing the interplay between decentralization and economic development (e.g. Davoodi and Zou 1998; De Mello 2004), developmental state research has generally ignored the impact of a decentralizing state, only addressing sub-national actors: "... in the context of their relationships to policies emanating from national level institutions" (Doner and Hershberg 1999: 45). Meanwhile, the decentralization literature has tended to gloss over the potential impacts of decentralization on a country's economic performance.¹³⁰

¹³⁰ In the Latin American context, most research has instead focused on the consequences of decentralization reforms for (a) civil society participation in governance (Fiszbein 1997); (b) the delivery of public services, namely in the health and education sectors (Rounds Perry 1997); (c) the internal power dynamics of government, such as the changing relationships between the "Center" and sub-national

This chapter considers an underdeveloped line of analysis that aims to highlight the interplay between the state and the economy in the context of decentralization of government. Specifically, it examines at the emerging tourism industries of Peru and Chile and the conditions under which sub-national state actors facilitate (or not) tourism development. It asks how do sub-national units of government get involved in an emerging tourism sector and what are the circumstances that help shape its input in the tourism development process? The theoretical premise driving this question emphasizes the important role of the state and institutions in shaping economic performance in developing countries.

Developing greater depth to our understanding of sub-national government's role in economic development is no easy task and poses significant methodological challenges (Appendini and Nuijten 2002).¹³¹ Aside from the often inferior quality of data at the sub-national level in developing countries, sub-national institutional state structures are likely to vary greatly across and within countries. As recent study from ECLAC/GTZ (2001: 21) points out, every locality or territory to some degree reflects specific productive, technological, organizational, and private sector capacity; they encompass different types of resources, infrastructure, social and political systems, and culture. This diversity makes it difficult to measure, compare, and generalize about the potential linkages between sub-national government capacity and economic performance in developing countries.

government (Rodríguez 1997; Rodríguez and Ward 1995; Ward and Rodríguez 1999); and (d) democratic practice; for example, if strengthening and/or democratizing lower levels of government make government more accountable and responsive to citizens (Manor 1999).

¹³¹ Drawing from Burki, Perry and Dillinger (1999: 25), I use the term sub-national to refer to: "territorial subdivisions of the nation."

Given such complexity, this chapter employs a qualitative case-study approach, which focuses on one politically defined *region* within Peru and Chile. In Peru, I draw attention to the Cusco region, a territory that encompasses the premier cultural-historic tourism destinations of Machu Picchu and Cusco City. In Chile, I focus on *Los Lagos* or the Lake region (region X), an area where natural resources (temperate rain forests, rivers, and volcanoes) have become important sources of recent tourism growth.

These case-study sites provide appropriate sites to explore the relationship between sub-national government and an emerging industry for several reasons. On a similar front, tourism can be considered an important growth sector for Cusco and Los Lagos. Both of these regions are also embedded within highly centralized unitary state systems, which have experienced decentralization reforms in recent years (Peru, 2002-present; Chile 1990s-present). At the same time, there are important structural differences between each region (and country) that make a comparison of them especially interesting. Among Latin American countries, Chile has a solid rule-governed environment and one of the most efficient and coherent state apparatuses. By contrast, Peru continues to have a relatively volatile national environment propped up by a comparatively weak state as we have observed in previous chapters. Moreover, Chile has a more flexible and decentralized state with greater sub-national reach when compared to Peru. These differences help sharpen and refine the theoretical arguments presented in this chapter.

Borrowing insights from decentralization, developmental state and institutionalist literatures, my analytical approach is based on the separate treatment of three distinct

sub-national government units in each case: (a) regional field offices of the central administration, (b) regional government, and (c) municipal or local government. At each level, I focus on several common issues: first, the extent to which each specified government unit responds to the regional/local tourism development challenges of the day; second, the institutional factors that influence sub-national government's involvement in this endeavor; and third, whether steps toward decentralizing the state in each country make a difference in the way regional tourism development is mediated, if at all, by sub-national state units.

To address these concerns, I rely on evidence collected during one year of fieldwork in Peru and Chile. Important data sources include over 70 key informant interviews, which included representatives from national, regional and local government entities as well as sub-national private sector leaders.¹³² This analysis is combined with an examination of secondary materials, namely government documents, technical reports, and local newspaper articles. With this approach, my intention is not to provide definitive answers to contemporary debates over decentralization and economic development. Instead, I aim to offer some useful empirical information and theoretical insights that warrant further debate and refinement.

The issues raised in this chapter are situated at the cross-roads of scholarly thought about development, the state, and decentralization. Rather than anticipating the end of the state, this chapter, as previous ones, sets out to address how the state and its institutional character continue to shape the mobilization of an emerging non-traditional

¹³² For each group, questions were semi-structured and focused on gathering information about the types of sub-national state intervention (and autonomy) in the tourism sector, the direction regional and local policy is headed, and each representative's perception of a range of issues related to the development of tourism.

industry important to the global economy. The over-arching argument is that those states that enjoy favorable institutional structures not only at the central but also *sub-national* level are likely to address contemporary development challenges more efficiently and effectively. The cumulative capacity of sub-national state structures, I contend, influences the effectiveness of public policies and the manner in which peripheral areas develop and seize new economic opportunities.

The chapter is organized as follows. First, I sketch out important theoretical issues related to decentralization, the state, and tourism. I then discuss the two case studies in greater detail. Following this, I present analysis of the three sub-national government units examined in each case: (a) regional field offices of the central government administration, (b) the regional tier of government, and (c) municipal or local government. I determine the general relationship between each level of government and an emerging tourism industry and discuss the institutional arrangements that mediate the identified relationship. A discussion of the broader theoretical points emerging from this analysis concludes the chapter.

BRINGING IN THE SUB-NATIONAL STATE

While decentralization means many things to many people, it generally refers to the transfer of the central state's political, fiscal, and/or administrative powers and functions to lower level government units (Manor 1999; Rondinelli, Nellis and Cheema

1984).¹³³ Rondinelli (1981) provides a helpful framework to think about different ways of transferring central authority of the state to lower levels: (1) deconcentration - transfer of central government functions to centrally controlled sub-national agencies (such as field offices); (2) delegation - the transfer of central government functions to local central-state agencies which have some control in the implementation of programs; (3) devolution - transfer of central government functions to autonomous levels of government, which have their own elections and revenue-generating capacity.

Coming to the fore in Latin America in the 1980s, and especially the 1990s, decentralization reforms have followed the economic and political realities of the current period. Economic liberalization and structural adjustment, for example, encouraged excessively centralized top-down states to disperse power, not least because they could not afford to pursue development and social policy programs of the past (Finot 2002). Decentralization movements in Latin America have also followed the democratization of the region in the 1980s and 1990s and the subsequent emphasis on government accountability, the downsizing of the state, and citizen participation, themes strongly advocated by multilateral institutions such as the World Bank and U.N. (Eaton 2004). Moves toward decentralization have also coalesced around the argument that the rigid top-heavy state of the ISI period was inefficient, ineffective, and isolated from the local context (Manor 1999; Tandler 1997).

While there is no one universal experience of decentralization, evidence suggests a growing importance of sub-national state structures in Latin America. A recent

¹³³ As opposed to “horizontal decentralization,” which focuses on the separation of powers between different government branches, such as the executive, legislative and judiciary (Rodríguez 1997: 146).

ECLAC study shows that the average percentage of public spending carried out at the sub-national level in Latin America rose from 12 to 17.6 percent between 1985 and 1995 (2003b: Figure IX.4, pp.333).¹³⁴ By the close of the 1990s, the average public spending at the sub-national level for Latin America was estimated to have increased to 20 percent. Meanwhile, the total number of Latin American countries with directly elected mayors rose from a mere 3 in 1980 to 17 by 1997 and “more leaders have begun to be directly elected at the intermediate levels (states, provinces or departments) in several of the region’s countries” (ibid.: 331).

Despite trends toward administrative and some degree of political decentralization (local elections), fiscal decentralization, which entails transferring expenditure and revenue-generating responsibilities to lower level governments, remains a major challenge for the region. Roberts (2005: 146) points out that in the majority of Latin American countries: “...there has been relatively little loss of central control over revenue and its allocation.” Seen in this light, strengthening the revenue-generating capacity of sub-national government units (intermediate and local level) remains a vital step in enhancing the capacity and accountability of sub-national government.¹³⁵

Taken together, recent moves toward decentralization raise important questions for development scholars. One issue is the influence of decentralization on democratic and political processes. Another central concern is the impact of decentralization on the organization of the state and its role in the development processes.

¹³⁴ In 1995, Argentina, Brazil and Colombia had the highest percentage of public spending at the sub-national level. Chile’s average was 16 percent and Peru 10.5 percent.

¹³⁵ According to fiscal decentralization theory, sub-national government effectiveness and efficiency is predicated on their level of decision-making authority and capacity to implement their own policies (Oates 1972).

With respect to the relationship between decentralization on the democratic process, decentralization is advocated as a way to make government more politically accountable and responsive to local priorities and demands. A related argument is that lower levels of government are closer to the people and hence may be more effective than their central counterparts in governing and delivering collective goods and services for local constituencies (Manor 1999; Putnam 1993; Roberts 2005; Tandler 1997). Political decentralization may also open up more opportunities for citizen participation in decision-making (Roberts 2005b: 119), which can enhance the transparency of government and the formulation of policies (Brinkerhoff 1999).

Decentralization may also have important consequences for economic development. Increasingly, an argument is that strengthening sub-national government units can advance local economic competitiveness. This argument parallels economic trends in many developing countries, where increasing globalization and export-led development has stimulated the growth of secondary cities and capitalist accumulation in peripheral areas (Portes and Roberts 2004). In this vein, Doner and Hershberg's (1999) comparative analysis of East Asia and Latin America, argues that sub-national government engagement in development the context of spatial/economic decentralization can make public polices better tailored toward the specific needs of local firms, as in the case of the electronics industries of Penang, Malaysia. Examining industrial clusters in various regions of Germany, Japan and Italy, Weiss (1988) gives evidence that regional and municipal governments can play an important role in mobilizing local infrastructure around particular productive activities (cited in Brautigam 1997).

With that said, scholars have also called attention to the potential perils of decentralization, raising the question of whether decentralization reforms are good for economic development (Prud'homme 1995). In a study of over 46 countries from 1970-1989, economists Davoodi and Zou (1998) show a negative statistical relationship between fiscal decentralization, as the sub-national share of total government spending, and economic growth in developing countries. Studies have also pointed out that lower level governments may be especially susceptible to manipulation by local elites (Fox 1994b; Tanzi 1996). Face-to-face interaction and comradeship, for example, may be more frequent at the local level, enhancing the possibility of corruption. There is also the potential problem of local clientelism, that is, the planning and implementation of local policies based on political rather than technical criteria.

Such issues raise a key concern for the present discussion - the institutional capacity of sub-national government units. To be effective, sub-national government bureaucracies, like their central counterparts, must have institutional strength, namely administrative competence, fiscal and technical resources, internal flexibility, as well as strong ties with the private sector and civil society.

To be sure, there is significant variation in the institutional capacity of sub-national government units across and within countries, as Hiskey's (2005) recent research in Mexico shows (see also Ward and Rodríguez 1999). Differences between sub-national government capacities can arise from numerous factors. For example, administrative and fiscal competence of local governments in rural areas may be more limited than their urban counterparts (Manor 1999). Likewise, some sub-national government units may

have more technical training and knowledge about the political economic environment than others. Such diversity is important as institutionally capable sub-national government could take advantage of increased responsibilities granted by decentralization reforms, while institutionally weak ones remain paralyzed. This situation could then exacerbate socioeconomic inequality between different territories and the fragmentation of public interventions across space (Finot 2002: 138).

The institutional capacity of sub-national government (state, regional or local) may also depend on the nature of inter-governmental relations. To help account for variation in the autonomy of lower levels of government in Mexico, Rodríguez (1997) points to inter-governmental linkages (e.g. financial aid, technical support, regulation). According to the author, central government involvement at the lower level can aim to control or assist. “Control linkages” allow the central government to control some aspect of sub-national government performance and is often times political in nature. In contrast, “assistance linkages” aim to support and facilitate activities of decentralized units. For the purposes of this chapter’s analysis, understanding the nature of inter-governmental linkages is important because it may help explain the capacity of sub-national government to mobilize development, in our case tourism. For example, assistance linkages with central government could enable lower levels of government to make more effective inputs in tourism. Meanwhile, a preponderance of control linkages could hinder the flexibility and hence capacity of sub-national government to respond to development challenges.

In sum, decentralization raises important issues for the organization of the state and state-market relations. I postulate that those states underpinned by strong and capable sub-national government units may be expected to provide more efficient and effective support to emerging markets, especially in areas away from the megalopolises characteristic of many developing countries. Viewed in this light, decentralization can be seen as a process that does not necessarily limit the central state's development capacity, but instead can reinforce it and make it more efficient. Looking at tourism, a type of development emerging in peripheral areas of many developing countries provides a useful lens to evaluate these propositions.

EMPIRICAL CASES

Two politically defined regions were selected from the larger case studies - the Cusco region in Peru and the region of Los Lagos (Xth) in Chile. While both regions are relatively poor rural areas that have come to see tourism as an important productive activity in recent years, there are two significant differences between them, which may influence the way sub-national government units get involved in an emerging tourism sector. First, each region is embedded in a different national context of decentralization, and second there is the issue of different tourism resources/patterns in each case.

Decentralization in National Perspective

While both Peru and Chile have undergone significant decentralization reforms in recent years, there are considerable differences between them. Peru is one of the most centralized countries in Latin America and can be considered a latecomer to relatively all

forms of decentralization (Galarza Lucich 2002; Mauceri 1995). As far back as the 1800s, evidence suggests that Peru has had an excessively centralized state (Dickovick 2004).

In recent years, Peru has vacillated between centralizing followed more recently by decentralizing tendencies. Alberto Fujimori's administration (1990-2000) enacted policies that were to centralize the Peruvian state even more. For example, as part of Fujimori's dramatic *autogolpe* (dismantling of the National Congress) in 1992 some important facets of decentralization legislation were revoked and regional governments replaced with Regional Transitory Councils (*Consejos Transitorios Regionales*, abbreviated CTAR), serving to strengthen the central power of Fujimori's authoritarian style regime (Dickovick 2004; Quedena 2002: 24-7). The Fujimori administration also was to reduce municipal government budgets, which became the lowest of the Latin American region (Thorp 1995).

Since the election of Alejandro Toledo (2001-present), a revived process of decentralization has begun in the context of democratization and state reform. Taking hold in 2002 with the Law of Decentralization (*Ley de Bases de la Descentralización*, # 27783), Peru's current framework delineates new roles for lower levels of government, outlining a timeline for transferring central government resources to regional and municipal governments. Significant elements of this new framework have included the establishment of 24 elected regional governments in 2002 and the adoption of the Fiscal Decentralization Law (LFD) in January 2004, which defines new mechanisms for fiscal

and administrative transfers to 24 regional governments and 194 provincial and 1,635 district municipalities.¹³⁶

Although decentralization reforms seem to be a priority of the Toledo administration, Peru continues to have a highly centralized state apparatus with weak sub-national state structures, which have little fiscal capacity on their own or from central government (CG hereafter) transfers. A recent study, for example, shows that the distribution of the national budget remains highly concentrated at the central level (90%), with municipal governments only receiving 5 percent of the total (Huber 2003). As a point of contrast, local governments receive more than 15 percent of the national budget in Ecuador and 25 percent in Bolivia (ibid.). Peru also continues to have weak economic decentralization; for example, in the early 2000s metropolitan Lima accounts for 54 percent of the national GDP (Gonzales de Olarte 2004: 14).

Chile also has a highly centralized unitary state, but one with more sub-national reach and flexibility than Peru. The contemporary nature of sub-national political institutions in Chile is rooted in “regionalization” reforms enacted by Pinochet’s military regime between 1973 and 1989 (Slater 1995). An important component of this was the formation of 13 regions headed by centrally-appointed Governors under the *Ley Orgánica Constitucional sobre Gobierno y Administración Regional* of 1974.¹³⁷ While Pinochet’s regionalization agenda essentially reflected top-down edicts that were to buttress the central state’s political control across a vast and diverse territory, it also

¹³⁶ Up until 1979, the structure of Peru’s political system was divided into two levels, central and municipal governments. Currently, Peru is politically organized around the national (central) level, 24 regions (formerly departments), 194 provincial municipalities, which are divided into 1,635 smaller district municipalities (and 1,871 ‘centro poblados’) (INEI 2004).

¹³⁷ Another component of the initial stage of decentralization in Chile was the transfer of primary health clinics to municipal government control in the 1980s (Haagh and Helgø 2002).

prompted considerable deconcentration of the Chilean state and some early forms of decentralization.

Currently, Chile's sub-national government structure is defined by 13 regions, which are then divided into smaller units called provinces (51 total), and therein *comunas* or municipalities, which there are 335 (Rounds Parry 1997). With the re-establishment of democracy in 1990, Chile has undergone a more aggressive process of decentralization marked by the transfer of administrative, planning, and investment responsibilities to lower levels of government, as in the 1993 Law of Regional Administration, which gave regional governments more authority and resources to design their own development plans (Burki, Perry and Dillinger 1999: 4; Insunza Flores 1997). Other prominent changes include the democratization of municipal governments, which had centrally-appointed mayors under Pinochet, the growth of central government transfers to regional and municipal governments, and the expansion of expenditure autonomy to these bodies (Insunza Flores 1997; Haagh and Helgø 2002).¹³⁸ This dispersion of central authority since 1990, I argue, has not proceeded primarily to consolidate political control at the local level (as during the Pinochet regime), but rather to advance government efficiency and effectiveness.

With that said, it should be pointed out that control of revenue remains firmly in the hands of Chile's central state. Chile's regional governments also continue to be led by centrally-appointed *Intendentes* (Governors), have no law making functions, and are

¹³⁸ Since 1992 municipal governments in Chile have been headed by an elected mayor, who serves a four year term. Aside from the mayor, local government consists of the *Consejo Comunal* (Municipal Council) and the *Consejo Económico y Social Comunal* (Municipal Economic and Social Council), which along with the mayor, promote the economic, social and cultural progress of local community.

more of a reflection of central state authority rather than organized regional interests (Raczynski and Serrano 2001).

In sum, despite recent decentralization reforms both Peru and Chile continue to be highly centralized, where the central state has considerable control over revenue allocation and legislative action. However, there is considerable variation in the functions, authority, and institutional capacity of sub-national government in each country (see Table 6.1 below). Put simply, Chile has more coherent, flexible, committed, and capable sub-national units of government than Peru. This diversity has real consequences for state effectiveness in development issues, which shall become evident in my comparative analysis of the regions of Cusco and Los Lagos.

Table 6.1: Decentralization in Context: Selected Characteristics of Sub-national Government in Peru and Chile

Characteristics of Sub-national Government	Peru	Chile
Political	Unitary state	Unitary State
Primary Sub-national Political Institutions	Regional governments (24), Municipalities (194 - provincial) (1,635 – district)	Regional governments (13), Provincial (51), Municipalities (335 - <i>comunas</i>)
Elections <i>Regional Gov.</i>	2002	No*
<i>Municipal Gov.</i>	1981	1992
Devolved Functions	Low	Moderate (e.g. Health, Education)
Revenue-generating Capacity	Low	Low/Moderate
Fiscal Capacity	Low**	Moderate and growing**
Expenditure Assignment Autonomy	Low	Moderate and growing

SOURCE: Elaborated on the basis of various sources and interviews, including Burki, Perry, and Dillinger (1999: 3).

*Regional governments in Chile are not elected, but rather appointed by the central government.

** For example, in 1995 public spending at the sub-national level was estimated to be 10.5% in Peru and 16% in Chile (ECLAC 2003b: 333).

Regional Context and Tourism Patterns at a Glance

Apart from existing within a different decentralization context, the Cusco and Los Lagos regions contain different comparative advantages in the tourism market. As discussed in Chapter 5, the Cusco area is considered the Archeological capital of the Americas and is the dominant international tourism hub of Peru if not of the entire Andean region. The international recognition of Cusco's tourism resources to some extent lend to central level government engagement. Meanwhile, Los Lagos forms part

of Chile's resource-rich Lake and Volcano district, where tourism is growing but faces stiff national competition from the more internationally recognized Patagonia country, namely region XII. Chile also has a much larger domestic tourism market, which can foster greater emphasis on local production of tourism.

With a projected population of 1,208,689 in 2002, the Cusco region is located in the arid and high Andean mountain chain of southern Peru (INEI 2005). As the heart of the ancient Inca civilization, Cusco is characterized by great social and ethnic heterogeneity marked by a prevalence of Quechua-speaking indigenous communities. There is also substantial socioeconomic polarization and poverty in the Cusco area, characterized by considerable differences between *mestizo* urban elites from the cities and rural Indian communities in the hinterland (CBC and CIES 2003). Such social and ethnic heterogeneity, it can be argued, has limited the possibility of good governance in Cusco. Cameron and Mauceri (1997: 238), for example, note that the cultural and socioeconomic gaps between *mestizo*, Indian and *criollo* groups have: "contributed to the inability and unwillingness of state managers to penetrate the society beyond Lima and stunted the growth of a nationally integrative political community."

In economic terms, tourism represents one of the few globally integrating prospects for Cusco's economy, which generally relies on small-scale agriculture and public sector employment. Since the 1990s, the growth of international and to some degree domestic tourism has been unprecedented in the region. The most internationally well-known tourist assets of the region are Machu Picchu, Cusco City and the Inca Trail.

Although the cornerstone of Peru's tourism industry, the Cusco region faces pressing development challenges. One crucial dilemma, as spelled out in Chapter 5, relates to tourism activity around fragile cultural-heritage destinations. UNESCO's recommendation that Machu Picchu be placed on the "endangered" World Heritage Site list in 2004 is illustrative of this (*El Comercio* June 27, 2004). Other pressing regional development challenges include locals' often minimal share in tourism income and lack of participation in tourism policies. Thus, while local indigenous groups are often portrayed as brightly dressed cheery people to promote Peruvian tourism, the vast majority of them have little economic stake and political participation in tourism within the Cusco region. Moreover, many cultural-historic resources of the region with high tourism potential are by-passed by tourists because of poor roads, lack of promotion, and the absence of tourism services. This has caused tourism services to be highly concentrated around a few sites in the region, namely Cusco City which accounted for 88% of the entire region's bed capacity in the early 2000s (CBC and CIES 2003).

Region X or *Los Lagos* is located in rainy and heavily forested southern Chile and holds 1,073,000 inhabitants (INE 2002 census). Considered part of the Lake and Volcano District (Regions IX and X), Los Lagos occupies approximately ten percent of Chile's land territory. Forestry and salmon exports represent two major activities of the regional economic base, and tourism has become an important growth sector since the early 1990s. Given the relatively high proportion of the region's population considered

in poverty (32.7% in 2000), tourism is increasingly viewed as a means to generate regional economic growth and development.¹³⁹

While having less by way of international tourism (resources and absolute numbers) than the Cusco region, Los Lagos constitutes one of Chile's largest tourism markets. In 2000, Los Lagos held almost 25 percent (662) of the nation's total lodging establishments and 17 percent of the total hotel bed capacity (SERNATUR 2001).

Natural resources form the main tourism asset of the region, which holds 72 lakes and lagoons, 31 beaches, 18 sites for sport fishing, and 15 areas of hot springs (Schaerer and Dirven 2001). These natural resources are showcased in the region's 5 national parks, 5 national reserves, and 3 national monuments (CONAF 2004). The principal tourism service centers of the region are Valdivia, Osorno, Puerto Varas and Puerto Montt.

Generally speaking, the tourism sector in Los Lagos faces different development challenges than Cusco region. One is the prevalence of domestic rather than international tourism: approximately 70 percent of the region's visitors are Chilean and 30 percent foreign.¹⁴⁰ As a result, regional actors currently aim to help the tourism industry meet international competitiveness standards in order to capture a larger share of external markets. Other development challenges include combating the sector's high seasonality due to the climatic peculiarities of the region (cold and rainy winters), building local tourism capacities, and advancing touristic infrastructure in and around the region's five national parks.

¹³⁹ Poverty statistics come from the employment and household survey CASEN, which is reported by INE (*Instituto Nacional de Estadística de Chile*).

¹⁴⁰ With respect to international tourism flows, estimates suggest that the principal demand group is the Argentinean market, followed by Brazil, USA/Canada, and then Europe.

THE SUB-NATIONAL STATE AND TOURISM: LAS REGIONES DE CUSCO Y LOS LAGOS

FIELD OFFICES OF THE CENTRAL STATE

Field offices of the central government represent an important top layer of sub-national government. Associated with deconcentration or administrative decentralization, the movement of central agents into lower level arenas is often viewed as the weakest form of decentralization, because it preserves hierarchical relationships between field staff and the central administration (Manor 1999: 5). In other words, employees of sub-national field offices are still beholden to central government's authority and control over fiscal resources.

In the following section, I argue that under certain circumstances deconcentration can advance local development ends more frequently than the decentralization literature would generally have it (Finot 2002). Three points motivate this proposition. First, the more coverage central state agencies have at the sub-national level, then the more capable the state will be in modifying national policies to local circumstances. Second, it may be that regional and local level field offices can help the state connect macro policies with actors at the sub-national level; for example, regional line ministries may facilitate the transfer of knowledge about recent policies and facilitate flows of information across the central-sub-national divide. Third, deconcentration may enhance state-society relations.

Closer to the people, field office officials may be in a better position, when compared to their central counterparts, to develop productive alliances and/or trust with the local private sector and civil society actors.

In Peru, a number of central state agencies important to tourism have field offices in the Cusco region. Of these, at least three stand out as principal actors. The first is the National Institute of Cultural- Cusco (INC), which oversees Peru's cultural-historic heritage sites. A second important field office is the National Institute of Natural Resources - Cusco (INRENA), which is significant given the high touristic activity surrounding Cusco's natural resources (e.g. Inca Trail). A third sub-national state agency is the Regional Directorate of Tourism of the Foreign Trade and Tourism Ministry (*Dirección Regional de Turismo*, DRIT hereafter). Working under the authority of MINCETUR, DRIT's mandate is to promote regional investment in tourism and implement national norms and regulations for the tourism sector on the regional level.

The field offices most relevant to the tourism sector in Los Lagos include CONAF-X, CORFO-X, FOSIS-X, INDAP-X, SERCOTEC-X, and SERNATUR-X, whose primary role is to articulate national policy at the regional/local level.¹⁴¹ Toward this end, INDAP-X administers the national rural tourism program to a growing number of small rural tourism enterprises in Los Lagos. Meanwhile, SERCOTEC-Xth offers technical support and provides small seed grants to a growing number of micro tourism outfits, especially to those involved in "soft tourism" such as nature, adventure, and agro-tourism. SERNATUR-X has developed collaborative relationships with the

¹⁴¹ Regional ministries are organized by the Regional Ministry Secretary (SEREMIs), which aims to coordinate, elaborate, and execute regional development programs in harmony with national policy.

aforementioned sub-national agencies as well as the regional and municipal governments of Los Lagos, providing them with technical expertise in tourism planning.

Analyzing patterns of these agencies' involvement in regional tourism development yields the following account. In the Cusco region of Peru, field offices have limited funding, weak coordination with each other and societal actors, and no real strategy to help the region confront tourism development challenges, such as local people's lack of meaningful participation in tourism markets and policies. In contrast, field offices of the Chilean state appear to provide more meaningful and localized inputs into the tourism sector. Several factors work together to explain this comparative situation.

Factors Hindering Field Office Involvement

A number of elements help account for the unresponsiveness of tourism-related field offices in the Cusco region. First is the issue of planning and expenditure autonomy. My interviews with field representatives from INC, INRENA and DRIT portrayed regional line ministries as holding little decision-making authority to modify rules or programs designed by central actors. DRIT's executive director put it this way: "in reality we just execute national strategy, norms and regulations. We carry out numerous activities but at the request of the national directive."¹⁴² A lack of expenditure autonomy and decision-making authority also prevents field agents, who typically have richer local knowledge, from acting proactively. A long-time entrepreneur and tourism

¹⁴² Interview with Margarita García, Director of DRIT-Cusco (December 2003, Cusco).

leader in Cusco corroborated this when discussing land-use conflicts between the local private sector and the state in prime spaces of tourism activity:

The final decisions are almost always taken in Lima. There is a lot of centralism still. When conflicts emerge on the Inca Trail, for example, it may be discussed here with INC-Cusco, but at the end of the day, the debate ends up in Lima, where the decisions are made.¹⁴³

Excessively centralized decision-making and expenditure control is also illustrated in the so-called “decentralized” agency - Machu Picchu Authority (*Unidad de Gestión de Santuario Histórico de Machupicchu*, UGM hereafter). UGM represents a state agency created in the late 1990s in part to help generate more local participation in the management of Machu Picchu. While purposively placed in Cusco to bring the central state closer to the people, the majority of functionaries and local private sector actors I interviewed shared the opinion that UGM is altogether controlled by Lima. One interviewee particularly familiar with tourism development in the Cusco region remarked:

In reality UGM does not have their own opinion, which they really should have since they are the people who have direct contact with the problems in Machu Picchu. They see up-close what is happening. Meanwhile thousands of kilometers away, the problems remain ignored and unperceived...but who makes the decisions for UGM - Lima, Lima is who decides...¹⁴⁴

¹⁴³ Interview with Franco Negri, Manager of *Explorandes* and vice-president of APTAE-Cusco (Cusco, December 2003).

¹⁴⁴ Interview with Valerio Paucarmayta Tacuri, Economist, CBC-Centro de Estudios Regionales Andinos Bartolomé de las Casas (December 2003, Cusco).

The incapacity of sub-national state agencies to confront Cusco's tourism development challenges are compounded by weak ties with local societal actors and a lack of horizontal collaboration between state agencies. Instead of working together or with local groups, Cusco's regional line ministries involved in tourism tend to go-it-alone with the limited financial and human resources at hand, resulting in the inefficient use of state resources.

Put simply, while deconcentration is championed by Peruvian officials as a means to make the state more attentive to local development challenges, the present analysis suggests otherwise. Regional line ministries have not helped the Peruvian state respond to regional tourism development challenges more effectively nor enabled local groups to have more room to participate in tourism policy making. Deconcentration seems to reflect a simple process of relocating central officials to different areas of the country rather than a mechanism to expand the reach and flexibility of the state beyond Lima. This situation is undoubtedly indicative of Peru's broader institutional environment, which stands out for its centralist tradition and lack of state bureaucratic capacity beyond Lima (Mauceri 1995). It is also a reflection of what I would call "weak decentralization" with little delegation in the context of the framework discussed earlier.

Factors Promoting Field Office Involvement

A number of institutional factors help explain why field offices of the central state help more than hinder tourism development in Los Lagos, Chile. To begin with, sub-national line ministries in Chile, when compared to Peru, have more fiscal capacity and greater degrees of flexibility in expenditure decisions. While Chilean field officials must

operate within the parameters set by central programs, there is typically some level of internal flexibility which allows regional officials to decide on how to implement funds earmarked for national programs. The work of INDAP-X, which has its regional headquarters in Puerto Montt and 19 other office outposts over the territory, is a good example. Although the general budget of the national rural tourism program is decided in Santiago, as one regional official of INDAP put it: “regional authorities decide how to distribute the funds to local offices. Each office then gets to decide what to do with their rural tourism budget, where the money goes.”¹⁴⁵ In other words, the specifics of Chile’s national rural tourism program, such as particular projects, often get conceptualized on the local level. This delegation of responsibility allows centrally-set programs to take better account of local market circumstances and peculiarities.¹⁴⁶

Field office engagement in the tourism sector in Los Lagos is also facilitated by horizontal sub-national government collaboration – agents from different field offices working together. This helps mobilize the state’s limited financial and technical resources at the sub-national level around common development goals. A clear example is the development of an agro-tourism network on the archipelago Chiloé (*La Red de Agroturismo de Chiloé*). Launched in the late 1990s by several sub-national field offices (INDAP-X, SERNATUR-X, FOSIS-X), this co-sponsored development project was

¹⁴⁵ Interview with Francisco Hidalgo, INDAP-X (Puerto Montt, March 2004).

¹⁴⁶ In 2004 in Region X there were approximately 24 rural tourism projects sponsored by INDAP. Each corresponds to a network of complementary small service providers and typically includes a circuit of 14 to 16 families. All told, about 367 rural families are receiving some kind of state support in the region.

organized around facilitating rural tourism capacity and promoting supplementary income options for rural families of the region.¹⁴⁷

Aside from horizontal collaboration, my research suggests that regional-line ministry activities in tourism are both enhanced by, and enhance, state-society ties at the sub-national level. Because they live in the region, field officials are better able to maintain, as against central actors, ongoing face-to-face communication with participants of targeted programs, especially during initial phases of intervention. For example, public provisions geared toward advancing local supplier networks in Chile's rural tourism program depend on ties between sub-national public administration and the program's participants. In fostering the flow of information from the local to central level and from the central to local level, sub-national state actors can be seen as providing the central state with a source of "local embeddedness."

A related element that emerged from my interviews is the importance of a shared developmental vision among state and private sector actors at the sub-national level in Chile and its absence in Peru. A shared orientation that public-private partnerships are instrumental in strengthening local economic growth, it can be argued, underpins the willingness of sub-national state officials in Chile to work with the private sector or civil society (NGOs), and vice versa. A point of contrast is Peru, where sub-national state officials often view the local private sector (especially the informal sector) and civil

¹⁴⁷ A survey of the project's initial participants (19 families) in late 1999 painted a picture of a quite successful beginning to the creation of a rural lodging network on Chiloé (Schaerer and Dirven 2001: 42-44). Moreover, because of its climate (rainy and cold during the winter), tourism on Chiloé is very seasonal. Schaerer and Dirven (2001) estimated that the participants had 100% occupancy rate in February, 30% in January, but close to nothing the rest of the year.

society in antagonist terms, and on the flip side, non-state local actors see sub-national state officials as part of the problem.

Altogether, these institutional factors facilitate field offices of the central state's engagement in Chilean tourism, which in the end, helps the central state apparatus promote its economic and social development agenda across economically and culturally diverse territories. Before moving on, one caveat is in order. While the above discussion tends to portray regional ministry activities in Chilean tourism processes as positive, a competing interpretation might suggest that regional ministries and their local offices simply provide the central state a means to control the agenda of local initiatives rather than local communities themselves. From this standpoint, one might also argue that the modifications made to national programs at the sub-national level are minor and ultimately reflect the agenda of central rather than regional actors. This viewpoint, however, would neglect the way strong deconcentration and delegation in Chile has opened up new spaces for local participation in regional development strategies and improved the efficiency of state engagement in tourism development issues at the sub-national level. While on the same page as central actors, field agents' ability to formulate specific projects and pursue connections with local actors enables the state to provide inputs beyond a simple top-down approach.

REGIONAL GOVERNMENT AND TOURISM

Another level at which sub-national state institutions can shape development is at the regional tier (or state government in federalist systems, e.g. Mexico, Brazil).

Theoretically, regional governments can play an important role in formulating regional and local strategies for economic development. From a decentralization perspective, elected regional governments are often viewed more favorably than centrally-appointed ones. Elected regional bodies, it is argued, may provide more efficient developmental inputs than sub-national central state agencies or executive appointees because they must compete for votes and are therefore more accountable and transparent to their constituents (Manor 1999). The following account offers a contrasting viewpoint, showing that the non-elected regional government of Los Lagos provides much more efficient and localized provisions in the regional tourism development process than does Cusco's recently elected regional government. Although this comparative situation is undoubtedly related to the inexperience of regional governments in Peru, it is also associated with the nature of the centralism and state institutional structures in each country.

Lack of Regional Government Involvement in Tourism

As noted earlier, one key feature of Peru's recent decentralization reforms is the re-establishment of 24 regional governments headed by elected regional presidents (*Ley Orgánica de Gobiernos Regionales*, #27867). Holding their first elections in November 2002, regional governments are charged with various new functions related to regional development (economic, social, environment). However, given their newness, regional governments lack credibility, have an unclear mandate, and even more uncertainty surrounds their fiscal capacity (Gonzales de Olarte 2004). It may be expected therefore

that Peru's regional governments are not yet ready to carry out complex development activities.

My interviews with local public and private sector leaders in tourism highlight the incapacity of the Cusco regional government to define a clear vision of their function and responsibility in tourism.¹⁴⁸ A seasoned private sector tourism leader of the region put it this way: "regional governments are just beginning to manage budgets, which are still very small. In this context, their role in tourism is hard to perceive."¹⁴⁹ Another regional public official remarked: "we still do not have regionalization in Peru, we cannot talk about regions, we can not yet talk about regional governments if we are not independent...Perhaps in six to ten years, once new regional governments 'learn to walk', we can discuss this."¹⁵⁰ Although such comments are not particularly surprising given that regional governments are such new institutions in Peru, one must keep in mind that the Cusco region holds the country's prime tourism destination. Ideally, strong regional government could provide helpful developmental inputs to mitigate some of the market failures (e.g. environmental degradation) emerging from increasing tourism activity.

Significant institutional obstacles, however, stand in the way of positive regional government involvement in Peruvian tourism for the foreseeable future, including a lack of administrative, technical and fiscal capacity. Perhaps more problematic is the historical legacy of centralism in Peru and the state's old bureaucratic style of management. In this sense, meaningful regional government involvement in tourism may

¹⁴⁸ Interview with Rene Bonet Gutierrez, Dept. of Planning, Regional Gov. of Cusco (Cusco, December 2003).

¹⁴⁹ Interview with Franco Negri, Executive Director of *Exporandes* (Cusco, December 2003).

¹⁵⁰ Interview with Jimmy Sueros, Representative of El Ministerio del Trabajo-Cusco (Cusco, December 2003).

depend on the willingness of central actors to give up power and authority. This is especially salient in the Cusco region, where the central state controls all of the major tourism resources and by extension user-fee revenues (e.g. Machu Picchu and the Inca Trail are overseen by centralized agencies INC and INRENA). Devolving central control of these resources may be unlikely given their importance to the national economy of Peru.

A related limitation is the “centralizing” rationalities of central state actors. Consider the remarks of a high-level public sector tourism leader:

In this moment, Peru is close to finish its first year in history since independence of 1821 that we are working inside of a decentralization project. In this way, each president of a region is going to receive training in order to be in charge of the development of many sectors. BUT the central level government will continue *showing the way*; we will continue making the laws, the rules... Imagine if after the first year of decentralization, each regional president got to prepare and elaborate their OWN rules, their OWN proceedings of tourism...it WOULD be a very, very crazy situation (emphasis of interviewee).¹⁵¹

Moreover, Cusco’s regional government may end up reflecting the broader institutional weaknesses of the central state apparatus. For example, to date the regional government lacks strong ties with the local private sector and civil society involved in tourism as well as the political will to forge such relationships. However, as Doner and Hershberg (1999) argue, it may be that decentralization of economic activity, in this case tourism, will provide the basis for facilitating administrative decentralization.

Rodríguez’s analysis (1997: 10) echoes this: “administrative decentralization and spatial decentralization almost necessarily reinforce on another...” Indeed, as tourism has

¹⁵¹ Interview with Eduardo Sevilla, Advisor to Vice-Minister of Tourism, Ministry of Foreign Trade and Tourism (Lima, October 2003).

become more prevalent in Cusco's regional economy, so too have local protests pressuring the central state to decentralize control of the region's tourism resources to the regional government (*El Comercio* April 3, 2004).

Helpful Regional Government Involvement in Tourism

In contrast to Peru, Chile's 13 regional governments are headed by a centrally-appointed Governor (*Intendente*). Each regional government is also comprised of a *Consejo Regional* (Regional Council), comprised of representatives appointed by municipalities of the region (which are elected). Among other functions, Chile's regional governments are charged with formulating development policies, supervising development programs and projects, and coordinating private sector activities at the regional level. As noted earlier, much of the decentralization literature dismisses the effectiveness of non-elected regional governments, which are seen as noncompetitive institutions beholden to national rather than local interests. However, a more mixed picture emerges in my examination which suggests a non-elected regional body that advances regional-specific tourism development activities, while at the same time, furthering the social and economic agenda of the central state.

Facilitating regional government engagement in Chilean tourism is the increasingly technical rather than political function of regional government. Part of this is associated with National Regional Development Funds (*el Fondo Nacional de Desarrollo Regional*, abbreviated FNDR hereafter), which aim stimulate local and regional economic activity. Employed since the Aylwin administration in the early 1990s (Duquette 1998), these funds give regional governments resources to invest in productive

activities related to their specific development needs and preferences. The *Intendente* of each region manages FNDR funds, which are typically assigned through a grant-like process, whereby regional government officials make decisions on specific projects proposed by a diverse array of sub-national actors (regional ministries, municipalities, civic associations).

Although FNDR funds do not fundamentally shift the dynamics of central/sub-national power, they are significant to the present discussion for a number of reasons. To begin with, they increase the planning and investment capacity of regional governments and hence its decision making authority. While the use of FNDR funds must fall within certain centrally-set guidelines, regional administrations' can decide how to implement these funds. This situation then creates more space for regional officials to address local needs and priorities. Moreover because they are often dispersed to local level actors, FNDR funds facilitate horizontal and vertical cooperation between government and societal actors at the sub-national level.

Nicely illustrating these points is a new tourism initiative spearheaded by the regional government of Los Lagos - Comprehensive Strengthening of Regional Tourism Destinations (*Fortalecimiento Integral de los Destinos Turísticos Regionales*, FODETUR hereafter). Established in 2001 through an initial investment from the Regional Development Fund (FNDR), FODETUR emerged from cooperative efforts between the regional government of Los Lagos and SERNATUR's regional office.¹⁵² The principal objective of FODETUR is to strengthen tourism in twelve destinations in the region of Los Lagos, ranging from urban centers on the coast (e.g. Valdivia) to more rural areas as

¹⁵² Initial investment was pegged at 2.8 billion pesos.

in Chiloé and a number of localities at the foot of the Andean Mountains (Marzas and Integral Chile 2002: ch.4).

Although its budget is too small to underwrite large-scale tourism investment projects, the FODETUR initiative has proved helpful for addressing several aspects of the local tourism economy.¹⁵³ First, it has facilitated the systematic gathering of information about regional tourism market patterns. One particularly large study enabled by FODETUR was carried out by a Spanish and Chilean consultant group Marzas and Integral Chile (*Cartas de navegación para los destinos turísticos y plan de marketing turístico de la Región de los Lagos* 2002). This study includes comprehensive information about the region's tourism resources, infrastructure, demand patterns and tourism marketing plan. Contained in over 400 pages, such information will undoubtedly serve to orient the private and public sector involved in regional tourism development for years to come.¹⁵⁴

Second, FODETUR has opened up new avenues for public-private collaboration at the sub-national level. As Lam (1996: 1039) noted in his study of irrigation management in Taiwan: "productive patterns of relationships...do not just exist; they are constituted and sustained by a large array of rules relating individuals to each other." In this way, FODETUR's institutional design promotes interaction between different stakeholders in tourism at the local level. For example, the upper organizational layer of FODETUR - the Regional Commission for Tourism Development - consists of

¹⁵³ Illustrating the innovativeness of this policy, it is helpful to note that Los Lagos is the only region in Chile to have such a program in place.

¹⁵⁴ FODETUR also co-financed a regional analysis of tourism trends "Compendio Estadístico Región de los Lagos: 1997-2001" (SERNATUR 2002d).

representatives from the regional government, regional offices of the central state (regional director of SERNATUR), municipal governments, and the local private sector. FODETUR's second organizational layer is the Technical Advisory Committee (*Comité Técnico Advisor*), which brings together regional ministry directorates with experience in tourism-related development.

Table 6.2: Promoting Public-Public and Public-Private Collaboration at the Sub-national Level: FODETUR

Regional Commission for Tourism Development
<ul style="list-style-type: none"> a) <i>Intendente</i> Regional and other regional government actors b) Presidents of Provincial Municipalities c) Provincial Representatives of Private sector d) Executive Director of FODETUR e) Director of SERNATUR – 10th region
Technical Advisory Committee
<ul style="list-style-type: none"> a) Regional Direction – SERNATUR b) Regional Direction – CONAMA c) Regional Direction – CORFO d) Regional Direction – INDAP e) Regional Direction – SERCOTEC f) Regional Direction- Pro Chile

SOURCE: Adapted from Mazars and Integral Chile, 2002: ch.4

By institutionalizing public-public and public-private participation, FODETUR promotes new forms of collaboration between national, regional, and local public and private actors. These sorts of relations are theoretically promising insofar as cooperation between the central state, sub-national government and the local private sector provides a good basis for advancing local development.

To recapitulate, the regional government of Los Lagos - as against Cusco's regional government - is better-funded, more coherent and has deeper institutionalized

links with other levels of government and private sector actors. From a broad viewpoint, this situation appears to be facilitated by the institutional character of Chile's central state apparatus, namely its bureaucratic competence, emphasis on public-private collaboration, and moves toward decentralization. It is also tied to the level of expenditure autonomy at the regional level. Thus, although revenue-generating capacity remains a central state function in Chile, regional governments have meaningful autonomy in planning and expenditure assignments derived from central government transfers (e.g. FNDR funds).

MUNICIPAL GOVERNMENT AND TOURISM

A final level of sub-national government to explore is local (municipal) government. The major focus of this section is to explore the extent to which local government gets involved in tourism within the two case regions and to identify some of the crucial institutional factors that help explain such involvement.

Generally, there are numerous roles that local government can play in tourism, including: (a) the creation of a local tourism development plan; (b) the formation of local tourism councils oriented toward developing tourism in the local space; (c) initiatives that improve the quality of local space (beautification); (d) implementation of marketing provisions; (e) protection of natural or cultural resources at the local level; and (f) the coordination of local private sector and civil society actors involved in tourism.

An important facet of decentralization policies in many developing countries since the 1990s has been to broaden the role of local government in economic issues. Both rhetorically and legally, economic development is often no longer considered the

exclusive responsibility of the central state but also local governments (Aghón and Cortés 1998: 85-90; Manor 1999). The decentralization framework in Peru and Chile reflect this trend, where various laws have recently given municipal governments broader functions in economic development issues, moving them beyond more traditional urban management provisions such as water, sewage disposal, and street lighting.

Peru's new decentralization framework gives municipalities a clear legal mandate in economic development issues, particularly the Law of Municipalities passed in 2003 (*Ley Orgánica de Municipalidades*, # 27972), which according to a decentralization expert in Cusco: "not only permits but identifies the promotion of local development as a principal function of municipal governments."¹⁵⁵ In Chile, since the reinstatement of democracy in 1990 and the adoption of the Law of Municipalities (*Ley Orgánica Constitucional de Municipalidades*) have broadened the functions of municipal government in the local economy in addition to new duties in the health and education sectors (ECLAC/GTZ 2001: 193-4).¹⁵⁶

Before embarking on the details of my analysis of local government in tourism, it is important arrive at a basic understanding of the level of fiscal decentralization as it pertains to local governments across the two cases. To this end, Table 6.3 presents some basic comparative data on sources of local government revenue in Peru and Chile.

¹⁵⁵ Interview with Valerio Paucarmayta Tacuri, Economist, CBC-Centro de Estudios Regionales Andinos Bartolomé de las Casas (December 2003, Cusco).

¹⁵⁶ This is illustrated in the new emphasis on municipal governments' role to formulate and implement the *Plan de Desarrollo Comunal* (Community Development Plan or PLADECO).

Table 6.3: Sources of Local Government Revenue, Peru and Chile 1995

Revenue Source	Peru	Chile
Direct CG transfers as % of municipal revenues	58.1 (FONCOM UN)	42.7 (FCM)
Taxes as %	13	32.9
Fees and Contributions as %	13.3	12.4
Other Resources as %	15.6	12.0

SOURCE: Aghón and Cortés 1998: 93

For our purposes, the main issue to decipher from Table 6.3 is where municipalities derive their revenues, a central element determining local government capacity (Manor 1999). According the data, we first observe that CG transfers constitute a major funding source for local government in both Peru and Chile. The small proportion of locally-derived revenue comes from either local taxes (e.g. local property tax) and fees and contributions, which can include revenues from licensing fees, concessions, borrowing, and/or international NGOs aid programs.

With that said, the data presented above reveal that local government in Peru has less revenue-generating capacity (26.3%) than Chile, where 45.3 percent of municipal revenue, on average, is derived locally - from taxes and fees and contributions. This higher level of local revenue suggests that local government in Chile may have more autonomy over their expenditures and by extension more space to pursue locally oriented development activities than their Peruvian counterparts. The following empirical assessment bears this out as it relates to local government engagement in tourism.

General Patterns of Local Government in Tourism

Although important variation exists between individual municipalities, almost all public and private sector leaders I interviewed in the Cusco region of Peru stressed the lack of institutional capacity (rather than legal) of local government in economic development such as in tourism.¹⁵⁷ A common response throughout the course of my interviews is highlighted by a local government specialist in the Cusco region, who remarked: “as for tourism, municipal governments do very little.”¹⁵⁸ This is corroborated by the fact that only a few municipal governments of the region have a specialized tourism division, with the exception of Cusco City and Machu Picchu Pueblo.

At the time of writing, the most widespread pattern of local government involvement in Peruvian tourism appears to be associated with traditional roles, such as maintaining local order or “beautifying” local space. Other functions include enforcing service standards through licenses for restaurants, hotels and bars. During an interview, the Director of Cusco’s municipal Tourism Department stressed that: “a prime responsibility of local government is to provide a clean and orderly city with adequate services, clean hotels and restaurants.”¹⁵⁹ Municipalities can also organize special events that promote tourism, as in the annual *Interrami* celebration sponsored by Cusco’s

¹⁵⁷ Peru’s local governance is structured on three levels. The top level is the Provincial Municipality, which consists of an elected committee and a mayor. The next layer is composed by District Municipalities, which have the same rights as provincial municipalities, but correspond to smaller geographic spaces. The new law of Municipalities passed in 2002 also permits a third type of municipality for minor population centers (*Centros Poblados Menores*) in remote areas. If an area has over 500 voting age inhabitants, they can apply for this status. Provincial Municipalities then have the task of delimiting its territory (Quedena 2002).

¹⁵⁸ Interview with Margarita García Director of DRIT-Cusco (December 2003, Cusco).

¹⁵⁹ Interview with Julio Campana Villa, Director de Tourism- Municipality of Cusco (December 2003, Cusco).

municipal government.¹⁶⁰ Less frequent inputs from local government may lie in the provision of technical advice to local inhabitants. Cusco City's municipal government has sponsored various training workshops to help local commercial artisans add value to local crafts destined for the tourism market.

With that said, municipal governments in Peru have not responded adequately to the pressing local development dilemmas surrounding recent tourism growth in the Cusco region. For example, municipal governments have proved incapable of handling and coordinating the removal of the mounting garbage throughout the Cusco-Machu Picchu tourism circuit (CBC-CEIS 2003). They have also done little to help locals gain a larger share of the tourism market.

By way of contrast, there is clear evidence that many of the 42 *comunas* (municipalities) of Los Lagos have more engagement in Chilean tourism and have responded more rapidly and broadly to tourism market trends.¹⁶¹ To get an idea of contemporary local government involvement in tourism in Los Lagos, some particular cases are useful.

I begin with Puerto Montt, the regional capital of the Los Lagos region. Located 1,044 kilometers south of Santiago, Puerto Montt has witnessed international and domestic tourism growth in recent years linked to its comparative advantages in transport services (land, water, and air connection point) and close proximity to various natural

¹⁶⁰ The local government of Pisac, a small urban center located in the Sacred Valley, also gets involved in promoting tourist events, such as the organization of a large artisan market, which is flooded with international tourists almost every weekend.

¹⁶¹ The region of Los Lagos is divided into 5 provincial areas (Valdivia, Osorno, Llanquihue, Chiloé, Palena), which encompass 42 municipalities (*comunas*), each containing their own administrative and political structures.

tourism attractions.¹⁶² Consider the language employed by the municipal government's own tourism marketing materials:

The valleys and national parks of Puerto Montt and the surrounding area provide numerous opportunities to appreciate the spectacular scenery of the region, with its abundant forests, volcanoes, rivers, lakes and mountains. Local tour agencies offer excursions, trekking, horse-trekking, including food, lodging and all additional services. Small fishing bays and boats inundate the local coastline, providing numerous opportunities to enjoy the sea-air, the rivers and the lakes...The Alerce Andino National Park is situated 47 km southeast of Puerto Montt, in the mountainous region of Lake Chapo (see www.puertomonttchile.cl/ for more details).

According to the Director of the municipality's Department of Tourism: "we have begun to generate a network of support and leadership for the local tourism sector...we want to make our city more tourism competitive."¹⁶³ To this end, Puerto Montt's local government has engaged in a diverse array of tourism development activities since 2000, including:

- a) Renovating the local tourism information office located in the central plaza.
- b) Training municipal employees in customer service issues and analysis of local tourism data.
- c) Formation of local tourism informants for the rural sector.
- d) Elaboration and distribution of tourism promotion material.
- e) Systematization of local lodging facilities.
- f) Incorporation in Chile's national tourism marketing institution.
- g) Execution of tourism awareness campaigns focused on particular segments of the community, e.g. youth (Mazars and Integral Chile 2002: ch.4).

¹⁶² Moreover, recent tourism growth in Puerto Montt is partly tied to an upsurge of international cruise ships (Patagonia) making stops in this port city. In 2003, for example, 57 large international cruise ships anchored at Puerto Montt in comparison to 20 ships in the late 1990s

¹⁶³ Interview with Claudia Poveda Cáceres, Director of the Department of Tourism, Municipality of Puerto Montt (February 2004, Puerto Montt).

Particularly noteworthy is new global promotional support at the local level.¹⁶⁴ Since 2000, the municipality of Puerto Montt has begun participating in international tourist trade fairs and producing various marketing materials. The Director of Puerto Montt's Tourism Department elaborated on such activities during an interview:

Recently, we have undertaken a host of activities geared toward the international promotion of our city. In this respect, we created an interactive promotion CD, as well as various other marketing materials...this year we will also go to numerous international tourist fairs, which we will attend together with the private sector...we will also bring along promotional material on behalf of our own local entrepreneurs who cannot come.¹⁶⁵

The town of Valdivia provides another example of local government engagement in the mobilization of Chilean tourism. Located near an abundance of lush islands and having unique German influence (architecture, food), Valdivia is considered an important tourist destination for national and increasingly international tourists. To help spur tourism growth, Valdivia's Department of Tourism prepares and distributes marketing materials on behalf of its local tourism sector. They also work collaboratively with the local private sector, which is spelled out clearly in Valdivia's Local Development Plan (*Plan de Desarrollo Comunal*). Other local tourism policies include:

- a) To promote tourism in the urban and rural areas of the local government's jurisdiction.
- b) To study and prepare local plans of tourism development in coordination with the private sector and central state institutions.
- c) To ensure the compliance of the regulatory framework related to tourism services.
- d) To coordinate tourism oriented events.
- e) To work with the Local Works Department to synergize tourism projects with infrastructure projects (Mazars and Integral Chile 2002: ch.4).

¹⁶⁴ Various other municipals in Chile provide their own tourism marketing inputs, namely in areas where tourism is already, or potentially, a viable economic activity. Examples include the municipal governments of Pucon, Viña del Mar, Valparaíso, La Serena.

¹⁶⁵ Interview with Claudia Poveda Cáceres, Director of the Department of Tourism, Municipality of Puerto Montt (February 2004, Puerto Montt).

Aside from the larger municipalities of Puerto Montt and Valdivia, smaller and more remote municipalities of Los Lagos have also taken recent steps to promote tourism development. One good example is found on Chiloé Island, an archipelago consisting of the *Isla Grande* (large island) and 30 smaller islands. In Chiloé, where agriculture and fishing (e.g. salmon) dominate (Barrett and Caniggia 2002), tourism has become an increasingly important productive activity. Here, wooden churches (16 are inscribed on UNESCO's World Heritage List), folk history, as well as natural resources (birding, Chiloé National Park) represent the basis for seizing new economic opportunities related to tourism. Showing a capacity to respond to favorable market trends towards these resources, the 10 municipal governments of Chiloé Island established the Tourism Commission of the Association of Municipalities in 2001. This Commission seeks to coordinate development activities in the sector (state, NGO, or international) at the local level. The Commission also participates in a larger public/private council - the Provincial Commission of Tourism Development for Chiloé.

Factors Hindering Municipal Government Involvement

Despite sustained tourism growth in the Cusco region in recent years, municipal governments have exhibited very little meaningful action to address tourism development challenges or promote local tourism growth. What are some of the factors that help explain why local governments play a minor role in tourism within Cusco - one of South America's most dynamic tourism-rich regions? To be sure, part of the explanation is that

most of the high-end tourism in Cusco (e.g. luxury hotels, fine restaurants, air, and train transport) is dominated by foreigners or elites from Lima (O'Hare and Barrett 1999; various interviews 2003). It seems reasonable to assume that these actors, as compared to local ones, are more likely to by-pass interaction with local governments and deal directly with central actors.

Another crucial factor is budget constraints linked to a small local tax base (high informality), a lack of real local revenue-generating capacity, and an excessive dependence on some of the lowest central government transfers in Latin America. Recent actions by the municipal of Ollantaytambo, which has begun charging tourists a small user-fee to enter the central plaza, illustrate the extent to which municipals will go to generate more financial resources in the Peruvian context.

Scarce financial resources at the local level are also telling because they reduce local government's ability to hire technical staff capable of drafting and implementing local development plans. One public official from Cusco City remarked: "municipal officials have little experience in development. There are bad experiences with the municipals wanting to administer resources here in Cusco. Everybody wants money, but no one is capable of investing it in an effective way."¹⁶⁶ This echoes ECLAC/GTZ (2001: 97-113), which identifies a lack of financial resources and technical competence at the local level as weakening recent efforts to spur local tourism development in Bolivia (Buena Vista municipality).

¹⁶⁶ Interview with Edwin Caceres Yabar; Coordinator of Project Maras, INC-Cusco (December 2003, Cusco).

In addition to these issues, several other institutional arrangements work against each other to hinder local government engagement in Peruvian tourism. One is a lack of horizontal linkages between municipalities, which hinders their capacity to mobilize scarce resources, especially remote and smaller municipalities.¹⁶⁷ During an interview, an important tourism functionary in Cusco noted that: “many municipalities that should be working together in tourism issues CAN’T even look at each other.”¹⁶⁸ An example of this is found in the persistent squabbling over the distribution of *El Boleto Turístico* - an inclusive entrance pass to more than a dozen cultural-historic attractions the cut across Cusco City and several local jurisdictions of the Sacred Valley (e.g. Pisac, Chinchero, and Ollantaytambo).¹⁶⁹

A lack of horizontal collaboration between different municipalities is compounded by an absence of vertical exchange or “assistance linkages” with non-local institutions. Vicotria Rodríguez (1997: 13) argues that: “...in most decentralized units assistance from the superior organization is necessary to overcome financial and administrative deficiencies.” In this way, local governments in Peru could expand their impact by scaling-up; that is, working collaboratively with regional/national state agencies or other larger institutions. While improving, there is little evidence of assistance linkages between the central state and local governments in the area of tourism. This absence, which is linked to the country’s centralist tradition and old bureaucratic style of management, can be seen as an important factor limiting the

¹⁶⁷ Despite the existence of the Association of Municipal Governments, there is little evidence of joint-projects between municipalities in the Cusco region.

¹⁶⁸ Interview with Jorge Pacheco del Castillo, Executive Director, Unidad de Gestión Machu Picchu, UGM (Cusco, December 2003).

¹⁶⁹ Interview with José Miranda Cárdenas, Manager, Area of Boleto Turístico (Cusco, December 2003).

technical capacity of municipal government to engage in local development. A tourism development specialist that has worked extensively in the Cusco region noted that:

There is a problem of false expectations of what tourism can do for a community and also what kind of work it takes to set up tourism. For example, the mayor of Chinchero wanted a project and wanted it now, without any real idea about how to formulate and implement policy. I mean its hard to get all of the components together, it's hard to build capacity in the community and its hard to develop a market...and there is a false expectation of how easy tourism is ... Every community thinks they can have tourism here and just NOT so.. some places don't have comparative advantages in tourism but a lot of these communities don't realize that...¹⁷⁰

Along similar lines, another interviewee remarked:

Tourism creates a lot of enthusiasm for mayors. Everybody wants their community to be touristic and that is not possible nor desirable...At the local level there is a lack of understanding about how to elaborate the tourism product...One has to do marketing, coordinate sector activities...It's not just a natural process.¹⁷¹

Factors Promoting an Enabling Environment from Below

Although the Cusco region has more by way of internationally competitive tourism assets than Los Lagos, my research shows that local governments within the Los Lagos region are more active in the tourism sector than their Peruvian counterparts. Various factors help explain this situation. To begin with, the tourist resources of Cusco are clearly well-know internationally and by extension more likely to fall under central control and outside investment. By contrast, Los Lagos' tourism assets are not

¹⁷⁰ Interview with Toby Bloom, consultant of Sustainable Tourism and professor at KHIPU: Escuela de Turismo Sostenible (December 2003, Cusco).

¹⁷¹ Interview with Pablo Lopez de Romaña, former director of *Nacional de Turismo del Peru* and former president of Consejo Superior del CENFOTUR (Lima, October 2003).

particularly well-known internationally, which in turn, may foster more space for local actors, governmental and non-governmental groups to develop them.

Although the character of tourism assets partially explain why local governments in Los Lagos are more engaged in the tourism sector, it is the overall state institutional system and decentralization framework of each country that largely determines the context in which local government acts, or not, in tourism. To this end, greater fiscal capacity represents one important factor explaining why local government is more active in promoting Chilean tourism than in Peru. Without sufficient resources, local governments are hard pressed to design, manage, and fund activities that seek to advance the local economy. In addition to having higher direct CG transfers than Peru, municipalities have more local revenue-generating capacity in Chile (Aghón and Cortés 1998: 93) not to mention their ability to access supplemental revenues through government grants, such as regional FNDR funds. In fact, access to supplementary central government revenues has enabled some local governments of Los Lagos to carry out development activities in tourism. For example, regional FNDR funds have provided the financial basis for the formulation of local tourism development plans in many areas across Chile (SERNATUR 1997: 113). Such types of funding opportunities for local governments do not exist in the Peruvian context.

Several other micro institutional factors mediate local government's role in tourism in the region Los Lagos. One noteworthy element is local leadership. Puerto Montt's mayor, known as the town's own CEO, is a good illustration of how local leadership can enhance local government capacity in new kinds of development. With a

technocratic orientation and deep political networks, Puerto Montt's mayor has improved the professionalism of local government, which in turn, has fostered more deliberate and efficient government activities in tourism development. The Director of the Tourism Department of Puerto Montt's municipal government elaborates:

We have the luck that our current mayor was the regional *Intendente* [Governor] for ten years...He brings with him indispensable political authority, experience, and contacts ...Our mayor likes to think big and he obligates us to take training courses that are distinctive, which in turn foster a more professional and technical culture here in comparison to most municipalities...¹⁷²

Inter-governmental assistance linkages also increase the developmental capacities of local government in Chilean tourism. For example, Chile's National Tourism Bureau helps organize and finance training workshops for those local governments interested in promoting tourism. It also provides municipalities clear guidelines for involvement in tourism development issues, as in the pioneering report "Tourism and Municipal Management" (SERNATUR 1997).¹⁷³ Additionally, many municipal governments in Chile have scaled-up by becoming an associate of Chile's national public/private national marketing agency - The Tourism Promotion Corporation of Chile (CPT hereafter).¹⁷⁴

My research also shows that horizontal collaboration between municipalities and public-private ties at the local level can increase the development capacity of municipal

¹⁷² Interview with Claudia Poveda Cáceres, Director of the Department of Tourism, Municipality of Puerto Montt (February 2004, Puerto Montt).

¹⁷³ The document in question was the result of collaboration between the Chilean Association of Municipalities (AChM), SERNATUR, and the German Foundation for International Development (DSE).

¹⁷⁴ Another illustration is the central agency SERCOTEC, which provides technical and financial support for local governments to streamline local level bureaucratic processes related to micro-enterprise development, whether in the tourism sector or some other productive area (SERCOTEC 2001).

government, especially rural and smaller municipalities with clear financial and technical limitations. The Provincial Commission of Tourism Development of Chiloé represents a good example of how both public-private and public-public collaboration can strengthen the capacities of local actors to seize *supralocal* economic opportunities. Established in June of 2001, this Commission is made up of 10 municipalities and important members of the private sector including local tourism business associations. The primary objective of the union is to help coordinate local tourism development activities and increase local capabilities in the sector (Mazars and Integral Chile 2002: ch.4).¹⁷⁵

HELPING THE STATE FROM BELOW?

While the global environment has prompted more active state engagement in tourism in Peru and Chile in recent years, domestic institutional structures have determined the form that these responses take and their effectiveness. The main purpose of this chapter was to explore the extent to which the national decentralization context and sub-national government helps condition state involvement in an emerging industry. While my comparison of tourism in the regions of Cusco and Los Lagos is not sufficient to make broad generalizations, it extends existing knowledge of the state's role in development and the institutional arrangements that mediate this process in the new socioeconomic model.

¹⁷⁵ It is important to note the existence of the National Association of Touristic Municipalities of Chile (AMTC). Beginning in the 1990s, this association sought to bring together municipalities around the theme of tourism development. In 2002, 31 municipalities of the Lake Region participated in the association's activities (Mazars and Integral Chile 2002: ch.4).

It is first important to underscore that my research findings show that sub-national involvement in tourism varies greatly between the two cases. Although there is still much room for improvement, new strategies to expand Chilean tourism around natural resources is taking place in a context characterized by relatively strong sub-national units of government, albeit still heavily dependent on the center. In contrast, new strategies to expand Peruvian tourism around cultural-historic resources are occurring in a context characterized by relatively weak sub-national units of government, which appear wholly unresponsive to local tourism development dilemmas. Several institutional factors help explain these observed differences.

Table 6.4: Factors Shaping Sub-national Government Engagement in Tourism: Cusco, Peru and Los Lagos, Chile

THE BASICS	CONTRIBUTORY FACTORS
<ul style="list-style-type: none"> • Adequate Financial Resources • Technical Capacity • Administrative Coherence • Planning and Expenditure Assignment Autonomy 	<ul style="list-style-type: none"> • Inter-governmental Collaboration/ "assistance linkages" • Horizontal Collaboration (e.g. municipal-municipal partnerships) • "Scaling-up" (e.g. municipal-Tourism Promotion Corporation of Chile, CPT) • Public-Private Collaboration

Table 6.4 presents some of the most important comparative factors that shape sub-national government's involvement in tourism within my case-studies. Here, fiscal capacity and planning and expenditure autonomy stand out as central factors. The issue of who controls spending decisions is especially important in cultural-historic and nature tourism, which depend not only on supralocal and supranational forces but also the uniqueness and quality of local resources. Compared to Peru, sub-national government units in Chile have more fiscal capacity and control over planning and expenditure

assignments (field offices/regional/local governments). This arrangement has allowed sub-national government to better attune national development projects to local resources and preferences and to create regional-specific tourism initiatives. For example, the creation of the FODETUR initiative by Los Lagos' regional government largely depends on the financial resources and expenditure flexibility built into regional FNDR funds dispersed by the central government.

Reflecting on the findings of this chapter also suggests the importance of inter-governmental assistance linkages and horizontal collaboration. In Los Lagos, the capacities of regional and municipal government in tourism are clearly aided by the central state. Chile's central government provides leadership, guidelines, and market information to lower levels of government interested in promoting tourism, as in SERNATUR's tourism training workshops for municipal governments. Meanwhile, horizontal collaboration between different municipalities help local governments have greater impact in tourism development, especially those municipalities representing more rural communities (e.g. *La Isla de Chiloé*).

These kinds of relationships contrast sharply with the Peruvian context, where national state officials involved in tourism typically work in complete isolation from the sub-national context and where municipalities (at least in the Cusco region) seem to have conflictual rather than collaborative relations with each other. Such a situation, it can be argued, represents an obstacle for the Peruvian national state to reinforce its new global promotional strategy in tourism at the sub-national level.

Along with the aforementioned factors, this chapter's results confirm that cooperative public-private relationships can enhance the capacities of sub-national government. Public-private relationships at the sub-national level can help mobilize scarce resources and increase opportunities for face-to-face contact and information sharing between territorial agents. Sub-national public-private collaboration can also enhance both central and local development objectives - it advances the national agenda to promote new outward looking productive activities, while encouraging the participation of local citizens and sub-national government to develop and seize new income sources at the local level.

From a broader perspective, my results underline the need to extend developmental state theory to include sub-national government as an institutional arrangement shaping the state's role in economic development under the new socioeconomic model. Including an examination of sub-national government in this dissertation reveals state-market relationships that would go unobserved if only central level processes were examined. As demonstrated in this chapter, the institutional weaknesses of sub-national government units in Peru help explain the state's ineffectiveness in addressing environmental problems associated with increasing tourism activity in Cusco. Likewise, the relative capacity of sub-national government informs our understanding of why Chile has been more effective in forging more flexible and locally-specific development activities related to tourism.

All of this suggests that the state's decentralized character represents an important intervening variable that helps explain the form and effectiveness of state activities in

Peruvian and Chilean tourism and some of the practices of the industry itself. The central point I wish to make here is that strong sub-national governments, perhaps increasingly so, can enable states to formulate and implement more competitive development strategies in the context of a neoliberal model.

Facilitating this development is the move from an old style of bureaucratic management based on centralization and procedural control to a more managerial style based on flexibility, decentralization, and managerial and technical capacity at the sub-national level. Such forms of state organization appear especially well-suited for a tourism industry based on nature and cultural-historic resources as against mass-oriented tourism development where there is less need take into account local peculiarities, as in Cancún, Mexico during the 1970s and 1980s.

All of this brings us back to the importance of the institutional character of the central state. While this chapter has essentially argued that sub-national government can help increase the overall capacity of the state to confront development challenges of the day, it is also important to bear in mind that effective sub-national government requires an institutionally strong central state. Seen in this light, it is the strength of the central state that appears to allow it to deconcentrate, delegate and devolve autonomy to a local state. My cases clearly support these propositions. Sub-national government units are perhaps paradoxically more relevant, effective and have more space to pursue their own development priorities in tourism within a context characterized by a stronger central state (Chile) as against a weaker one (Peru). It is difficult to imagine a technically

strong, organizationally coherent, and locally embedded sub-national bureaucratic layer in Peru precisely because of the relatively weak institutional character of the central state.

In sum, strengthening the capacities of sub-national government reflect a promising component of current efforts to “reform” the state. However, in many developing countries, such as Peru, sub-national government remains ill-equipped to respond their own constituents let alone a rapidly changing and complex global economy. This situation presents an important, yet glossed over, dilemma to the optimistic rhetoric of both local politicians and citizen groups, who often argue that decentralization policies will at long last provide a means to promote local economic growth and development.

To gain a fuller picture of the institutional dynamics mediating an emerging tourism industry, we must take one step beyond the state. Given the new socioeconomic model’s emphasis on the private sector and civil society, it also becomes important to examine the capacity of private groups to become engaged in confronting development challenges in a collective manner and the state’s ability to promote this process. To this end, the next chapter turns to a focus on business associations.

CHAPTER VII

FAVORING AN EMERGING SECTOR? TOURISM BUSINESS ASSOCIATIONS AND THE STATE

INTRODUCTION

Thus far, my comparative case-study analysis has focused on the state and its institutional character to broaden our understanding of how domestic institutions benefit or hinder the tourism development process. To sharpen our knowledge of the diverse range of institutions and state-society relations that shape these emerging industries in Peru and Chile, this chapter turns to an examination of the role of the organized private sector, their relations with the state and the state's influence on them.

The organizing theme of this chapter relates to the role of business associations and state-business relations in development during the global liberal period.

Associational activities among business actors, community organizers, and/or ordinary citizens have become a major variable in the development literature (Brinkerhoff 1999; Clark 2002; Kraus 2002). According to Roberts (2005: 152), associational activity and strong social networks can enable communities: "to mobilize effectively to capture external resources and put them to use in developing the community." In terms of associational activity within the business community, the economic development

literature has shown that dense professional networks (Braütigam 1997) and alliances between the state and business associations can improve economic competitiveness in developing countries (Doner and Schneider 2000; Evans 1996; Perez-Aleman 2000, 2003).

Our understanding of the potential developmental functions of associational activity among business, however, remains limited especially in the developing world context (Doner and Schneider 2000, 2000b). In Latin America, relatively few studies have focused on the nexus between business associations and the state in the current period. Moreover, developmental state research has tended to gloss over the significance of business associations. Perez-Aleman (2003: 196) argues that by focusing on relationships between state actors and business elites within individual companies developmental state research:

.... neglects relationships among firms (inter-firm networks, business associations, and groups) that play a key role in economic coordination. The state has ties with numerous societal groups and networks, and very often, the interlocutors are not individual companies but groups of firms (196).

The paucity of studies on business associations in the Latin American context is surprising given the competitive pressures tied to neoliberal reforms and increasing global integration. In the era of neoliberal globalization, domestic firms as well as the state can no longer rely on protected internal markets or the kinds of direct economic interventions that made it easier for many domestic firms to compete during the ISI period. In a context where the private sector is the engine of growth, business associations and their partnerships with the state may act as an increasingly important

institutional solution to economic development problems across the continent. This may be especially true for Peru's and Chile's tourism sector, which must build its productive capacities and international competitiveness to contend with more established tourism destinations of the region such as Mexico, Costa Rica, Brazil, and even Argentina, which are simultaneously trying to develop cultural-historic and ecological niches in global tourism markets.

Recent trends toward democratization and the institutional reform of the state are also likely to have important consequences for associational activity in Latin America. Research such as Perez-Aleman (2000, 2003) and Kraus (2002) give evidence that democratic practice and state policies and institutional structures play important roles in shaping the influence and visibility of business associations in development.

Drawing from various insights found in recent development literature (institutionalist, development state theory), this chapter assesses the function of business associations, by themselves and in conjunction with the state, in the context of Peru's and Chile's emerging tourism industries. My central theoretical premise is that business associations and dense state-association relations can help foster positive contributions to emerging industries in the global liberal period. Further, those states that enjoy favorable institutional state structures, such as bureaucratic autonomy, strong public-private ties, and solid political governance structures (Chile), are more likely than those that do not (Peru) to facilitate the developmental benefits that business associations can furnish.

Several questions guide an empirical examination of these postulations:

- What types of tourism business associations exist in Peru and Chile and what are their institutional features?

- To what extent do business associations advance the productive capabilities of Peru's and Chile's tourism sector?
- To what extent do tourism associations interact with the state?
- How does the different institutional character between Peru's and Chile's state condition state-association relations in each country?

To address these questions, I rely on data derived from over 70 in-depth key informant interviews, which included leaders of major tourism business associations in both case countries. Evidence is also drawn from a content analysis of government and tourism association documents collected during my fieldwork in each country.¹⁷⁶ I shall focus my analysis on the “peak” or major tourism business associations in each country; however, I also present some evidence of associational activity among tourism firms from the regional and local context.

Taken together, this chapter helps round out this dissertation's focus on the extent to which the state and domestic institutions shape new patterns of growth in two different countries in the Latin American context. I show that the capacity for collective action among tourism firms in both Peru and Chile is generally widespread among formal enterprises. Such business associations, I argue, offer an institutional arrangement that helps tourism firms transcend particularistic interests, develop relationships and trust among each other, and learn about market trends and new production techniques.

The chapter also sheds light on some of the development consequences of state-business association relations in Latin America and elsewhere. Contrary to literature on the rent-seeking character of the organized private sector, business associations may help

¹⁷⁶ For example, CANATUR's “Documento de Posición del Sector Empresarial Turístico: Programa de Accion 2001-2005” in Peru or CONSETUR's “Programa para 2004” in Chile.

foster better sector-specific state performance and state-society synergy therein. My argument is that states may function better when they have strong connections to a broad array of business associations, and at the same time, business associations may have more visibility and effectiveness where an institutionally strong state can facilitate their development. In this sense, Chile's state, with its greater amount of financial resources, flexibility, efficiency, and tradition of working with the private sector, has greater capacity to strengthen the efficacy of tourism business associations when compared to Peru. By effective I mean the capacity of tourism business associations to pursue growth enhancing policies and inputs helpful to more than just one individual firm.

This chapter is organized in the following manner. First, it reviews some of the key points from the development literature on business associations and the state. Next, it identifies the most important tourism business associations in Peru and Chile and some of their institutional characteristics. The chapter then documents some of the principal developmental benefits provided by these associations. An analysis of the influence of tourism business associations on the state is then presented, followed by a comparison of how the state and its institutional character shape the nature of tourism business associations. The broader implications of my findings are elaborated upon in the concluding section.

BUSINESS ASSOCIATIONS, DEVELOPMENT AND THE STATE IN THE NEOLIBERAL PERIOD

Following the adoption of market-oriented approaches, civil society and state-society partnerships have become increasingly important factors mediating development

opportunities in developing countries (Clark 1995, 2002; Evans 1996). In this chapter, I treat business associations as part of civil society, a broad concept that can include community organizations, NGOs, religious groups, as well as professional associations.¹⁷⁷ Commonly called *gremios* in Spanish, business associations can be seen as a durable group of entrepreneurs, individual firms and/or other associations that share broad economic interests and act according to decisions made by its members (Masten and Brown 1995).¹⁷⁸ Business associations are by definition non-state actors and according to Fisman and Khanna (2004: 609): “dominate the landscape of virtually all developing countries.”

Historically, economic development theory has presented competing interpretations of the organized private sector. Put somewhat simplistically for clarity sake, one perspective reflects a critical approach, which generally views business associations (or industry interest groups) as hindering economic growth in developing countries. From public choice theory to neo-Marxist analysis, business interest groups create rent-seeking problems by capturing parts of the state in order to realize narrow particularistic interests of certain groups or classes (Becker 1990; Doner and Schneider 2000; Evans 1995: 23-4). This situation may be especially prevalent in developing countries, where states are more likely to lack bureaucratic autonomy. In the absence of bureaucratic norms and predictability, business associations can more easily advance clientelistic and individualized interests with state actors, hampering development in the

¹⁷⁷ However, it should be kept in mind that in developing countries, especially in highly unequal countries, businesspeople tend to come from elite social groups and hence may not identify with the collective interests of society as a whole.

¹⁷⁸ Business associations tend to represent the interests of firms or entrepreneurs and should therefore not be confused with labor organizations or trade unions, which generally represent the interests of working classes.

long run. In Brazil, for example, Weyland (1998) argues that business groups have used their access to the state to constrain the state's capacity to tax, which in turn, has contributed to the decline of the state's capacity to respond to development challenges.

A competing argument brings to light the potentially positive contributions of business associations and state-association relations in newly industrialized and developing economies (Doner and Schneider 2000, 2000b; Fisman and Khanna 2004; Lucas 1997; Maxfield and Schneider 1997; Perez-Aleman 2000, 2003; Schaede 2000). From this view, associational activity can enhance the private sector's capacity to confront, whether directly or indirectly, a wide range of market imperfections left by a weak state and/or immature markets. Some positive contributions of business associations include advancing macroeconomic or sector-specific reforms, improving the regulatory environment, and providing market-enhancing services to its members such information exchange and goal-setting.

Along these lines, Doner and Schneider (2000b: 268) cite the Textile Manufacturers' Association (TTMA) in Thailand as helping domestic firms cope with rapid economic change by providing them with vital information about changes in European demand and regulatory environment in the 1970s. In Brazil, footwear associations helped firms learn about and ultimately connect with important external markets such as North America (*ibid.*). A recent study in India suggests that firms affiliated with business associations were more likely to locate and achieve financial success in less developed areas of the country (Fisman and Khanna 2004). In Japan, Schaede (2000) describes industry associations as having provided a wide range of

market-enhancing functions on their own and with the state.¹⁷⁹ This chapter examines whether the growth-enhancing benefits of business associations found elsewhere are also prevalent in the emerging tourism industries of Peru and Chile.

Turning to the factors that mediate the capacity of business associations, existing studies have spelled out a broad range of internal (e.g. well-staffed) and external (e.g. government pressure, ideology, international market competitiveness) variables.¹⁸⁰ Therein, research has highlighted the important influence of the state's institutional character on the capacity and influence of business associations in Latin America (Silva 1996; Perez-Aleman 2000; Schneider 2002), Africa (Braütigam, Rakner and Taylor 2002), and Asia (Doner and Schneider 2000b). As Kraus (2002: 398) puts it: "the state-business relationship is perhaps the basic factor which determines whether BAs [business associations] will have much visibility or influence."

Reflecting on how the state may condition associational activity among business, Evans (1995) demonstrates that a combination of state autonomy and embeddedness can enhance the positive development contributions of business interest groups, while mitigating their potential to realize rent-seeking behaviors. States can also directly assist the creation and maintenance of business associations. In an effort to "assist their explorations into unknown foreign markets," government provisions in Chile broadened

¹⁷⁹ There are of course limits to the positive contributions of business associations on development, especially in the developing world. Moore and Hamalai (1993), for example, give evidence that business associations may act against the interests of its members. Conflict and competition among associations may also be high.

¹⁸⁰ Shafer (1994) argues that the capacity for collective action among firms depend on sectoral characteristics. Firms and workers of what he called 'high/high' sectors (e.g. mining) are more likely to take collective action than those found in 'low/low' sectors (e.g. coffee). For example, concentrated economic activity makes it easier for firms to organize, as in the mining sector. Meanwhile, in sectors such as coffee, firms are smaller and highly dispersed geographically, thus making collective action more problematic (39-42).

the capacities of agro-export business associations (Perez-Aleman 2003: 203-205). Thorp (1991) attributes close and predictable state-business group relationships in Colombia as underpinning effective and stable macroeconomic policies, while its absence contributed to the volatile and dodgy macroeconomic policies that characterized Peru's lost decade (see also Silva 1996).

In addition to the state's internal structure, the larger political and economic context also makes a difference. According to Rettberg (2005), business associations during Latin America's ISI period generally helped further a state-led development agenda by giving the state a channel to connect with the business community. However, a key feature of state-business relationships under an ISI model of development was often the aim to gain favorable state treatment and distort market competition rather than to enhance competitiveness. Partly for this reason, Kraus (2002) found that populist development policies in Ghana, Africa from 1970-1990 limited the growth-enhancing potential of business associations.

The end of ISI and the adoption of neoliberal economic strategies, as I see it, have made the role of business associations in development more important in the Latin American context. Because neoliberal economic strategies throw weight on private sector solutions to development problems, they give more relevance to the developmental ends that associational activity among businesses may forge. For example, the opening up of domestic markets to foreign competition gives domestic firms more incentive to join together to learn about market trends and best practices, as a primary development dilemma nowadays centers on how the private sector can raise its productive capacity and

confront international competitive pressures. This is witnessed in Chile, where economic crisis in the early 1980s prompted the state to incorporate business associations into its neoliberal development agenda (Silva 1996). Neoliberal economic strategies have also encouraged a diversification of the economy and in turn the growth of a multiplicity of associations.

Another important point relates to the role of democracy in shaping associational activity among business. According to Braütigam, Rakner and Taylor's work in Africa (2002: 521), the transition to democracy in many developing countries: "should either help business associations express their interests (as part of civil society) or at least, not impede better relations." As discussed in preceding chapters, democratization can have significant implications for the way the state gets involved in development. Part of this entails a greater emphasis on civil society participation in the development process and government decision-making. For this reason, business associations or interest groups may have greater interaction and influence with government decision makers under democratic regimes. With that said, political liberalization and/or democratic consolidation do not prompt the magical appearance of capable business associations nor necessarily encourage strong alliances between business associations and the state (Braütigam, Rakner and Taylor 2002; Crisp 1998; Moore and Hamalai 1993). In fact, Schneider (2002: 79) attributes the history of strong business organizations in Mexico as a result of their exclusion from important positions of political power by political elites.

TOURISM BUSINESS ASSOCIATIONS IN PERU AND CHILE

In trying to sharpen our understanding of the possible developmental functions of business associations, this section looks at existing business associations linked to the emerging tourism industries of Peru and Chile. Scanning the landscape of both countries reveals a wide range of tourism business associations, all of which have become more visible in recent years given favorable market forces, increasing global integration, and the competitive pressures that have arisen from these factors. Tables 7.1 and 7.2 identify the most important tourism associations in each case.

Table 7.1: Tourism Business Associations, Selected Peruvian Organizations

Name	Scope	Selected Objectives
CANATUR (National Chamber of Tourism)	Peak National Association (aggregates 11 associations)	<ul style="list-style-type: none"> • Private sector voice/representative/ for tourism sector; key lobby group • Make Peruvian tourism more internationally competitive • Information and service provider
(a) APAVIT (Peruvian Association of Travel Agencies)	(a) National Association (322 members Lima, 489 outside of Lima)*	<ul style="list-style-type: none"> • Improve quality of tourism services • Increase industry competitiveness • Represent interests of travel agencies/operators • Lobby
(b) APOTUR (Peruvian Association of Tour Operators)	(b) National Association (36 members)*	
APTAE (Peruvian Association of Adventure Tourism and Ecotourism)	National Association with regional groups, e.g. Cusco (27 members)	<ul style="list-style-type: none"> • Facilitate, Diffuse, and promote adventure and ecotourism • Promote sustainable tourism activity • Promote good regulation within adventure and ecotourism
AHORA (Association of Hotels and Restaurants)	National Association with Regional groups (246 hotels, 123 restaurants, 70 pubs)*	<ul style="list-style-type: none"> • Coordinate hotel owners/ provide legal information and technical assistance to members • Improve tourism product (services)
AATC (Association of Cusco tourism)	Regional Association/firms that focus on tourism in Cusco (286 members**)	<ul style="list-style-type: none"> • Promote favorable conditions for regional tourism development. • Search for mechanisms of coordination with public sector

SOURCE: various interviews (2003, 2004) and association documents

* PROMPERU (2000: 20); ** CBC and CIES (2003)

Table 7.2: Tourism Business Associations, Selected Chilean Organizations

Name	Scope	Selected Objectives
CONSETUR (National Chamber of Commerce, Services, and Tourism)	Peak and Umbrella Association (Aggregates 10 tourism business associations)	<ul style="list-style-type: none"> • Private sector voice/representative of tourism sector/lobby • Make Chilean tourism more competitive • Information and service provider
Regional Chamber of Commerce, Services, and Tourism	Regional/Local association (often with links to CONSETUR) (Over 50)	<ul style="list-style-type: none"> • Provide local support for tourism • Improve quality of local product • Local representation for tourism firms
ACHET (Chilean Association of Tourism Businesses)	National Association (155 members)	<ul style="list-style-type: none"> • Advance the professional development of group-affiliates • Representation in government
ACHILA (Chilean Association of Airlines)	National Association (33 affiliates)	<ul style="list-style-type: none"> • Promote tourism and air transport • Develop international "open-sky" agreements
ACHIGA (Chilean Association of Gastronomy)	National Association (20+)	<ul style="list-style-type: none"> • Improve food standards in tourism • Advance links between tourism firms and tourism oriented restaurants • Develop best practices/quality (e.g. rating system for restaurants)
ACHMART (Chilean Association of Tourism Wholesalers and Large Tour Operators)	National Association (32 members)	<ul style="list-style-type: none"> • Bring together tourism agencies and operators from north and south (e.g. <i>Salón Internacional de Turismo</i>) • Develop technological capacity • Lobby government
CATA (Association of Adventure Travel Agencies and Operators)	National Association (Aggregates individual firms and various associations, e.g. National Association of Guides)	<ul style="list-style-type: none"> • Representation of adventure/ecological tourism segment • Improve and create normative framework for adventure tourism segment
<i>Hoteleros de Chile</i> (Association of Chilean Hotels)	National Association (120 members)	<ul style="list-style-type: none"> • Increase quality of tourism product • Increase human resources in sector • Lobby state (e.g. hotel labor codes)
HOTELGA (Federation of Hotels and Gastronomy)	National Association with regional/local affiliates (100+ members)	<ul style="list-style-type: none"> • Improve quality of tourism product • Promote tourism development and best practices in hotels/restaurants. • Lobby state (e.g. hotel labor codes)

SOURCE: various interviews (2004) and association documents

Above all, Tables 7.1 and 7.2 show a capacity of tourism firms to maintain durable business associations in both cases. Geographically, tourism associations can be national or regional, or sometimes both. They represent of a diverse range of industry

interests, some incorporating smaller to medium firms while others are more geared to capital intensive enterprises. The majority of firms in these associations are domestic, most commonly differentiated by their market niche and/or labor pool, e.g. travel agencies, tour operators, hotels, transportation operators, adventure tourism.

In Peru, tourism business associations representing the traditional subsectors of the industry include APAVIT (Peruvian Association of Travel Agencies) and AHORA (Association of Hotels and Restaurants). Put together, these two associations account for over 1000 individual firms. In Chile, an important tourism business association is ACHET (Chilean Association of Tourism Businesses), which claims to be the oldest tourism business association in Latin America. *Hoteleros de Chile* (Association of Chilean Hotel owners) is another central tourism business association, which is made up of approximately 120 members (firms).

Tables 7.1 and 7.2 also point to the existence of associations that represent growing tourism market niches. The Peruvian Association of Adventure and Ecotourism (APTAE) and the Association of Adventure Tourism Agencies (CATA) in Chile are good examples of this (e.g. trekking, mountain climbing, rafting). It is also important to note the existence of local tourism business associations. In Peru, the Association of Cusco Tourism (AATC) represents an important local venue for firms specifically devoted toward activities in the Cusco region. In Chile, the local Chamber of Commerce, Services and Tourism, which exists in every regional capital and many localities as well, aims to represent the interests of locally based tourism firms.

This leads us to the issue of associational hierarchy, as all business associations are not created equal. The most influential business associations generally have the most resources, members and political clout. Such organizations can be described as peak and/or umbrella associations. For our purposes, a “peak” association will refer to the aggregation of individual tourism business associations into one central association. Slightly different are “umbrella associations”, which are those national associations that also have various regional or local organizations acting as intermediaries.

Peru’s peak tourism association is the National Chamber of Tourism (CANATUR). Established in 1971, CANATUR agglomerates eleven of the most important tourism business associations in Peru. Its primary aim is to provide a single industry voice on policy issues, addressing concerns shared by the sector as a whole. A selection of CANATUR’s current members includes APAVIT (Peruvian Association of Travel Agencies), APOTUR (Peruvian Association of Travel Agencies/Tourism Operators), and APTAE (Peruvian Association of Adventure Tourism and Ecotourism).¹⁸¹

In Chile, CONSETUR (The National Chamber of Commerce, Services and Tourism) represents the country’s peak tourism business association. It is also an umbrella organization for many regional and/or local tourism divisions under the Chamber of Commerce. Like CANATUR in Peru, CONSETUR brings together distinct associations within Chilean tourism to provide a coherent industry voice that transcends particularistic interests. Toward this end, CONSETUR consists of ten of the country’s

¹⁸¹ CANATUR is also an umbrella organization for many, but not all, regional chambers of tourism throughout Peru.

most important tourism business associations, including ACHET (Chilean Association of Tourism Businesses), ACHILA (Chilean Association of Air Lines), *Hoteleros de Chile* (Association of Hotel Owners of Chile), HOTELGA (Federation of Hotels and Gastronomy), and CATA (Association of Adventure Tourism).¹⁸²

In terms of their broad institutional characteristics, tourism associations in both countries are voluntary and thus operate on a competitive basis. A problematic implication of the voluntary nature of business associations, as in other forms of collective action, is the issue of free riding.¹⁸³ Since membership is not mandatory, many tourism enterprises that do not participate in associations bear no cost (e.g. financial and time), but may reap some of the collective benefits of associational activities, such as favorable legislation. To mobilize new members or maintain established ones, tourism business associations must provide selective incentives that encourage collective action (Olson 1965). Selective incentives granted to participating tourism firms can include the provision of timely market information, training workshops, and/or access to state officials as well as political representation.

Although tourism business associations may compete for membership, I found that they commonly cooperate with each other in Peru and Chile, on both vertical and horizontal levels. Vertical cooperation occurs when associations involved in different subsectors (hotel association versus travel agency association) work together. Horizontal cooperation takes place when potential competitors (e.g. two different hotel associations)

¹⁸² Interview with Bárbara Aubert Ferrer, President CONSETUR (Santiago, January 2004).

¹⁸³ The concept of free-riding is often allied with Olson's *The Logic of Collective Action* (1965), which argued that shared interests would not necessarily lead to efficient collective action, as potential members could 'free ride' on the labors of others to provide crucial collective goods. Self-interested rationality may then foster suboptimal collective action.

cooperate to advance particular objectives. With respect to decision-making, associations' policies are typically debated and made in committees. All association members are typically involved in the election of the board of directors and president, which normally occurs at annual meetings.

Finally, it is critical to note that many small and/or informal tourism enterprises tend to be excluded from the major tourism business associations of both countries. Consequently, many small and informal tourism businesses do not gain the selective benefits related to association membership, such as information exchange. Such exclusion is important because it exacerbates the existing situation whereby smaller informal enterprises tend to have less knowledge about market trends and involvement in the formulation of policies. This issue is especially troublesome in Peru, where informal activities linked to tourism are highly prevalent, especially outside the capital of Lima.

In sum, a central finding that emerges in this section is that although tourism production would seemingly make collective action among the private sector problematic due to the geographically dispersed nature of the industry, voluntary business associations among formal tourism entrepreneurs/firms is wide-ranging in Peru and Chile. Moreover, while many tourism business associations in each country have been around for at least a decade or two, recent tourism growth and the increasing interest of the state in tourism have stimulated the emergence of new associations (e.g. CATA in Chile 1994) and enhanced the influence of established ones (e.g. CANATUR in Peru). To better understand why tourism business associations have gained importance in recent

years, the next section examines the kinds of developmental inputs they provide in Peruvian and Chilean tourism.

MARKET-SUPPORTING FUNCTIONS OF ASSOCIATIONAL ACTIVITY AMONG TOURISM FIRMS

Tourism is a highly competitive industry. It is also a complex industry that requires a heterogeneous range of productive activities that occur in a geographically disperse manner. Firms operating in an immature tourism sector, such as found in Peru and Chile, confront numerous development challenges such as information bottlenecks, organizational problems, bad quality of human resources, and little diversification and/or quality of tourism products.

Can and how does collective action among tourism firms benefit the tourism development process? Recent literature suggests that business associations can supply a wide range of both collective (the whole industry) and selective benefits (group-affiliates) that can improve sector competitiveness (Doner and Schneider 2000, 2000b; Schaeede 2000). To focus our analysis, the following section examines two key developmental functions of tourism business associations found in my research - information exchange and technical/business services.

Information Exchange

Aside from supplying the products and services that fulfill market demands, the private sector can facilitate information flows that help strengthen economic growth. To

be sure, information is a vital factor to the smooth and optimal operation of markets as information imperfections can lead to under or over supply of a product (World Bank 2003). Dense networks and associational activity among enterprises can play an important role in mitigating information uncertainties that can harm economic development. Roberts (1995: 200) notes that: "...though free trade brings export opportunities, these require organization on the part of entrepreneurs to generate the resources and information to compete in new markets." Based on fieldwork in Eastern Nigeria, Braütigam (1997) cites strong networks among firms as a crucial variable reducing information uncertainties hindering new market entry.

My research shows that tourism business associations facilitate information exchange that can make a difference for the tourism development process of Peru and Chile. To begin with, associations foster networking opportunities and interpersonal relationships among the private sector. Hosting annual meetings and special events is one principal way tourism business associations realize this function. The annual "Expoaventura Perú" spearheaded by the Peruvian Association of Adventure Tourism and Ecotourism (APTAE) is a noteworthy example here. While the stated objective of this event is to promote ecological and adventure tourism in Peru, events like these also help cultivate interpersonal relationships and trust among affiliated members, providing a collective forum for discussion and sharing knowledge. They also provide an institutional basis for exchanging information between public and private agents. APTAE's 2004 meeting, for example, not only drew leaders from over 100 tourism firms

but also state tourism leaders (e.g. officials from the Ministry of Foreign Trade and Tourism).

Second, since tourism is outward-oriented, that is, it produces goods and services for consumers outside of the local economy, firms must have access to good information about external market trends. It is, however, often too costly and time consuming for any one firm to gather and analyze the kinds of information required by rapidly changing external markets. My research shows that tourism business associations in both Peru and Chile help fill this gap, providing firms with timely research and concise summaries of international and domestic market trends. Such information is often gathered by associations' technical staff and distributed through published reports, newsletters and press releases. While often times not as detailed as government studies, market information provided by business associations is delivered in a more timely and accessible manner and thus serves to complement state financed studies on tourism. This function was particularly significant for Chilean firms in the early 2000s, a time when Chile's key external tourism market Argentina faced near economic collapse. As Chilean tourism felt the affects of this situation, tourism business associations, especially CONSETUR, organized and distributed market profiles of other external markets, such as the USA, where Chilean firms could re-focus their efforts. In some cases, tourism business associations also provide professional seminars that diffuse knowledge about new industry practices. Take, for example, just two seminars planned by Chile's CONSETUR in 2004: (a) "The impact of international agreements on the tourism industry"; (b) "Tourism and the internet" (CONSETUR 2004).

Another crucial dimension of information exchange is to educate affiliated members regarding changes in the regulatory environment. If legislative action will impact the tourism sector, business associations make this known to its member constituents, often times providing analysis of the positive and negative attributes of regulatory changes, whether through published reports, monthly trade magazines or newsletters. For example, CANATUR's bi-monthly publication offers a specific section related to tourism regulations in Peru.

Improving Service Standards and Human Resources through Associational Activity

New theories in development often stress human capital and know-how as a key factor shaping the competitive advantages of a nation or particular sector (Wise 2003). Human resources essential to the tourism sector include management and professional proficiency, technological capacity, high customer service standards, competent food preparation and sanitation norms, and price/quality ratio. Countries unable to ensure high levels of human resources and quality standards will not hold long term competitive advantages in tourism, especially given the highly competitive nature of international tourism. The inability of a firm to consistently meet service (e.g. customer service) and product (e.g. food or accommodation quality) standards will not only hinder its own revenue capacity but also can weaken the reputation of the whole country's tourism industry.

My research shows that tourism business associations provide technical services that can help improve human resources and quality standards of the sector. Setting high service performance standards is one important technical service provided by major

tourism associations in the two countries. A good example of this found in the activities Chile's Adventure Tourism Association (CATA) in Chile. Adventure tourism can be a dangerous business. Many tourist accidents, and even deaths, have occurred in Chile's mountains and waters (rafting). One tourist accident because of shoddy equipment or safety procedures can harm the entire reputation of a country's adventure tourism sector, and for this reason it is important that adventure tourism guides receive proper training and equipment. To help ensure that tourists receive guides that have rich local knowledge and are cognizant of appropriate safety procedures, CATA developed quality control guidelines for adventure tourism firms in the late 1990s.¹⁸⁴

Tourism business associations can also help transfer pragmatic skills to individual firms. This is illustrated by Peru's hotel and restaurant association AHORA, which organizes various workshops in Lima and Cusco that help participating firms learn about management techniques and adopt better service quality standards. In November of 2003, for example, AHORA sponsored a training workshop designed to improve firms' knowledge about proper food sanitation procedures and food presentation.¹⁸⁵

In Chile, I found similar tendencies. For instance, several large tourism business associations (i.e. CONSETUR, ACHET, ACHIGA and Hoteleros de Chile) worked together to implement the tourism component of the national "Worker's Training Project" (1998-2002). Aiming to improve national tourism practices, each association mentioned above developed criteria to measure knowledge and skills important to the

¹⁸⁴ Hotel and restaurant rating systems negotiated through various hotel and restaurant associations illustrate another way associative activity among tourism firms encourages rule-setting and service guidelines in both countries.

¹⁸⁵ Interview with Edwin González Muñiz, President of AHORA-Cusco (Cusco, December 2003).

tourism sector. Such activities provided tourism institutes, training centers, and firms with a common yardstick to improve the quality of labor practices and safety performance standards, which in the long-term may boost the overall productive capacity and international competitiveness of Chile's tourism sector.

In addition to the aforementioned services, major tourism business associations provide other types of technical inputs in favor of tourism growth. For one, my research shows that national associations often help firms develop business plans through direct consultation or through the provision of strategic plans and best practice guidelines. They also may provide legal advisory services to help firms navigate the complex legal environment of each country (e.g. taxes, international regulations).

On the whole, this section has argued that tourism business associations provide an institutional mechanism for advancing the productive capacity of each country's tourism sector. A key point is that associations provide the private sector a vehicle to address the gaps that the state seems unable to fill. Moreover, since services provided by these associations are often tailored to the specific needs of firms, they may be more likely to have success in improving the overall competitiveness of the sector.

In providing market-supporting services to its members, business associations attempt to influence, and are influenced by, the state.

STATE-ASSOCIATION RELATIONS

To analyze state-tourism business association relations, two lines of inquiry must be considered: (a) how tourism business associations attempt to influence state involvement in the sector; and (b) how state policy and its institutional character

influence tourism business associations themselves. I begin with a focus on how associations represent an institutional platform to influence tourism sector-specific state policies.

Influencing the State

An important element of business associations relates to their capacity to influence the state. There are several aspects to consider here. For one, associations serve to channel the preferences and interests of a diverse band of private interests in public policy arenas. Along these lines, tourism business associations in Peru and Chile allow distinctive and geographically dispersed tourism firms to “interface” or lobby state elites. In each country, peak tourism business associations carry out this role to a greater degree than individual associations. Thus, Peru’s CANATUR, which aggregates eleven distinct tourism associations, provides a channel in which tourism firms lobby government actors regarding the collective concerns of the industry. The current president of CANATUR explains:

We are the primary private sector voice of the tourism industry to the public sector, we participate as members of MINCETUR’s consultative [advisory] committee, we also participate as the private sector representative before the directorate of PROMPERU...¹⁸⁶

In Chile, the peak tourism association CONSETUR exerts the most political influence, providing firms an institutional structure to discuss and draft various legislative initiatives, exchange information and work jointly with public sector agents. Of

¹⁸⁶ Interview with Carlos Canales Anchorena, President-CANATUR (Lima, October 2003).

particular importance to CONSETUR's agenda in recent years have been labor codes in hotels and restaurants and regulations related to casinos and sport fishing. CONSETUR has also been a key forum in which the industry has pressured the state, primarily the Ministry of the Economy, to strengthen Chile's public National Tourism Bureau (SERNATUR).¹⁸⁷

More specialized associations of tourism firms also try to influence tourism related policies. For instance, the Peruvian Association of Adventure and Ecological Tourism has exerted considerable pressure on the state to change regulations on the Inca Trail, a resource of prime importance to many adventure tourism firms. During an interview, vice-president of ATPAE-Cusco noted: "in APTAE we have developed numerous proposals for new regulations on The Inca Trail... aside from just complaining, we have written very technical policy recommendations for the INC, INRENA, and UGM..."¹⁸⁸ Likewise, the Chilean Association of Adventure Tourism actively lobbies the government on issues related to the adventure tourism segment, such as rules in Chile's national parks.¹⁸⁹

Apart from lobbying, the economic development literature suggests that associations can improve state performance in specific areas (Doner and Schneider 2000; Schaede 2000). Evidence from my research reinforces this postulation. Tourism business associations promote sector-specific state reform by advocating growth-oriented policies and responding to bad government performance through protests or criticisms.

¹⁸⁷ Interview with Bárbara Aubert Ferrer, President CONSETUR (Santiago, January 2004).

¹⁸⁸ While state agencies did not include all of APTAE's recommendations, their proposal served to change tone of the debate. Interview with Franco Negri, Manager of *Explorandes* and vice-president of APTAE-Cusco (Cusco, December 2003).

¹⁸⁹ Interview with Cristina Sánchez, President of CATA (Santiago, January 2004).

In Peru, this function is best exemplified by CANATUR, which plays an important watchdog role – monitoring public agencies involved in tourism and calling for better state performance and transparency in the sector. CANATUR’s bi-monthly publication has proved to be an especially popular venue to critique the state’s (mis)management of Machu Picchu (Koechlin Von Stein 2001). The key point here is that CANATUR offers an institutionalized setting whereby private sector leaders can pressure public officials to perform better in tourism, which in turn, reduces incentives for corruption.

Chilean tourism business associations also help shape state performance in tourism. While direct causality cannot be established, my research suggests that business associations in Chile have helped foster the emergence of more supportive tourism policies over the past 15 years (such as increasing global promotion funds or recent programs by SENATUR to spur domestic tourism). This issue was expressed by representatives of several major tourism business associations in Chile. HOTELGA’s former 9th regional president explained: “for years, we tried to demonstrate that tourism was really beneficial for many actors and for development. The state seems to have finally realized this and is more actively engaged now than in prior years...”¹⁹⁰

Business associations may also help reduce public-private transaction costs. In tourism, public-private coordination can pose high transaction costs given the diverse range of actors involved in implementing tourism strategies, regulations, and projects. In this context, tourism business associations provide an institutional mechanism that facilitates smoother information flows between state and private actors. This is

¹⁹⁰ Interview with Vincent Belbeze, General Manager Hotel Continental and Former president of HOTELGA-IX region (Temuco, February 2004).

especially the case in the context of moves toward government transparency and democracy. In other words, governments can more readily work with business associations, which are often seen as representing a wider set of interests than individual companies/executives. Associations may also foster more efficient public-private coordination by providing individual firms with information about available state resources. For instance, the peak tourism association in Chile regularly sponsors seminars that offer information about state resources available to tourism firms, such as the 2004 workshop titled “Financing instruments in tourism - CORFO” (CONSETUR 2004).

While tourism business associations in the two countries appear to take on similar roles in interacting with the state, my research shows that Chilean tourism business associations have more significant and wider relations with government than Peruvian ones (1990s-present). The next section elaborates on this situation and the underlying forces shaping it.

Linking the State with the Role of Business Associations in Development

The state and its institutional character play an important role in shaping associational activity among a broad range of civil society actors.¹⁹¹ Roberts (2005: 153) notes that civic associations and NGOs: “require the active support of state agencies,

¹⁹¹ Aside from state-association relations a number of other external and internal factors shape the influence of business associations. Some of these include: a) limited resources; b) lack of ability to coerce members; c) exclusion of smaller or informal business; d) exclusion of working classes; and externally e) economic development orientation (market vs. statist approaches) and; (f) history and scope of domestic capitalist.

which can provide comparative information and help institutionalize channels of discussion and debate.” Looking at Chile’s agro-industry, Perez-Aleman (2000) gives evidence of a state that “nurtured” agro-industry business associations, enhancing their overall capacity, visibility, and influence.

This section addresses the question of how state activities and its institutional structure impact the agenda and influence of tourism business associations in Peru and Chile. I begin with the issue of broad governance structures since at the most general level a country’s institutional environment shapes the agenda of the organized private sector. As discussed earlier, Peru has a relatively low level of good governance as compared to Chile.¹⁹² What this means for the cases at hand is that despite the range of growth-enhancing services that business associations provide, there are more basic institutional deficiencies facing Peruvian tourism than in Chile (e.g. weak regulatory environment, less voice and accountability of civil society). This situation augments the developmental importance of tourism business associations on the one hand, but constrains their efficiency and overall capacity on the other. A useful illustration of the latter is the high level of informal market activities surrounding Peruvian tourism, which is partly linked to the low quality of the state’s regulatory regime and weak political institutions. The plethora of informal tourism firms in Peru, in turn, reduces the impact of Peruvian tourism business associations, which have failed to incorporate many informal tourism firms/entrepreneurs in their organizations. For example, the work of

¹⁹² With respect to the political side of governance, consider 2002 governance indicators provided by the World Bank, which show Peru to have a relatively low “Voice and Accountability” score of 58 compared to Chile’s 84. In terms of economic governance issues, Peru again holds a much lower score of “Government Effectiveness” (39) and “Regulatory Quality” (63) when compared to Chile, which scored 90 and 87 correspondingly (Kaufmann, Kraay and Mastruzzi 2003).

business associations to develop rule-setting and quality standards in the tourism sector do not apply to informal firms that are not involved with associational activities.¹⁹³

Aside from governance structures, patterns of state-society relations are also a key factor conditioning tourism business associations in these two countries. Of concern here is the extent to which the nature of state-society relations mediates business associations' relationship with the state. This is important as research has shown that dense state-business interaction can foster better policy outcomes, investment opportunities, efficiency and productive capacity under neoliberal economic strategies (Evans 1995; Perez-Aleman 2000; Silva 1996; Thorp 1991). For example, strong relations between the state and business associations can improve economic competitiveness by giving policymakers, who are likely to have little direct experience with issues important to market competition in a specific sector, the information and knowledge needed to formulate better policies.

In my research I found that consultation between the state and tourism business associations in Peru and Chile take many forms, from regular (but informal) meetings to the institutionalization of associations in public consultative councils or committees. The nature of such consultations in each case country, however, appears to be shaped by traditions of state-society relations. Thus, a history of weak alliances between the state and domestic capitalists in Peru (Wise 1997: 89) is mirrored in patterns of state-tourism association relations. While the peak tourism association CANATUR serves on several public advisory committees, it is the only tourism business association that has formalized access to state elites in Peru. Moreover, CANATUR's participation on public

¹⁹³ Interview with Carlos Canales Anchorena, President of CANATUR (Lima, November 2003).

councils involved in tourism does not automatically suggest business input in policy outcomes. A former president of CANATUR noted during an interview: “while we may have a friendly relationship with the state...in decisions we have little influence.”¹⁹⁴ Indeed, a majority of private sector actors I interviewed in Peru suggested that the state only pays lip service to domestic private sector interests in tourism. Former president of APTAE-Cusco had the following impression:

Look, they [referring to the state] invite you to meetings, they ask you for your opinions, *But* in the moment that a decision is needed, they do not take into account our opinions... they may account for small details, but they never take our recommendations very seriously... Then later, the state says that it is working with the private sector.¹⁹⁵

Conversely, there seems to be broader (more associations) and more productive consultations between government and tourism business associations in Chile, especially since the late 1990s. Contrast the above mentioned statements from Peruvian tourism business leaders with the president of the tourism division of CONSETUR:

“nowadays...private and public agents have strong relationships... SERNATUR is our partner and in that there is a very strong relationship that I believe allows us to advance many things.”¹⁹⁶ The president of Chile’s Adventure Tourism Association (CATA) echoed such sentiments during an interview: “yes, the state listens to the private sector.

¹⁹⁴ Interview with José Koechlin Von Stein, Former President of Peru’s National Chamber of Tourism and prominent hotel entrepreneur (Lima, December 2003).

¹⁹⁵ Interview with Raul Montes, Former president of APTAE-Cusco and Tour Operator (Cusco, December 2003).

¹⁹⁶ Interview with Barbara Aubert Ferrer, President CONSETUR (Santiago, January 2004).

At times, they do not fulfill their promises, BUT more and more they are working with the sector and trying to help us coordinate and realize our development interests.”¹⁹⁷

A richer tradition of public-private partnerships and a “pro-business” ideology dating back to the early 1980s (Silva 1996: 309-311) help explain why state-tourism association consultations seem more developed, regular and productive in Chile. This relatively stronger tradition of state-business relationships, I argue, has helped foster a generalized orientation in the Chilean state whereby business associations are viewed as a vehicle for promoting capital accumulation in new markets. This rationality has given way to the creation of several public-private institutions that effectively facilitate the visibility and influence of tourism business associations. For example, the public-private Tourism Promotion Corporation of Chile (CPT) created by state efforts in 1994 has provided a forum that brings together tourism business associations, among other private agents and public actors, to discuss Chile’s global marketing strategy as well as learn about new global marketing strategies. The Tourism Working Group initiated in the early 2000s by SERNATUR has created a favorable institutionalized setting for business associations to participate in discussing future tourism policy objectives. The prevalence of such public-private forums in Chile contrasts sharply with Peru, where the state’s new strategy to deepen tourism development is marked by an approach that leaves less room for tourism business associations to work with state institutions geared toward tourism (Chapter 4).

A slightly different way to tease out the influence of state-society relations on tourism business associations is the concept of co-production, where state agencies and

¹⁹⁷ Interview with Cristina Sánchez, President of CATA (Santiago, January 2004).

private groups: “work together to produce a needed service or collective good...” (Evans 1997: 80; see also Lam 1996). In Peru, there is scant evidence of the state and tourism business associations jointly working together. Although the state and tourism business associations discuss strategy and at times negotiate policy (as in CANATUR), they have yet to synergize their often times complementary interests to provide a needed good related to the tourism sector.¹⁹⁸ This absence of productive alliances clearly reduces the ability of tourism to achieve its full potential in Peru, as witnessed in the lack of coordinated efforts to tackle environmental problems emerging from the spatial concentration of tourism in the Cusco-Machu Picchu area (Chapters 5, 6).

By way of contrast is Chile, where the state and tourism business association have realized a number of joint-projects in recent years. A clear instance of co-production is found in the project *Certificación de Competencias Laborales y Calidad de la Capacitación* (Certification of Labor Competence and Training Quality), which aimed to improve standard labor practices and worker capabilities in the tourism sector.¹⁹⁹ The implementation of this project (1999-2002) hinged on the recognition of the complementarities between various meso-level state institutions (CORFO and SENCE), a large NGO (*Fundación Chile*), and major tourism business associations (CONSETUR, ACHET, ACHIGA, and *Hoteleros de Chile*). Here, tourism business associations offered the operational and practical knowledge to advance the project’s aims, while the state

¹⁹⁸ Aside from weak tradition of public-private ties, the relatively low level of the state’s resources in Peru can be seen as a factor constraining the capacity of the state to spearhead projects with tourism associations.

¹⁹⁹ While the tourism sector was a focus of this project, it also included programs in other sectors such as mining, construction and forestry. Funds for the project come from various sources. Most significant are financial resources from CORFO and a donation from the Inter-American Development Bank (\$3 million dollars). More information can be found at www.consetur.cl.

provided various types of support (organizational and financial resources) that helped achieve project goals.²⁰⁰

Another illustration of co-production is found in Chile's adventure guide accreditation program created in the late 1990s. While there were no guidelines associated with adventure guides in Chile some ten years ago, the majority of Chile's top adventure guides are now accredited by the Chilean Adventure Tourism Association (CATA). Here again, complementarity between the state and tourism business associations made this possible. CATA was instrumental in initiating and formulating the practices that adventure-oriented tourism firms were to adopt as quality control standards; meanwhile, different state agencies offered financial (CORFO), administrative and technical inputs (CONAF and SERNATUR) to jump-start and sustain activities carried out CATA.²⁰¹ The state also provided authority, which helped legitimize the work of CATA.

On the whole, the observations laid out in this section offer lessons on institutional structures that benefit new types of economic growth under neoliberal economic strategies. In Peru, an improving but ultimately old bureaucratic state with weak ties with society is not conducive to building new state-business association alliances. This can be seen as an institutional obstacle that reduces Peru's ability to realize the full development potential of its tourism sector. Meanwhile in Chile, a tradition of public-private collaboration (Silva 1996), coupled with an administratively and technically competent state apparatus with internal flexibility, provides a more

²⁰⁰ The project was also aided by an Inter-American Development Bank donation of \$3 million, which was channeled through the NGO *Fundación Chile*.

²⁰¹ Interview with Cristina Sánchez, President of CATA (Santiago, January 2004).

favorable context for the creation of alliances between the state and a variety of tourism business associations. This situation helps Chile realize the potential of its tourism sector more readily than Peru. The final part of this chapter elaborates on these important points and ties them to some broader themes of this dissertation.

FAVORING DEVELOPMENT? ASSOCIATIONAL ACTIVITY AMONG BUSINESS AND THE STATE

This chapter examined the role of business associations in Peruvian and Chilean tourism and their linkages with the state. The two main insights offered are the salience of business associations in development during the global liberal period and the role of the state in shaping their visibility and effectiveness.

With respect to competing interpretations of business associations found in the development literature - that of problem or solution to economic growth - this chapter offers evidence consistent with a view emphasizing the developmental advantages of business associations. In the current development context, associational activities among firms, by themselves and in conjunction with the state, may provide an increasingly important institutional solution to development problems faced by non-traditional export-oriented sectors. In my research, tourism associations were found to facilitate learning among firms - about international market trends, service standards and new productive techniques. Associational activity has also facilitated the capacity of distinctive and geographically disperse tourism firms to articulate their collective interests to the state, contest bad state performance in the sector, and reduce coordination costs associated with maintaining social networks and public-private alliances in tourism. Put together, these

findings reinforce hypotheses from the development literature that business associations can encourage an enabling environment for new types of capitalist accumulation. This suggests that research pay closer attention to the developmental implications of business associations in Latin America, especially within emerging industries.

Business associations, however, do not develop in a vacuum and must be located within the larger socioeconomic and political context. The evidence presented in this chapter suggests that states with strong institutional capacity, namely technocratic competence, flexibility and strong ties with society, favor business associations. For this reason, I found that state-association relations in tourism tend be more productive in Chile as against Peru. In the case of Peru, a history of a state apparatus with weak technical capacity and ambivalent and/or clientelistic relations between domestic capitalists, I believe, has dampened state-tourism association alliances to this day. This was clearly illustrated by the vast majority of private sector interviewees in Peru, who continue to hold deep suspicions of state officials despite recent reforms undertaken by the state.

Meanwhile, my interviews in Chile, a country with a longer tradition of public-private partnerships under neoliberal economic strategies, suggest a markedly different context in which business associations develop. While private agents are not completely approving of state performance in tourism, it is clear that tourism business association leaders in Chile tend to view the state's bureaucratic apparatus as a means to help them

further their development goals rather than a structure that hinders them.²⁰² Similarly, Chilean state actors see tourism business associations having the technical and operational knowledge that can help the state formulate better policy. This finding echoes Braütigam, Rakner, and Taylor analysis (2002), which finds that state-business association relations are more productive in Mauritius (more state capacity and history of public-private ties) as against Zimbabwe and Zambia, where associations are viewed as more of a threat to state authority rather than a potential partner in development.

Finally, the role of democracy must not be overlooked. While not the focus of my research, the transition to democracy in Latin America forces us to think about new relations between state actors and professional associations. According to Perez-Aleman (2000: 49), the shift toward democracy in Chile during the 1990s: "...intensified the trend toward constructing developmental associations and building alternative production practices to improve performance." Braütigam, Rakner, and Taylor (2002) suggest that a consolidated system of democracy in Mauritius has encouraged a stronger consultative culture between the government and private sector associations.

In this chapter, tourism business associations were found to have deeper and wider institutionalized links with government in Chile, a more consolidated democracy than in Peru. Viewed in this light, new ties between tourism business associations and state agencies in Chile not only relate to the country's tradition of relatively strong state-business alliances but also its consolidated system of democracy and efforts by the center-left democratic coalition *Concertación* to promote greater civil society

²⁰² With respect to the private sector, Silva (1996: 316) states that a longer history of neoliberal pragmatism in Chile has enabled "the business community" to "learn" how to negotiate with technocratic policymakers".

participation in development since 1990. Equally, the shallow links between tourism associations and the Peruvian government can be seen as reflecting the still fragile nature of democracy in Peru, whereby non-elite business groups have yet to realize their voice in policy circles. As Wise (2003b: 15) states:

[with] the truly democratic election of President Alejandro Toledo in June 2001, the country is just now embarking on a badly needed microlevel economic-reform strategy based on broadening and deepening the overhaul of domestic institutions and on the initiation of Chilean-style dialogues, or *concertación*, between the state and a wide range of groups in civil society.

With that said, the consolidation of democracy does not necessarily mean that business associations will have more interaction or positive influence on government decision-making in any particular country. In fact, democracy may actually weaken state autonomy, which can in turn facilitate interest groups' ability to capture parts of the state. In this way, the institutional quality of state structures could be seen as mediating the role that democracy can play in shaping state-business association relations. This is an important and open question for future research.

Taken together, this chapter suggests a new economic role for the state in a neoliberal context - coordinating private sector activities by encouraging business associations and state-association partnerships therein rather than engaging in a completely hands-off approach or one that relies on clientelistic alliances with business. What many business associations probably need then is not only a minimalist state that can provide the fundamentals but also one that provides the institutional and financial resources that can facilitate their collective efforts. If coordinated action among the state, the private sector, and civil society enable a country to more effectively address

development challenges, then state-business association partnerships represent a bridge facilitating complementary activities between these groups.

Beyond this, the chapter provides evidence that counters narrow neoclassical economic thinking, which tends to view development as a simple result of freeing up market forces with little attention to the institutional and social arrangements in which markets are embedded. My findings also depart from globalization theorists, who see the current period of heightened globalization as fundamentally weakening the role of the state and domestic institutions in economic outcomes. Ultimately, then, the case of tourism business associations reveals that maximizing the potential of an emerging sector rests to some extent, and perhaps increasingly so, in strengthening the organized private sector and their links with an increasingly flexible and institutionally strong state.

CHAPTER VIII

THE 'REINVENTED STATE' IN THE NEW GLOBAL ECONOMY

INTRODUCTION

In an effort to make a contribution to the study of the state, institutions and development, this dissertation undertook a comparative examination of the way in which a diverse set of institutional structures shape state engagement in an increasingly important non-traditional growth sector across much of Latin America - tourism. The cases of Peru and Chile, where tourism has only become a particularly relevant productive activity since the 1990s, provided a lens through which to consider how the state and its institutional character, in conjunction with global and domestic forces, influence a country's emerging niche in the global economy.

This dissertation was written in the midst of considerable socioeconomic and institutional change in Latin America and in other developing regions. In interpreting these changes a conventional perspective from globalization theorists maintains that the state and national institutions, especially in the developing world, are losing their significance thanks to the acceleration of global integration and the seemingly wholesale adoption of externally-formulated neoliberal economic policy. To some extent, this view is supported by recent trends. The rise of international trade regimes, global financial

institutions, and “footloose” capital has served to erode the state’s control over national productive activities and internal markets, and an interventionist state model has been supplanted in most countries with a leaner neoliberal state model with less direct involvement in the economy. Moreover, the opening up of domestic economies to world markets has prompted a growing number of transnational actors who shape what developing countries export, where, and for how much.

Having said that, to not recognize the domestic institutional bases of development would fail to incorporate key elements shaping how global trends are articulated in individual countries of the developing world. What is more is that while the current epoch has certainly placed limits on the old economic functions of a nationalistic state, it has created new spaces for state engagement in development. A key feature of the new model brought out by my research moves the state beyond the provision of market fundamentals to the role of facilitating national economic competitiveness within the world economy and encouraging more social inclusion in this process. How states play out this new role remains a key factor shaping human welfare and the development process in Latin America for the foreseeable future.

On the whole, the empirical findings of my case-studies serve to reinforce what Peter Evans (1995, 1996) and others have argued in other contexts – that the state and particular elements of its institutional system matter in the mobilization of a particular industry, in our case an emerging tourism industry. My interviews with public and private sector leaders in both Peru and Chile suggest that the unfolding of neoliberal globalization has made an effective state (central and sub-national) more necessary as the

private sector and civil society have struggled to confront challenges associated with accelerated global integration and economic realities.

However, helpful state involvement in an emerging industry is not a given. To this end, the two case-studies analyzed in this dissertation sharpen our understanding of the institutional bases of successful state engagement within the new socioeconomic model. One key variable that emerged in my analysis is alliances between a multiplicity of state actors and social groups. Indeed, various structural reforms related to the current period have given more currency to broad and diverse state-society relations in development: (a) the downsizing of the state, which prompts the state to rely on more partnerships with civil society to carry out developmental objectives; (b) institutional and political reforms that aim to reorient the public sector towards the demands, assets and preferences of citizens; and (c) and increasing global integration, which increases the importance of the state's role in helping connect local actors with global markets (Ó Riain 2000: 190). Another important observation of my comparative analysis is the increasing salience of sub-national government in the context of decentralization and export growth away from major urban centers.

In this sections that follow, I elaborate on the major empirical findings and theoretical contributions of this dissertation. I conclude by suggesting avenues for future research and reflecting on the policy implications of this study.

THEORETICAL AND EMPIRICAL CONTRIBUTIONS

Using Peru and Chile as comparative cases, this dissertation began with four quite ambitious research questions. First, to what extent has the state's economic role, and its institutional capacity, been articulated in the tourism sector overtime in each case? Second, to what extent does the state's institutional character shape the ways in which natural and/or cultural-historic resources are exploited by an emerging tourism industry based on such resource assets? Third, how does sub-national government, and its institutional character, shape tourism development? And finally, to what extent can collective action by the private sector, by itself or in conjunction with the state, advance the growth potential of an emerging tourism industry? These questions prompted answers that illuminate one common research concern - how the state and its institutional character are tied to the mobilization and practices of an emerging industry. Before recapping my research findings, it is first necessary to synthesize my primary theoretical arguments.

Integrating Institutional Approaches of the State

This dissertation laid out a multidimensional institutional framework to undertake a study on the emerging tourism sectors of two Latin American countries. Chapter 2 traced the changing orientation of state development models since the post World War II period: interventionist, minimalist and competitive. The conceptualization of a competitive state model is important as it opens the possibility for a resurgence of the state in development in Latin America and beyond since the late 1990s, but with a

qualitatively different and more varied character than past periods. In attempting to address the question of how the state can be more “developmental” in the context of neoliberal globalization, the notion of a competitive neoliberal state model recognizes that freeing up markets cannot constitute the sole solution to development problems in poor countries. Calling for a more active state (economic and social) than a minimalist state model, a competitive state is, however, clearly not a throwback to the old interventionist state as it does not get directly involved in production, pursues decentralization, promotes privatization and some forms of deregulation, implements targeted rather than universalistic social policies, and gears economic policies toward global integration and private initiative rather than the creation of rental havens.²⁰³

Another helpful concept for my analysis of the two case-study states is what some authors have described as a managerial developmental state (MDS). Illuminating important changes to the organizational structure of the state in recent years, a MDS is internally more flexible, decentralized and open to greater input from civil society than the centralized bureaucratic state of the ISI period. Adopting New Public Management techniques, a MDS seeks to maximize public expenditures, controls through performance standards rather than rigid procedures and strives to achieve technical competence and fight corruption.

These perspectives coalesced around a comparative institutional approach to analyze the role of state in contemporary development. I began with the proposition that a country’s developmental prospects (or a particular industry therein) are derived, at least

²⁰³ There is, however, no “cookie cutter” approach inherent in a competitive approach, that is, the notion that the exact same set of development policies should be adopted by all states regardless of national peculiarities.

in part, from state institutional strength. On the macro institutional level, I adapted insights from research on “good governance” to establish a link between the quality of the governance structures (e.g. political stability, transparency, lack of corruption) and national economic performance. I then drew from developmental state research to shed light on how micro level institutional arrangements determine how states can be developmental in the contemporary period. Put together, these theoretical viewpoints help us better understand how various institutional structures at the national and local level operate on and influence non-traditional industries in the context of increasing global integration.

To flesh out my analytical framework with empirical information, this dissertation took a comprehensive look at the tourism industry. To this end, Chapter 3 took a step back and analyzed patterns tourism development in Latin America and beyond since the second half of the twentieth century. On the international level, I proposed increasing globalization (the further shrinking of spatial distances due to advances in technology) and changing global tourism demands as key factors that have begun to encourage new patterns of Latin American tourism, e.g. Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Peru, Chile and Brazil. An important element here has been the fragmentation of the sun-and-sea mass tourism model and the growth of specialized markets such as nature and cultural-historic tourism. On the supply side, I identified political (e.g. increasing stability) and social (e.g. health) improvements, together with the consolidation of an outward-oriented growth model, as favoring tourism growth in a wider set of Latin American countries than the past. The broad implication of these

trends is that tourism has become a more relevant “development tool” in many Latin American countries, which are currently searching for new niches in the world economy given the demands of increasing globalization and neoliberal reforms.

The Institutional Embeddedness and Changing Role of the State in Development

The selection of Peru and Chile reflected sites where I could explore how two different states respond to and shape new development opportunities associated with the tourism industry and the influence of state institutional structures on this process. The two countries have important similarities in terms of showing an increasing potential to develop a strong tourism sector based on nature and cultural-historic tourism markets. At the same time, marked differences between the institutional character of Peru’s and Chile’s state apparatus gave us a nice comparative lens to assess the extent to which institutional peculiarities shape state engagement in a similar sector. Indeed, the institutional differences between each state spelled out in Chapter 1 were prominent factors throughout my comparative case-study analysis.

Employing over 70 key-informant interviews along with analysis of government documents, Chapter 4 demonstrated important changes in patterns of state involvement in Peruvian and Chilean tourism overtime: an interventionist orientation (Peru 1960s-1990, Chile pre-1973), a minimalist one (Peru 1990-2001, Chile 1973-mid-1990s), followed by the current period where public provisions share the quality of being more supportive to the industry. A key finding here is that both states have become more active promoters of tourism in recent years, which suggests that instead of effectively eroding the state’s

economic role, the maturation of neoliberal globalization in Peru and Chile has made state engagement more necessary as the private sector and civil society attempt to capture new economic opportunities associated with global trends.

At the same time, Chapter 4 bore out important differences of state engagement in tourism across the two case-studies. Current state tourism strategies in Peru, I found, reflect a *standard* approach. This refers to the state's "go-it-alone" orientation, which fails to combine new forms of global promotional support with action focused on tackling some of the microeconomic challenges of the sector, leaving local and often smaller firms on their own to compete with global market forces. On the flip side, current state tourism strategies in Chile reflect a more *competitive* approach, which refers to the use of public-private partnerships and the more holistic manner in which the state gets involved in mobilizing tourism development. On the latter point, state strategies in Chile not only aim to use tourism to increase foreign exchange earnings and investment but also to facilitate progress on broader development goals, such as buttressing the country's own productive capacities, expanding employment opportunities, and promoting social inclusion in new economic activities, as demonstrated by the National Rural Tourism Program or SERCOTEC's technical assistance to micro enterprises in tourism.

These differences shed light on an institutional perspective of the state - the roles that states choose in development and how well they play them depend on the institutional character of the state in question. In the case-studies, administrative and technical competence, sub-national state bureaucratic coherency and broad state-society

ties stood out as important determinants of current state strategies in tourism.²⁰⁴ I discuss these variables in more detail in a later section of this chapter.

Another significant theme that emerged from the two case-studies is the role of the state in conditioning resources used to seize new national and local economic opportunities from global integration. To this end, Chapter 5 broached an important development puzzle for the state in the new socioeconomic model, the need exploit fragile resources for economic gain in the global economy, while safeguarding their quality and integrity so that they do not lose their value. In Peru, the state appears unable to respond to its foremost tourism resource dilemma - distributive and environmental conflicts emerging around popular cultural-historic destinations such as Machu Picchu. This inability to confront sustainability issues, I argued, is not attributable to a lack of formal protection but rather to particular institutional shortcomings of the Peruvian state: (a) a lack of bureaucratic coherence/organization at the central and sub-national level; (b) excessively centralized and inflexible intervention in protected areas with high tourism activity and; (c) the absence of broad state-society ties. In other words, the incomplete nature of the state's institutional development explains, in part, the emerging environmental costs of cultural-historic tourism growth in Peru.

In contrast, the state appears to facilitate Chile's response to its primary tourism resource dilemma - the need to develop tourism related infrastructure in and around protected natural areas. I suggested sub-national state bureaucratic coherency and a tradition of public-private collaboration as cumulative institutional advantages that allow

²⁰⁴ For example, in Chile broad and decentralized state-society ties are vital to various programs that touch the tourism sector. For example, the National Rural Tourism Program requires ongoing collaboration between central state agencies and sub-national government units as well as beneficiaries themselves.

Chile to address its tourism resource problems of the day more effectively than Peru. For example, ties with various societal actors (e.g. *Fundación Chile*) have helped cash-strapped state agencies such as CONAF mobilize financial resources, gain technical knowledge, and coordinate its new nature tourism agenda with local actors. Moreover, collaborative relations with NGOs provide the Chilean state with the local embeddedness it lacks to provide services to communities that seek to take advantage of unique tourism resources, as in Mapuche communities along Lake Budi.²⁰⁵

Another prominent theme of this dissertation relates to the state's decentralized character. A central lesson that emerged from my fieldwork in the Cusco and Los Lagos regions (Chapter 6) is that sub-national government units can act a means through which the state apparatus provides more flexible and efficient support to emerging markets, especially those in more remote areas. Put another way, part of the central state's institutional strength in the current period may be derived from its ability to decentralize and ensure institutional capacity of government at the sub-national level.

Another important finding revealed by my fieldwork in the regional context is that technical competence, some degree of administrative and expenditure autonomy from the central state, and inter-governmental assistance linkages provide sub-national government units in Chile with the capacity to become engaged in the local economic structure, in our case tourism. By way of contrast, the Peruvian case showed that a convergence of institutional disadvantages (e.g. excessively centralized and rigid organizational state structure, lack of inter-governmental assistance linkages) hinder the

²⁰⁵ Interview with Marcela Aguilar, Fundación IMPULSA (Santiago, January 2004) and informal conversation with Pablo Calfuqueo, Fundación IMPULSA (IX Región de la Araucanía, Chile, July 2002).

capacity of sub-national public institutions to respond to tourism development issues in the local context (Chapters 5 and 6).

Perhaps paradoxically, then, one of the conclusions of Chapter 6 worth underscoring is that engagement by lower levels of government in tourism is more effective and coherent within a context characterized by a stronger central state. In other words, Chile's modern and technically efficient central state apparatus with relatively sophisticated state-society relations corresponds with the institutional character of sub-national government units, for regional as well as municipal governments.

A final theme in the two cases I have analyzed in this dissertation suggests that business associations may represent an increasingly important institutional platform that helps firms confront development challenges of the current period. In both Peru and Chile, tourism business associations help both large and small tourism firms develop better knowledge of international market trends, improve human resources associated with the sector, and gain better representation with government. This discovery tends to reinforce recent economic development literature, which suggests that business associations can encourage an enabling environment for economic growth during the global liberal period (Perez-Aleman 2003).

At the same time, the state appeared as a key variable in my analysis of tourism business associations. In Chile I found a state that generally seeks to enhance tourism business associations (e.g. partnership projects), while in Peru the state offers little support to them. Differences in governance structures, state-society ties and the technical competence of the state apparatus were cited as important variables influencing what I

called productive state-tourism business association relationships in Chile and mediocre state-association relations in Peru. This finding yet again points to the developmental advantages of broad and institutionalized state-society relations, this time, between state actors of agencies and professional associations related to tourism. It also broadens our thinking about what makes a state developmental in a neoliberal context – encouraging and coordinating private sector associations and state-association partnerships therein rather than engaging in clientelistic alliances with individual companies or simply letting business associations “do their thing.”

THE ‘REINVENTED’ STATE: INSTITUTIONAL SOLUTION, PROBLEM, OR SOMEWHERE IN-BETWEEN?

Ultimately, this study has attempted to broaden institutional theory of the state by recognizing the multifaceted way in which the state’s institutional system mediates state engagement in an emerging industry. To highlight this point, Table 8.1 places my research findings in the context of the four general institutional structures spelled out at the beginning of this dissertation. Above all, the Table demonstrates that the contemporary roles that states choose in tourism and how well they play them depend on a diverse array of comparable state institutional structures.

TABLE 8.1: Institutional State Capacity: Lessons in Tourism

Institutional Structures	More competitive state inputs in tourism (e.g. Chile)	Mediocre state inputs in tourism (e.g. Peru)
<i>State Planning and Economic Institutions</i>	<ul style="list-style-type: none"> - Planning institutions express coherent norms and development goals in tourism. Normative framework is generally followed by society. - Technical civil service dealing with tourism throughout country. More decentralized and technically competent state institutions that deal with tourism development. 	<ul style="list-style-type: none"> - Conflict or overlapping goals within state institutions that influence the tourism sector. Breakdown of normative policy framework in society (e.g. high informality in tourism sector). - Bureaucracies dealing with tourism, especially outside of Lima, understaffed, underfunded, and characterized by lack of expertise in sector.
<i>State as Autonomous actor</i>	<ul style="list-style-type: none"> - Bureaucracy involved in tourism generally insulated from particularistic interests (e.g. focus on social inclusion). - Little use of clientelism in tourism projects. National state often dictates its own goals for sector, which include economic and social objectives. 	<ul style="list-style-type: none"> - Bureaucracies involved in tourism at times characterized by special interests or state actors involved in tourism are too insulated from civil society actors. - The goal of increasing total tourist numbers or objectives of international institutions often directs all tourism initiatives.
<i>State-Society-Business Relations</i>	<ul style="list-style-type: none"> - State is considered a legitimate partner by many tourism entrepreneurs. State actors view civil society and private sector as partner to their development agenda. - Broad alliances/partnerships between the state and society, e.g. private sector, NGOs and civil society. Two way flow of information. 	<ul style="list-style-type: none"> - State is unpopular with tourism entrepreneurs. State is considered overly burdensome in sector. Frequent changes in government and/or policy encourage this. - Narrowly defined public-private ties in tourism. Little to no state partnerships with NGOs or civil society groups involved in tourism.
<i>A Decentralizing State</i>	<ul style="list-style-type: none"> - Transfer of central government functions to lower government units. Outsourcing of programs to NGOs. Concessions in some National Parks. - Increasing capacity of sub-national government. Built in flexibility and expenditure autonomy of sub-national government units (e.g. Puerto Montt's promotional role, FODETUR in Los Lagos). 	<ul style="list-style-type: none"> - Highly centralized decision-making and control over tourism policies. Central state monopolizes development programs in tourism. - Weak sub-national government, which does little to promote tourism and formulate its normative framework/development goals. All development activities directed by the center.

SOURCE: Fieldwork (Tamborini 2003, 2004).

Taking a closer look at Table 8.1, administrative capacity and bureaucratic autonomy represent two variables found to influence the form and success of state involvement in tourism in each case. This finding generally echoes previous research

showing that bureaucratic autonomy and coherent and technocratic state planning institutions can make the state more developmental. More original findings lie in my comparative observations of two variables central to current state reforms across Latin America: state-society ties and decentralization.

My analysis of the two case-study states suggest that state-society ties shape the way in which emerging markets are organized and the development consequences it has nationally and locally. Maximizing the potential of an emerging tourism sector, I propose, not only rests on strong connections between state elites and private sector executives but also between state agencies and non-elite social groups, namely ordinary citizens, NGOs, and professional associations. In Chile, state-society ties in tourism consist of state collaboration with a multiplicity of NGOs and tourism business associations, which in turn, enables the state to respond more effectively to the complex demands of local groups and global markets at once. The contrasting case of Peru amplifies this point. Here, a tradition of weak or at best narrow state embeddedness in social groups underpins the state's go-it-alone approach to tourism development, which in the end leads to an under-mobilization of resources and a lack of public-private congruency needed to realize tourism's full development potential at the local and national level.

The cases of Peruvian and Chilean tourism also underscore the importance of the decentralization process within the current socioeconomic model. Unlike most research from the developmental state tradition, this dissertation called particular attention to the relationship between sub-national government and economic development. Through an

examination of regional line ministries, regional and municipal governments in Cusco, Peru and Los Lagos, Chile, I observed that the cumulative capacity of sub-national government shapes how well the overall state apparatus can support emerging tourism markets. Put more broadly, decentralization and/or deconcentration of state agencies can enhance development by making states more flexible and better able to take account of different local needs, capacities and resources in promoting new kinds of development in peripheral areas.

At the same time, my analysis revealed that sub-national government units, like their central counterparts, require institutional strength to have any kind of success. In other words, the design and implementation of public policies related to the promotion of new markets in peripheral areas depends on the institutional strength of sub-national state units. Important variables that appeared to encourage more effective sub-national government engagement in tourism are internal bureaucratic coherence, flexibility, fiscal capacity, vertical (assistance linkages) and horizontal (municipal-municipal) collaboration, and embeddedness in local groups. Clearly, these issues have broad applications for developmental state research in other sectoral and geographical contexts.

This leads us to a final point of democracy, which is not directly addressed by the summary table presented above. While democracy, as I see it, is not a precondition for an institutionally strong state (e.g. China), the consolidation of democratic governance structures can serve to broaden state-society alliances at the central and sub-national level. A key but underdeveloped finding of the preceding chapters is that relations between state and societal actors involved in tourism cannot be divorced from the larger

political context. In this way, new ties between state agencies and small tourism entrepreneurs and tourism business associations in Chile can be linked to a relatively consolidated system of democracy and to efforts by the center-left democratic coalition of *Concertación* to promote greater civil society participation in development since 1990. Likewise, despite President Alejandro Toledo's recent proclamation that tourism should be: "...one of the principal pillars of Peru's development" (MINTINCI 2002: 5), a still fragile democratic system is an important factor hindering broad alliances between state and societal actors involved in promoting Peruvian tourism.

Although the direction of causality is difficult to determine, my research suggests that the institutional quality of state structures can mediate the role that democracy can play in fostering broader developmental alliances between state and societal actors. For example, state-society alliances can more easily slip into subtle forms of clientelism or rent-seeking activities without state bureaucratic autonomy or administrative and technical competence of the state at the central and sub-national level.

Altogether, the conclusion of this dissertation emphasizes the importance of the state and institutions in shaping how individual countries respond to new development opportunities/challenges in this global liberal period. At the outset of this study, I hypothesized that new trends toward tourism development in developing countries is not solely a story related to global corporate strategy and the natural spread of the industry to more exotic locations, but also one linked to the state and national institutions, which impact how new economic trends influence individual countries. In this context, what emerging industries like tourism in developing countries require, I propose, is not more

of a minimalist state but rather a competitive one, which provides complementary services that can help improve local productive capacity in the global market, and at the same time, ensure more social inclusion in this process. The implementation of institutional reforms that aim to make the state apparatus more technocratic and at the same time more open to civic participation and decentralization could prove a good starting point for this.

A FUTURE RESEARCH AGENDA: BROADENING ANALYSIS OF THE STATE

The findings of this dissertation suggest the need for further research relating to several issues critical to contemporary development in Latin America. First is the changing role of the state. The opening up of domestic economies to foreign investment, privatization, and limiting public spending is simply not enough to jump-start sustained economic growth and more social equality in Latin America. In light of recent research showing that inequality, low-wage informality, and in some cases unemployment were more prevalent in the last decade than in the 1980s or 1970s, future research needs to focus on uncovering how states within the Latin American context can better help national and local actors connect and stay competitive in the global arena.

Many questions remain about the kinds of state involvement and institutional structures that can enhance developing countries' capacity to confront contemporary development challenges. There continue to be too few studies on state institutional reforms adopted by the majority of Latin American countries since the late 1990s and its consequence for the potential of the state to enhance the capacity of society to take

advantage of and compete in the global economy. This study suggests broadening the scope of state analysis to examine claims that states can be more developmental in the contemporary period by: (a) strengthening ties with a multiplicity of social groups, and (b) promoting decentralization and institutionally capable sub-national government units.²⁰⁶ Developmental state theory also needs to develop better conceptualizations and levels of operationalization of “state-society ties” and “decentralization” in terms of variables influencing state developmental capacity.

Additionally, in the midst of debates over the good and bad of economic global integration for Latin America and beyond, future research should pay closer attention to the diverse array of outward oriented industries associated with the new socioeconomic model. While the literature would benefit from further examination of tourism in other geographic contexts such as Ecuador, Bolivia or Brazil, there are many other growth sectors that require scholarly attention. One sector particularly worthy of attention is global outsourcing services (e.g. information-technology, call centers, bill processing, business consulting). Research on the interplay between the state and the development of global outsourcing services in Latin America as against the Asian Pacific region would prove fruitful.

Finally, developmental state research should attempt to put more emphasis on the political context and the role of governance structures in development. In Latin America, the convergence of economic and political reforms have significant implications for the way the state gets involved in development, and there is still much

²⁰⁶ For example, decentralization and strong state-society ties, especially when combined, put state actors in touch with societal preferences and give societal actors better access to influence decision making.

debate over the impact of economic and political liberalization on economic growth (Przeworski et al. 2000; Knack 2003).

Moreover, there is an important theoretical gap between democracy, good governance, and developmental state literatures. In this dissertation, I drew most heavily from a developmental state perspective, focusing on state “types” (interventionist, minimalist, competitive) and micro institutional structures that influence the developmental success of these different state orientations. At the same time, other authors, frequently coming from the political science tradition, have emphasized political “regimes” (Przeworski et al. 2000) as well as “good governance” (Knack 2003) with a similar analytic end. The integration of these perspectives, while challenging, could highlight the interplay of a broader range of comparable institutional factors on development patterns in the developing world.

With respect to policy implications, my research findings suggest that there is still much that states can do to promote economic development in the global liberal period. Whereas in the past the state in Latin America tended to promote economic development through interventionist top-down strategies, the convergence of neoliberal economic strategies, decentralization reforms and the downsizing of the state require new approaches. While recent evidence highlights the need to pursue economic growth strategies that encourage local competitiveness of export industries and their backward and forward linkages with internal markets, the literature has much less to say about the institutional structures that contribute to this process. This study points to the important

role of forging new partnerships that span both the central-sub-national and the public-private divide.

The case-studies of Peruvian and Chilean tourism have also given evidence that some social and economic policies can go hand in hand. Targeted development initiatives toward groups such as rural inhabitants or small and medium-sized firms can improve economic opportunities for those typically at a disadvantage in the world market, and at the same time, improve the overall productive capacity of an emerging sector, in our case tourism. Here, public provisions can include technical advice, business services and subsidized loans, which can be directed strategically toward productive activities with clear economic viability. More indirectly, governments should review existing fiscal policies that may hinder local businesses involved in outward oriented production, as in exclusionary tax-breaks which give advantage to foreign firms over local ones engaged in similar productive activities.

While more dynamic public policies are necessary to help spur sustainable patterns of economic and social development in the developing world, the more enduring nature of domestic institutional structures will continue to mediate the development process in individual countries and their response to new global trends. One promising avenue of institutional reform occurring in many Latin American countries lies in the movement toward a more flexible and decentralized state. This study suggests that central government can encourage the potential of decentralization to promote developmental ends by helping build the institutional capacity of sub-national government (e.g. assistance rather than control linkages) and at the same time giving sub-

national government more autonomy in the formulation and implementation of development policies. Another important dimension of current institutional state reform relates to strengthening state relations and partnerships with a multiplicity of civil society organizations, which can help synergize scarce resources and provide the state with a source of local embeddedness.

The success or failure of such institutional state reforms may have a more lasting impact on the future of emerging industries such as tourism and Latin American development as a whole than any short-term policy shift.

Appendix

Appendix A. Recent History of Development Approaches: Peru and Chile

Period	PERU
1968-75	Move from export model of development to import substitution industrialization model; State Capitalism; Nationalization of key industries; Development from above; Military regime (Velasco)
1975-80	Economic Austerity Plan; Incremental shift toward outward expansion; High inflation; Crisis and Adjustment (Morales Bermúdez)
1980-85	Limited Liberalization and Populism; Export promotion of primary products; Return to fragile democracy (Belaúnde)
1985-90	Neostucturalism and Populism; Nationalization of banks; Wage and price controls; Hyperinflation and recession leading to social, political and economic crisis (García)
1990-95	Neoliberal Shock-treatment stabilization; Emphasis on external markets as motor of economic growth; Privatization; Limited Public spending; Beginning of democratic authoritarian regime (Fujimori)
1995-2000	Continued neoliberal approach to development with stronger social policy; Highly centralized policies (Fujimori)
2001-present	Deepening of neoliberal approach to development; Focus on democratic institution building. Policy focus: decentralization, privatization, fiscal austerity; Greater integration in world economy and increasing competitiveness of Peruvian exports are stressed (Toledo)
Period	CHILE
1970-73	Nationalistic development strategy; Socialization of means of production (Allende)
1974-80	Move to neoliberal policies; Radical liberalization and privatization schemes; Switch from internal to external markets as engine of growth; First steps toward market decentralization; Beginning of military rule (Pinochet)
1980s	Sustained neoliberal approach to development; External debt crises in early 1980s prompted a deepened strategy of international market penetration; 1984-1989 Rapid export growth based on primary natural resources (Pinochet)
1990-94	New democratic regime; More liberalization of trade, monetary policies to reduce inflation; Effort to strengthen decentralization and social policies. Export-led development strategy to reach 'second phase' (Aylwin)
1995-2000	Emphasis on value-added exports in primary export model; Gradual liberalization of trade with MERCOSUR, DFI increase; Administrative and fiscal decentralization (Frei Ruiz-Tagle)
2000-present	Continuation of neoliberal policies and a deepening of the second phase of export development, (i.e. technology development and higher value exports); Decentralization (at the municipal level); Free-trade agreement Chile-U.S. (Lagos)

Sources: Peru - Alvarez (1995); Crabtree (2001); Wise (1994). Chile - Gwynne (1996); Rojas Miño, (1999); Weyland (1999)

Appendix B. Sample Composition and Interviewees Characteristics

B.1: Interviews by Country

Location	Number of Interviews
1. Peru – Total	36
a) Lima	11
b) Cusco region	25
2. Chile – Total	35
a) Santiago	12
b) Lakes and Volcano District (9 th and 10 th regions)	23
Total Interviews	71

B.2: Key Informant Interviews (2003-2004): Peru

Organization	Interviewee	Location
PUBLIC SECTOR		
1. Advisor to Vice Minister of Tourism, Ministry of Foreign Trade and Tourism	Eduardo Sevilla	Lima
2. SubGerencia Patrimonial, INC	Edwin Benavente	Lima
3. Representative, PROMPERU	Sandra Doig	Lima
4. Dirección de Promoción y Apoyo al Inversionista Privado; ProInversión (State Promotion Agency of Private Investment)	Julio del Castillo	Lima
5. Specialist in the Cultural Heritage Program, UNESCO, United Nations and Technical Consultant to Heritage Program within the Instituto Nacional de Cultura (INC)	Ciro Caraballo Perichi	Lima
6. CORPAC S.A, Oficina de Imagen Institucional	Claudia Zelada Lévy,	Lima

7. Coordinator of Education and Local Heritage, Instituto Nacional de Cultura Cusco (INC)	Silvia Baños Estrada	Cusco
8. Coordinator of Heritage Conservation, Instituto Nacional de Cultura Cusco (INC) - Pilot Project Maras	Saby Zarate	Cusco
9. Coordinator of Training and Generation of Wealth, Instituto Nacional de Cultura, Cusco (INC) - Pilot Project Maras	Edwin Caceres Yabar	Cusco
10. Director of DRIT-Cusco	Margarita García	Cusco
11. Coordinator , Instituto de Cultura, Cusco (INC) (AECI, programa de cooperacion hispano)	Jorge A. Prado Tisco	Cusco
12. General Manager, Unidad de Gestión Santuario Histórico de Machupicchu (UGM)	Jorge W. Pacheco del Castillo	Cusco
13. Executive Director COPESCO, MINCETUR	Luis Alberto Alparicio Latorre	Cusco
14. Director, Santuario histórico de Machupicchu- Instituto Nacional de Recursos Naturales (INRENA)	Vladimir Ramirez Prada	Cusco
15. Representative, Ministerio del Trabajo, Cusco region	Jimmy Sueros	Cusco
16. Coordinator for Young Labor Training Program, PROjoven-Cusco, Ministerio del Trabajo and Alliance Francaise	Alcides Navarro Roncagliolo	Cusco
17. Executive Office of the Committee OFEC-Cusco, Area de Boleto Turístico	José Miranda Cárdenas	Cusco
18. Director de Turismo-Municipalidad del Cusco	Julio Campana Villa	Cusco
PRIVATE SECTOR, NGOS, MIXED PRIVATE/PUBLIC AND SPECIALISTS		
19. President, CANATUR National Chamber of Tourism, Peru	Carlos Canales Anchorena	Lima
20. Former President of CANATUR (National chamber of tourism) and Hotel Entrepreneur	José Koechlin Von Stein	Lima
21. National Director of CENFOTUR (Center of Tourism Training) and Director of Training for National	Germán Rijalba Holguín	Lima

Chamber of Tourism, Perú		
22. President of Graph and Consult; Former Director of Nacional de Turismo del Peru; Former president of Consejo Superior del CENFOTUR	Pablo López de Romaña	Lima
23. Professor of Geography and Ecotourism, Pontificia Universidad Católica del Perú	Ricardo Bohl Pazas	Lima
24. President of La Asociacion de Hoteles, Restaurantes y Afines – Cusco (AHORA); General Manager of Hotel Libertador	Edwin González Muñíz	Cusco
25. General Manager of Explorandes (travel agent and tour Operator); Vice President of Asociación Peruana de Turismo de Aventura y Ecoturismo Cusco (APTAE)	Franco Negri	Cusco
26. Director and Owner of Alfa tours, (APU) Cusco	Jorge Frisancheo	Cusco
27. Director Colegio Andino, Cusco	Juan Gustavo Hernández	Cusco
28. Specialist and Consultant of Sustainable Tourism; Profesor at Institute of technology cusco (KHIPU), School of Sustainable Tourism Cusco	Toby Bloom	Cusco
29. Former President of Asociación Peruana de Turismo de Aventura y Ecoturismo Cusco (APTAE); Tour operator	Raul Montes	Cusco
30. Local resident and Doctorate Candidate, Manchester University Institute of development	Lioneth Hinojosa	Cusco
31. Economist and Development Consultant, Various NGOs in Cusco	Washington Urquizo Carrasco	Cusco
32. Economist, CBC-Centro de Estudios Regionales Andinos Bartolomé de las Casas, Cusco	Valerio Paucarmayta Tacuri	Cusco
33. CBC, -Centro de Estudios Regionales Andinos Bartolomé de las Casas, Cusco	Bernadette Kurte	Cusco
34. Department of Planning, Regional Government Cusco	Rene Bonet Gutierrez	Cusco
35. Administrator, Asociación Peruana de Turismo de Aventura y Ecoturismo (APTAE- Cusco)	Marya Nieto	Cusco
36. Administrator, Hostel, Inca Trail	Gianina Tapia Muñoz	Cusco

B.3: Key Informant Interviews (2004): Chile

Organization	Interviewee	Location
PUBLIC SECTOR		
1. Director of the Planning Department, SERNATUR (Servicio Nacional de Turismo)	Humberto Rivas Ortega	Santiago
2. General Manager of Public use, Department of Wildland Heritage, CONAF (La Corporación Nacional Forestal), Ministry of Agriculture	Angel Lazo A.	Santiago
3. Director, National Rural Tourism Program, INDAP (El Instituto de Desarrollo Agropecuario), Ministry of Agriculture	Luis Martínez Figueroa	Santiago
4. Executive Associate of the Growth Division, CORFO (Corporación de fomento de la producción)	Mauricio Silva Celis	Santiago
5. Director, Departamento de Enajenación de Bienes; Ministerio de Bienes Nacionales	Maria Angélica Palacios Martínez	Santiago
6. Forest Engineer, CONAMA(Comision nacional del medio ambiente), region IX	Cristian Lineros Luengo	Temuco
7. Regional Director of SERNATUR (Servicio Nacional de Turismo, Region del la Araucania), region IX	Sebastian Raby Guarda	Temuco
8. Director of Communications and Events, Rural Tourism Program, INDAP (El Instituto de Desarrollo Agropecuario), region IX	Maria Cristina Brand Deisler	Temuco
9. Executive Associate of the Growth Division, SERCOTEC (Servicio de Cooperación Técnica), region IX	Hugo Martínez Quintana	Temuco
10. Associate, Department of Environment, Municipalidad de Temuco	Berta Hott Alvarado	Temuco
11. Associate, Department of Planning SERNATUR (Servicio Nacional de Turismo), region X	Nancy Vera	Puerto Montt
12. Associate, Department of Planning SERNATUR (Servicio Nacional de Turismo), region X	Maximiliano Sepúlveda	Puerto Montt

13. Regional Director, CONAMA (Comision Nacional Del Medio Ambiente), Region X	Raul Arteaga Montesinos	Puerto Montt
14. Associate, FOSIS (Fondo de Solidaridad e Inversión Social), Region X	Alejandra Medina Ginepro	Puerto Montt
15. Tourism Consultant, FOSIS, Region X	Loreto Cerda Mena	Puerto Montt
16. Associate, Planning Department, CONAMA (Comision Nacional Del Medio Ambiente), Region X	Tatiana Cecilia Naulin Gysling	Puerto Montt
17. Executive Associate, Regional Office of CORFO (Corporación de Fomento de la Producción), Region X	Hugo P. Escobar León	Puerto Montt
18. General Manager of Public Use, CONAF (La Corporación Nacional Forestal), Region X	Waldo Rubilar Flores	Puerto Montt
19. Regional Director, Rural Tourism Program, INDAP (El Instituto de Desarrollo Agropecuario), Region X	Ricardo A. Salinas Guerrero	Puerto Montt
20. Associate, Rural Tourism Program, INDAP (El Instituto de Desarrollo Agropecuario), Region X	Francisco Hidalgo	Puerto Montt
21. General Manager, Department of Tourism, Municipalidad de Puerto Montt	Claudia Poveda Cáceres	Puerto Montt
PRIVATE SECTOR, NGOS, MIXED PRIVATE/PUBLIC, AND SPECIALISTS		
22. President of CATA (Asociación Chilena de Empresas Turismo Activo y Rural); and General Manager of ALTUE Tours	Cristina Sánchez	Santiago
23. President, CONSETUR, Consejo superior de turismo de Chile, National Chamber of Commerce, Services and Tourism of Chile	Barbara Aubert Ferrer	Santiago
24. General Manager/President, CPT-Chile (Corporación de Promoción Turística)	Helen Kouyoumdjian	Santiago
25. General Manager, Hoteleros de Chile (national business association)	Gustavo Abel Ernst	Santiago
26. Associate, Fundación IMPULSA (NGO)	Marcela Aguilar,	Santiago
27. Director, Area Ordenación Territorial, Chile Ambiente Corporación	Patricio Rodrigo S.	Santiago

28. Director, Ecotourism Program, Fundación Chile	Gonzalo salomanca	Santiago
29. General Manager, Chamber of Commerce, Services and Tourism of Temuco	Lucia Montaner Lewin	Temuco
30. President, Department of Tourism, Chamber of Commerce, Services and Tourism of Temuco	Pedro Gutiérrez Ayala	Temuco
31. General Manager, Nicolas Hotel y restaurant; and member of Chamber of Commerce, Services, and Tourism of Temuco	Marlis Müller Gimpel	Temuco
32. Small Tourism Entrepreneur, Weche Ruka, Ethnic Tourism, Rural Tourism Project INDAP, region IX	Irena Hueche Meliqueo	Temuco
33. General Manager, Hotel Continental; and former president of HOTELEGA, Region IX	Vincent Belbeze	Temuco
34. Director of tourism projects Fundación Chile, Region X	Javier Marín	Puerto Montt
35. General Manager, Chamber of Commerce, Industry and Tourism, A.G., Puerto Montt	Raúl Helmke Bornscheuer	Puerto Montt

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 May 12: "Los Campesinos Vigilarán el centro arqueológico de Sacsahuamán."
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