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FDI in Latin America: The case of Peru

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Abstract

The majority of the Latin American countries proceeded to political, financial and social reforms so as to improve their attractiveness and to absorb more foreign capitals in order to achieve economic growth. Among the developing countries of the region, Peru managed to attract significant amounts of foreign direct investment mostly because of the abundance of natural resources. Nevertheless, Peru did not manage to become the top foreign capitals destination among the Latin American countries for several reasons. It is observed that the foreign investors' dominant policy in FDI, the fact that the majority of the infrastructure realized in urban regions, the investment conditions, the external debt, the private sector and the ineffective use of natural resources held back the country's attractiveness to foreign investors.

Keywords: Peru, Latin America, Foreign Direct Investment, foreign capital

JEL: F21, O16, R11, O54

1. Introduction

The Latin American and the Caribbean countries have been a center of attraction of Foreign Direct Investment (FDI) over the past decades. Among the countries of the region it is observed (Olapido, 2013; ECLAC, 2015) that Brazil, Mexico and Chile received most of the inward FDI in the region, despite the fact that other countries, such as Peru proceeded so significant economic, social and political reforms in order to increase their attractiveness to foreign investors. Nevertheless, Peru, despite the fact that managed to attract significant amount of FDI inflows since the 90s, never became the top FDI destination in the region.

As presented below, Peru ranks 4th until 2010 in FDI inflows (Olapido, 2013), while it ranks 5th until 2014 (ECLAC, 2015). Chavez and Dupuy (2010) also argued that during the past decades Peru has displaced from small foreign capital inflows player to significant FDI recipient. The purpose of the essay is the investigation of the reasons that held back the country's further attractiveness towards foreign investors and its evolution into the greatest FDI destination among the Latin American and Caribbean countries. We aim at examining the reasons that prevented Peru from becoming the highest ranked country in FDI inflows in the region, considering the significant political and financial reforms applied by the Peruvian government.

2. FDI in the Latin American and the Caribbean countries

A growing number of developing countries attract FDI inflows, which enhance their financial growth, the macroeconomic stability, the governmental policy and infrastructure (Metaxas & Kechagia, 2016). Over the past years the Latin American and the Caribbean countries have attracted a significant amount of FDI inflow, taking into consideration the economic problems observed worldwide because of the financial crisis (Olapido, 2013). As a result, the countries of the region increased the Gross Domestic Product (GDP), achieved economic growth and reduced poverty rates. Moreover, during the period 1980 – 2010 there has been observed a positive relation between FDI and economic growth in a sample of six Latin American countries (Anaya & Alvaro, 2012). In addition, FDI inflows from foreign investors in Latin America were not affected significantly because of the recent financial crisis (Leither & Stehrer, 2013).

Thus, the characteristics of the Latin American countries that attract foreign capital have been studied. It has been investigated the relation among the FDI inflows in Latin America, the financial freedom and the economic development during the period 1970 – 1990 and it has been observed that the foreign capital inflow in the region is positively associated to the financial freedom of the host countries, while it has also been noticed that FDI inflow contributed to economic development for the countries that receive foreign capitals. Nevertheless, it is important for the host countries to afford human capital and to be economical stable and opened to international markets (Bengoa & Sanchez – Robles, 2003).

The following figure presents the FDI flows in Latin America and in the Caribbean from 1990 to 2014. It is observed that the FDI flows in the region are characterized by a stable increase, except the year 2010, that the flows remained stable to the levels of 2009. In addition, we observe that from 2007 until today the scale of FDI inflows was higher than the scale of FDI inflows as percentages of GDP.

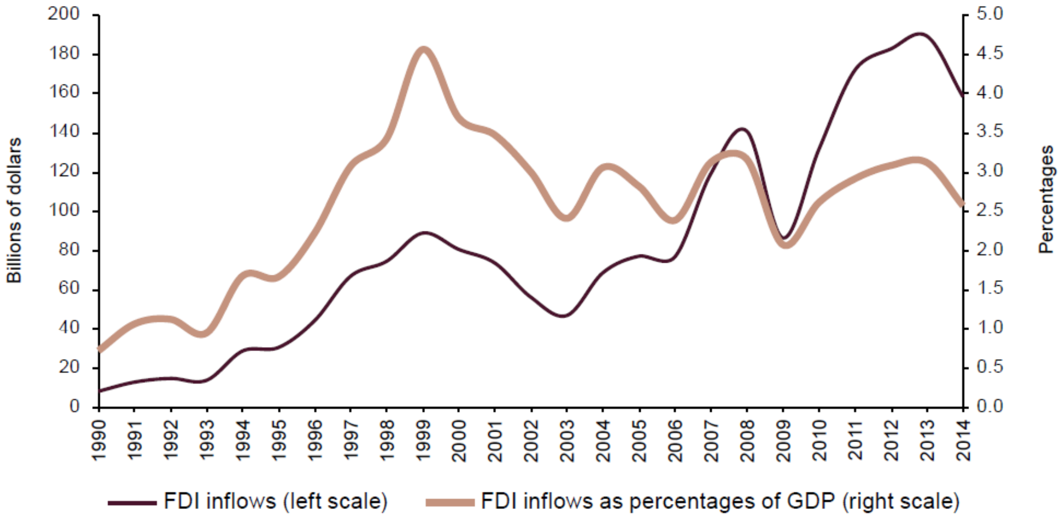

Figure 1. Latin America and the Caribbean: FDI inflows (1990 – 2014)
(Billions dollars and GDP percentage)
Source: ECLAC (2015)

Moreover, during the time period from 1990 to 2010 it has been observed that the Latin American countries that received more foreign capitals were opened to international trade and they were characterized by a stable political and economic environment. On the contrary, the countries of the region that were not stable faced severe difficulties on attracting FDI inflow. Therefore, in order to increase stability it is suggested that these countries apply policies of privatization and sovereign guarantees (Sanchez – Martin et. al., 2014).

As presented in Figure 2, in 2008 most of the Latin American countries presented higher inward FDI stock as a percentage of GDP compared to 1985 and to other developing countries. In some cases, this ratio was higher than the world average (Subasat & Bellos, 2013).

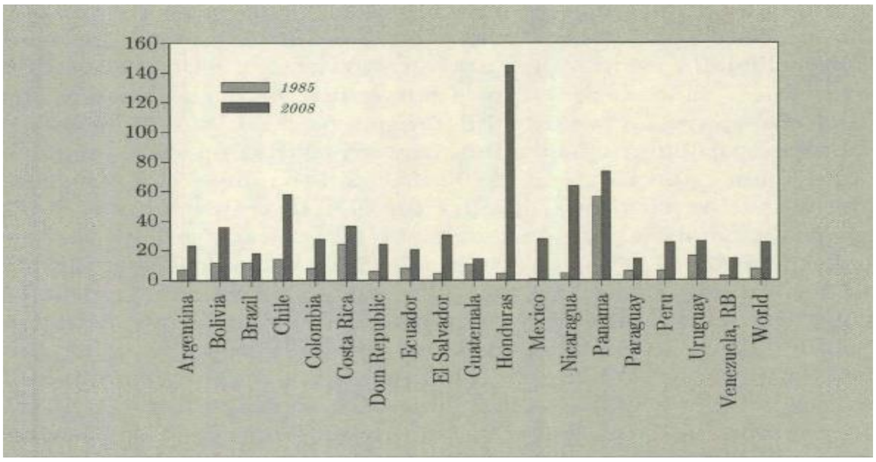

Figure 2. Inward FDI stock as a percentage of GDP (1985 – 2006)
Source. Subasat & Bellos (2013)

As for the remittances, it has been investigated whether they are positively related to FDI inflow. Thus, a study realized in a sample of 35 countries in three different regions (Latin

America, Asia – Pasific and Africa) concluded that remittances do not influence the cross - country variation regarding foreign capital inflow (Basnet & Upadhyaya, 2014).

Moreover, it is argued that the US multinational companies will continue investing their capitals in the Latin American countries since they are already aware of the characteristics of the specifics region from previous investments. In addition, capital inflows in Latin America have increased significantly over the past decade and they are expected to increase even further since multinational companies seek to expand new markets. In particular, the US investors aim at developing a free trade market in the Latin American countries through performing FDI and developing free trade agreements (Arbelaez & Ruiz, 2013). Similarly, the US free trade market is expected to improve the financial systems of the Latin American countries, as well as their creditability and their investment environment (Armijo, 2013).

Apart from the US investors, the Latin American countries have also been influenced significantly by the Chinese investors. In particular, US investors increased the amount of FDI flows performed in Latin America over the past two decades. Thus, China invested its capitals in certain Latin American industries, such as natural resources and infrastructures (Kotschwar, 2014). However, Zeggara (2013) argued that the railroads in certain Latin American countries, including Peru which is studied in the following section, could be further improved so as to reduce the transportation costs.

Nevertheless, it is argued that the economic reforms realized by the Latin American countries could not necessarily attract foreign capital. Thus, the macroeconomic and the governmental measures taken by the countries of the region are not always associated with higher FDI inflows. It is possible that reforms such as privatization, capital liberalization or introduction of new taxation policies do not necessarily attract foreign investors' interest. On the contrary, it is suggested that trade liberalization and lower expropriation risks are more likely to attract foreign capital in the studied countries (Biglaiser & ReRouen, 2006).

Furthermore, the taxation system plays a crucial role in attracting FDI. Thus, providing tax incentives, improving the taxation policy and lowering taxation coefficients will attract greater amount of foreign capital in the Latin American countries (Van Parys, 2012). In addition, the macroeconomic stability of the Latin American countries also influences positively the foreign investors. It is observed that for the studied period from 1990 to 2005 there was a positive relation between FDI and economic development in Latin America (Adbelmalki et. al., 2012). Furthermore, it has been observed a positive relation between FDI inflow and reform of intellectual property rights in the Latin American countries (Khoury & Peng, 2011).

Another factor that should be taken into consideration when investing in the Latin American countries is the governmental policy. Thus, it is argued that good governance is taken into consideration by the countries that invest their capitals abroad. However, it is supported that poor governance is likely to attract FDI in both the transition economies and the Latin American countries. Therefore, it is suggested that apart from good governance several incentives should be provided to the investors so as to attract FDI, such as an effective bureaucracy and legal system (Subasat & Bellos, 2013). Similarly, it is argued that there is a positive relation between FDI inflow and institutional quality in a sample of 19 Latin American countries (Fukumi & Nishkima, 2010).

3. FDI in Peru

Nowadays Peru is a fast – growing developing economy, which is characterized by medium per capita GDP, high human development index and macroeconomic stability. In addition, the country is listed among the countries that received most of the FDI inflow in the region of Latin America and Caribbean, as shown in Table 1, according to ECLACL (2012) report, as presented in Olapido (2013).

Table 1. Latin America and the Caribbean: FDI income by receiving country and GDP growth rate, 1980 – 2010 (millions of dollars and percentages)

Country	**1980 - 1989**		**1990 - 1999**		**2000 - 2008**		**2009**		**2010**	
	FDI	**GDP**	**FDI**	**GDP**	**FDI**	**GDP**	**FDI**	**GDP**	**FDI**	**GDP**
Brazil	25,438	2.99	61,369	1.70	182,052	3,72	25,948	-0,6	48,461	7.5
Mexico	8,590	2,29	44,821	3,38	203,398	2,82	15,206	-6,2	17,725	5,5
Chile	12,440	4,39	26,062	4,39	66,603	6,38	12,874	-1,7	15,095	5.2
Peru	**1,109**	**0,36**	**4,837**	**3,24**	**17,461**	**5,61**	**5.575,9**	**0,8**	**7328.0**	**8.8**
Colombia	2,092	3,40	8,830	2,86	32,861	4,41	7.137,2	1,7	6759.9	4.0
Argentina	4,323	-0,7	29,124	4,52	61,227	3,87	4.071,1	0,9	6193.0	9.2
Dominican Republic	352.2	3,79	129,2	4,89	5,148	5.33	2165.4	3.5	2625.8	7.8
Guatemala	1,108	0,97	2,273	4,07	4,200	3,75	573,7	0,5	678,3	2,8
Bolivia	574.1	-0,4	1,941	3,99	5,413	3.72	425.7	3.4	650.8	4.1
Trinidad & Tobago	1,881	-1,3	4,006	2,74	10,938	7,42	709,1	-3,5	549.4	0.2
Bahamas	566,1	4,04	1,026	1,64	5,087	1,68	664,0	-5,4	499,1	0,9
Ecuador	976.2	2,27	3,578	1,84	8,935	5,01	319,0	0,4	164.1	3.6
Barbados	128,4	2,23	224,4	1,87	675,3	1,2	159,7	-5,3	162,8	0,7
Haiti	109,1	0,01	127,0	-0,1	200,4	0,5	37,4	2,9	150,4	-5,1
El Salvador	179.7	−1.9	581.3	4.89	3,947	2.55	430.6	-3.1	89.0	1.4
Costa Rica	781.1	2,29	1,539	4,2	5.48	5,600	4.64	1322.6	-1.3	1412.0
Venezuela	1,932	-0,2	13,146	2,46	41,617	4,78	-3,105	-3,2	-1,404	1.5

Source: Olapido (2013), authors' calculations

Thus, it is noticed that Peru achieved high GDP growth rate during the studied period. Olapido (2013) argued that this GDP growth rate is positively influenced by the high domestic demand and the convenient external financing circumstances for the country.

In addition, it is suggested that the Peruvian economy has managed to attract FDI inflow because of the neoliberal regime implied and because of the export – oriented policy. Moreover, it is argued that over the past two decades several financial and political transformations have taken place, while the privatizations have increased significantly. Thus these transformations have led to economic growth and the country attracted significant amount of FDI inflow. In addition, the country applied neoliberal market strategies and therefore it managed to attract foreign capital inflow. Also, Peru achieved to incorporate to foreign markets and to increase significantly the development rates (Bury, 2005).

It is also suggested that the national culture influences positively the amount of the FDI received. Thus, Rauch et al (2013) argued that the Peruvian companies are innovative and that their owners have various cultural orientations which enable them to develop worldwide relationships. As presented in table 2, in several Latin American and Caribbean countries FDI inflows decreased during 2004 – 2014. Furthermore, it is observed that FDI inflows in the region were highly concentrated and therefore the majority of the foreign capitals were absorbed by solely five countries. When regarding to the countries that received more FDI, it is observed that Brazil managed to increase significantly the amount of foreign capitals invested in the country. Finally, we observe that smaller economies were able to attract proportionally larger amounts of foreign capitals, taking into consideration the size of the host country.

Table 2. FDI inflows in Latin America and the Caribbean by country and region
(Millions of dollars)

Economy	**2004-2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
South America	**50.074**	**95.388**	**59.194**	**95.113**	**133.487**	**146.901**	**128.322**	**119.502**
Brazil	21.655	45.058	25.949	48.506	66.660	65.272	63.996	62.495
Mexico	25.734	28.574	17.644	15.962	23.560	18.998	44.627	22.795
Chile	9.174	16.604	13.392	15.510	23.309	28.457	19.264	22.002
Colombia	7.247	10.565	8.035	6.430	14.648	15.039	16.199	16.054
Peru	**3.284**	**6.924**	**6.431**	**8.455**	**7.665**	**11.918**	**9.298**	**7.607**
Uruguay	1.001	2.106	1.529	2.289	2.504	2.536	3.032	2.755
Ecuador	449	1.058	308	163	644	585	731	774
Bolivia	111	513	423	643	859	1.060	1.750	648
Venezuela	1.713	2.627	-983	1.574	5.740	5.973	2.680	320
Paraguay	95	209	95	210	619	738	72	236
Central America	**4.891**	**7.406**	**4.442**	**5.863**	**8.504**	**8.864**	**10.680**	**10.480**
Panama	1.578	2.402	1.259	2.363	3.132	2.980	4.654	4.719
Costa Rica	1.255	2.078	1.347	1.466	2.176	2.332	2.677	2.106
Guatemala	535	754	600	806	1.026	1.244	1.295	1.396
Honduras	686	1.006	509	969	1.014	1.059	1.060	1.144
Nicaragua	290	627	434	490	936	768	816	840
El Salvador	547	539	294	-230	218	482	140	275
The Caribbean	**4.818**	**9.616**	**5.281**	**4.809**	**6.637**	**8.284**	**6.322**	**6.027**
Total	**85.517**	**140.984**	**86.561**	**131.746**	**172.190**	**183.047**	**189.951**	**158.803**

Source: ECLAC (2015), authors' calculations

When regaring to the case of Peru, we observed that from the year 2012 the FDI inflows reduced significantly. Nevertheless, it should be highlighted that the previous years the country received signigicant amounts of foreign capitals, taking into consideration that size of the Peruvian economy.

The characteristics of the multinational companies that choose to invest their capitals in Peru, as well as in other Latin American countries for the time period from 1988 to 1999 have also been investigated. Such characteristics mostly referred to the foreign countries macroeconomic and governmental policies. It is observed that the multinational companies studied for the specific time period applied a dominant strategy when investing in Peru. Thus, it is suggested that Peru should attract capitals from countries with minimum institutional differences, while it is argued that the Peruvian institutional policy reforms so as to attract more FDI (Trevino & Mixon, 2004).

FDI in Peru for the time period 1979 – 1992 performed by the Japanese multinational companies were investigated by Tuman and Emmert (1999). The study conducted in 20 Latin American countries, among which Peru. The researchers observed that both the political and the financial situation in Peru were taken into consideration by the Japanese multinational companies so as to invest their capitals in the country, among which the market size, the financial adjustment strategies and the politically stable environment.

Furthermore, from 1990 the Peruvian economy intensified the efforts to attract foreign capital. Such efforts mostly focused on fighting against the populist Peruvian system, on reducing the foreign debt and on developing a stable political and financial environment. Hence, from the early 1990s the Peruvian government encouraged the price deregulation, adopted financial policies so as to reduce inflation and increased privatization. Therefore, the Peruvian economy became opened to foreign markets and achieved higher FDI inflow (Rojas, 2001).

Moreover, it has been investigated whether FDI lead to financial development, focusing on the regions of Latin America and Caribbean. The study referred to 16 countries of the particular regions and on a 30 year time period. The research concluded that Peru is listed among the countries in which FDI lead to financial development. Additionally, the study concluded that there is bidirectional causality between FDI and economic growth in Peru (Olapido, 2013).

Also, it is argued that the poverty rates in Peru have decreased by more than 10% over the past decades because of the foreign capital inflow (Castro et al, 2012). The foreign capital inflow in Peru has also affected positively the productivity rates and contributed to long term growth (Alfaro et. al, 2008). Moreover, the improvement of the investment conditions and its relation to Peru's international integration has been discussed. Thus, it is argued that Peru should further improve its investment climate so as to achieve effective global integration (Dollar et. al., 2006).

In addition, the FDI inflows in Peru by sector have been studied. In particular, Chavez and Dupuy (2010) investigated the inward FDI stock in Peru by sector and industry. They argued that during the studied period (2000 – 2009) the majority of the FDI stock was absorbed by the services sector. Thus, as presented in Table 3, the services industries attracted more than the half inward FDI stock, while significant amounts of FDI stock also attracted the energy, the manufacturing and the oil and mining sectors.

Table 3. Distribution of Peruvian inward FDI stock by sector and industry in 2000 and 2009 (US$ million)

Sector / industry	**2000**	**2009**
All sectors / industries	12.306	18.840
Primary	2.004	4.529
Mining, quarrying, petroleum	1.953	4.320
Mining, quarrying	1.855	3.964
Petroleum	98	356
Agriculture, forestry, fishing	51	209
Secondary	1.554	2.842
Manufacturing	1.554	2.842
Services	7.211	8.866
Communications	4.588	3.675
Finance	1.683	2.872
Construction and housing	60	718
Tourism	58	64
Transport	28	295
Other services	794	1.242
Energy	1.537	2.603

Source: Proinversion, Peruvian Investment Promotion Agency in Chavez & Dupuy (2010).

The sectoral FDI inflow in Peru has also been investigated by Gonzalez – Vicente (2012), who focused on the Chinese mining companies. The study focused on the criteria based on which the Chinese mining companies choose to invest or not on the Latin American countries, among which Peru. The researcher argued that the Chinese mining companies base their investment decisions on political and geostrategic criteria. The study is based on qualitative and quantitative data for a ten – year time period and on the use of case studies. The research concludes that the Chinese mining companies choose to invest on liberal economies, while they take into consideration the market risks and the opportunities before proceeding to a foreign investment. The case of the mining companies that choose to invest their capitals in Peru has also been investigated by Ericsson and Larsson (2012). The researchers suggested that Peru is the fifth larger recipient worldwide of foreign capital inflow when regarding to the Chinese mining companies in 2010, while it ranks sixth when regarding to the mining companies worldwide, as shown in Table 4.

Table 4. Top 10 Countries for Mining Investment, 2011

		Investment ($ billion)	**Share (%)**	**Rank in 2010**
1	Australia	99	15	1
2	Canada	92	14	2
3	Chile	54	8	4
4	Brazil	46	7	3
5	Russia	46	7	6
6	Peru	44	6	5
7	USA	32	5	8
8	South Africa	25	4	7
9	Philippines	17	3	9
10	Guinea	16	2	11
Total		471	71	

Source: Ericsson and Larsson (2012)

It is notable that in 2013 Peru managed to attract higher inflows of foreign capital compared to previous years. It is estimated that the mining investment in the country increased by 13%, reaching to almost $50 billion, as presented in Table 5. Thus, the percentage increase was higher compared to other countries, among which Brazil and South Africa (Larsson & Ericsson, 2014).

Table 5. Top 10 Mining Investments, 2013

		Investment ($ billion)	**Share (%)**	**Rank in 2010**
1	Canada	117	15	2
2	Australia	100	13	1
3	Russia	74	9	5
4	Chile	69	9	3
5	Brazil	57	7	4
6	Peru	49	6	6
7	USA	45	6	7
8	South Africa	25	3	8
9	Mexico	18	2	11
10	Philippines	17	2	10
Total		571	72	

Source: Larsson & Ericsson (2014)

As shown in Table 6, Peru is listed among the countries that the Chinese mining companies choose to invest their capitals worldwide.

Table 6. Top Destinations for Chinese Mining FDI 2000 – 2010 (by number of controlled projects)

Country		**Chinese projects**	**% Chinese projects**	**2000 – 2010 non – Chinese FDI M&Q (% world total)**	**Country's total mining projects**
1	Australia	37	33,04	15,30	1,046
2	Canada	13	11,61	13,20	540
3	Tajikistan	7	6,25	0,10	27
4	Peru	6	5,36	3,30	188
5	Ecuador	4	3,57	0,10	29
5	Zimbabwe	4	3,57	1,60	59
7	Laos	3	2,68	0,30	8
7	Myanmar	3	2,68	0,00	12
Total	112	100.00			6,643

Source: Gonzalez – Vicente (2012)

Hence, it is observed that Peru is listed among the top destinations of foreign capital when regarding to the Chinese mining companies. Nevertheless, according to the study of Irwin and Gallagher (2013) the foreign capitals invested in Peru by the Chinese mining companies could possibly affect negatively the employment rates and the environmental conditions.

Moreover, the internationalization procedure of the Peruvian economy was investigated by Rivas and Mayorga (2011), who focused on the Peruvian restaurants. It is argued that the Peruvian restaurants increased their competitiveness worldwide by becoming multinational companies, which along of the economic recovery of the country attract foreign capital, while at the same time the expansion to foreign economies was facilitated.

Another study performed by Baker et al (2016) focused on the impact of FDI and trade liberalization on the Peruvian and Bolivian food industry. The study concluded that in Peru the free trade agreements influenced positively the foods and beverages sector diversified the products and thus the country managed to attract more foreign capitals. On the contrary, the Bolivian government did not proceed to free trade agreements and consequently did not attract more FDI in the specific sector, as presented in figure 3. It is observed that FDI inflows in Peru rose significantly during the period 1990 – 2013, while from 2004 the rate of increase was higher. In addition, it is argued that from 2006, that is to say the year that Peru ratified the free trade agreements, the per capita soft drink production rose significantly as well.

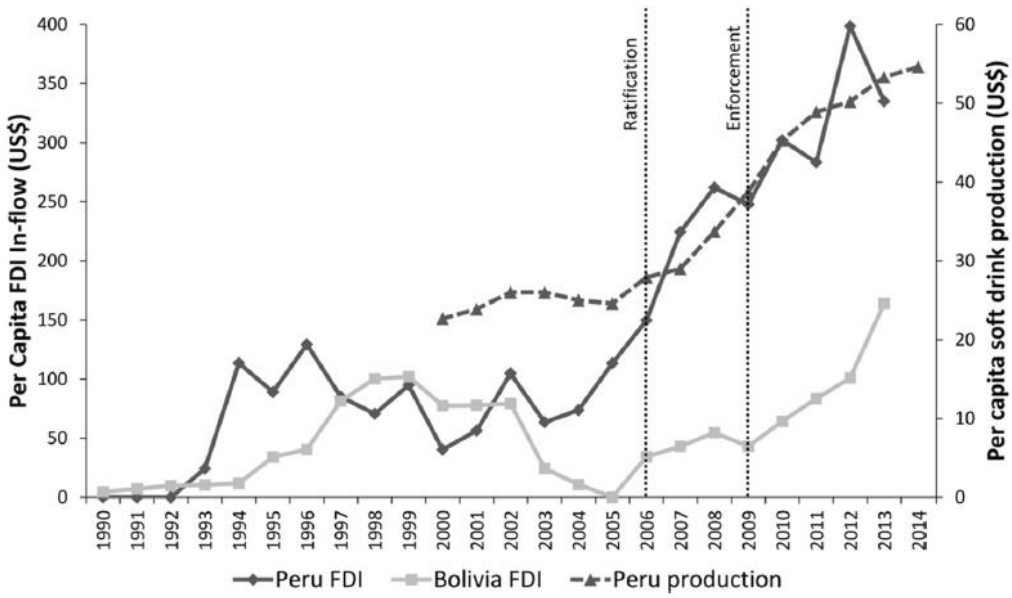

Figure 3. Trends in per capita FDI and per capita soft – drink production in Peru and Bolivia
Source. Baker et al (2016)

Apart from the mining industry and the food industry, the Peruvian economy also managed to attract foreign capital form the Chinese petroleum industry. Thus, the Chinese economy introduced a foreign strategy through investment its capitals in Peru, focusing on the oil and gas industry (Xu, 2010). Similarly, the attraction of foreign capitals by the Peruvial petroleum industries has contributed to the reduction of the social inequalities in the country, while at the same time it has been supported the environment protection (Moser, 2001).

Moreover, Peru managed to attract foreign capital so as to develop the hydroelectric industry. It is argued that the Peruvian government aimed at achieving sustainable development and social benefits through improving the hydroelectric infrastructure. Thus, the business climate has been improved so as to attract foreign capitals in the sector, while social and financial benefits were provided to the foreign firms (Cole & Roberts, 2011). The FDI inflow attracted by the Peruvian infrastructure industry has also been studied. It is suggested that the foreign capital received contributed on improving the Peruvian infrastructure and therefore on the country's development. Moreover, it is observed that telecommunications, airports and electricity in Peru have been improved significantly; nevertheless most of these improvements are observed in the urban regions (Urrunaga & Aparicio, 2013).

However, it has investigated whether the FDI inflow could lead to financial instability for the Peruvian economy (Agudelo & Castano, 2011). It is suggested that the foreign capital inflows in developing countries, such as Peru, result to economic instability, mostly during economic crises. Thus, for the time period 1999 – 2008 it is observed that there is no relation between the FDI inflow and the financial stability using time series models.

4. Overall Assessment

The Latin American and the Caribbean countries absorb an increasing amount of foreign capitals. In particular, in the specific region the foreign capitals enhanced the economic development, while the amount of them was not influenced significantly because of the recent financial crisis. The countries of the region that received the majority of the foreign capitals have certain common characteristics, including the efforts to achieve financial freedom and stability, the openness to the international trade and the measures that led to political stability. In addition, FDI inflows enabled the host economies so as to improve their infrastructure, to offer tax motives to the investors and to achieve macroeconomic stability. Moreover, host countries improve their governmental policy via receiving FDI inflows. In the studied economies it is observed that economic growth is achieved when receiving foreign inflows, which then lead to the reduction of the inequalities in the host country. The present paper focused on the case of Peru, which managed to attract significant amount of inward FDI; nevertheless, despite the political, social and financial reforms made, the country did not manage to become the top FDI destination among the Latin American and the Caribbean countries.

The Peruvian government proceeded to successful financial and political reforms over the past decades so as to improve the country's attractiveness towards foreign investors and thus to absorb more FDI inflows. Nowadays, the Peruvian economy enables the financial freedom and the openness to foreign markets and international trade. As a result Peru achieved sustained economic growth and improved the investment environment. Our study concludes that FDI in Peru are influenced by the factors presented in Table 7.

Table 7. Factors that influence FDI inflows in Peru

Factors	**Peru**
Type of regime	Neoliberal, open and transparent regime
Political and financial conditions	Stable political and economic environment
Ownership	Increased privatizations
Economic development	Achieved great economic growth
Socioeconomic indicators	Reduced the poverty rates, increased GDP

Therefore, we observe that the factors that attracted more FDI inflows in Peru regarded the country's type of regime, the political and financial situation, the ownership regime, the level of development and the socioeconomic indicators. When regarding to the type of regime, we conclude that the Peruvian government followed a neoliberal, open and transparent policy. The governmental policy of Peru is based on deregulation and liberalization in order to achieve goods and services mobility worldwide, to improve the productive abilities via attracting FDI and to achieve economic growth. Thus, the Peruvian economy managed to integrate successfully in the global market and to attract significant flows of foreign capitals.

In addition, the neoliberal Peruvian policies contributed to the country's independence from foreign economies, to the improvement of the social conditions and to the development of the key industries. Therefore, the Peruvian financial and social issues were not completely controlled by the state and the system applied could be characterized as self – regulating. In other words, the more liberalized Peruvian regime aimed at the economic development through promoting free trade, openness to foreign capitals and market orientation. The Peruvian government also protected the property rights of the foreign investors and guaranteed complete freedom on the foreign capital movement.

However, the freedom provided by the governmental regime was limited to financial and social issues, but even included free technological transfer. These liberated policies promoted the improvement of the Peruvian residents' living standards and consequently economic growth. It should though mentioned that the liberalization of the governmental policies could lead to instability since public control on financial issues could loosen and automatic stabilizers could be rendered ineffective. Thus, the Peruvian economy could be more vulnerable to economic crises, while social conflicts could arise.

In summary, we observe that Peru, despite the political, financial and legal reforms performed, never managed to rank first among the Latin American and the Caribbean countries. Therefore, we argue that various reasons held back the country's' attractiveness towards foreign investors, as presented in Table 8. Firstly, we observe that foreign investors that chose to invest their capitals in Peru applied a dominant investment policy. Therefore, the circumstances under which Peru absorb FDI played a significant role in the country's attractiveness. We argue that the multinational companies that used dominant investment strategies when investing in Peru influenced both the type and the quality of the foreign capital absorbed. As for the dominant policy applied by multinational companies and foreign investors, we suggest the investment of foreign capitals into high – value – added project so as to improve the local investment conditions, to adapt recent technological methods and to improve the educational level. Furthermore, we suggest the orientation of local companies towards R&D activities and the protection of the intellectual property rights. In addition, local enterprises should improve their capability in adapting modern technology imported from multinational firms.

Secondly, it is observed that infrastructure, including telecommunications, electricity and airports, realized mostly in the urban regions. Therefore, limited foreign capitals were invested in rural regions and a result this could affect negatively the living conditions of the habitants in the rural regions and increase the income inequality among them. We thus observe that the FDI distribution was not absolutely effective among the regions and it is possible that this inequality affected negatively the development of the rural areas. Moreover, foreign investors would be discouraged to invest in these areas because of the lack of infrastructure and the low level of development.

Thirdly, we argue that the investment climate of Peru could further be improved. The Peruvian government made efforts so as to ameliorate the investment conditions and to strengthen the country's relations with the trading economies. Hence, it is suggested that Peru should apply investment strategies so as to attract foreign investors and to make easier to export. Moreover, reforms in certain business sectors, such as the private sector, could include the protection of the intellectual property rights and the securing of licences. In order to ameliorate the investment climate obstacles for foreign investors should be abolished so that the Peruvian economy becomes even more opened. Thus, the attractiveness of Peru towards foreign investors would be higher. In addition it is suggested that the improvement of the investment environment could promote the domestic investments as well and therefore enhance the achievement of economic growth and the global integration.

Fourthly, we observed that despite the fact that the Peruvian government managed to reduce the external debt, a more effective foreign debt management policy should be applied. We argue that the efforts to reduce external debt should be intensified so that the country gains better access to the capital markets. Therefore, we suggest that the Peruvian government should avoid signing conditional loans from international organizations, as well as to avoid borrowing from other countries in order to avoid high economic deficits in the following years. Furthermore, the reduction of the foreign debt would boost the country's economic development, which would therefore attract more foreign capitals. In addition, Peru should satisfy its debt obligations and the country should proceed to negotiations and collaboration with its creditors.

Fifthly, we argue that the Peruvian private sector could further be developed so as to attract more foreign investors. The country managed to promote the trade liberalization, to improve the infrastructure and to promote a social policy through reducing the poverty rates and increasing the GDP. Thus, taking into account the fact that Peru increased its privatizations it is suggested that the country should develop a competitive private sector. It is important that privatizations take place in every Peruvian region, despite the low productivity rates observed in some of these regions. In addition, it is important to provide financial and technical facilities to the multinational companies that choose to invest their capitals in the country. Moreover, privatizations could further promote the productivity, the innovation, the entrepreneurship and the competitiveness.

Sixthly, Peru is abundant in natural resources since the country attracted foreign inflows in the petroleum, the oil and the gas industry, while it also improved the hydroelectric sector; nevertheless, we argue that the efforts to protect the available natural resources were limited, despite the fact that the country attracted significant amounts of inward FDI in sectors such as mining and quarrying. Hence, it is suggested that an effective management system should be applied for the Peruvian natural resources. The extraction on non – renewable materials should be managed, while at the same time the amount of raw materials exported should be controlled. In addition, the benefits deriving from the extraction of the natural resources should be distributed equally in the Peruvian region so as to avoid social inequalities and conflicts. Moreover, the climate changes should be considered so as to develop effective industrial development policies. The Peruvian trade could then be further developed and the country's competitiveness could be improved in actions, such as recycling, environment protection ect, were encouraged.

Table 8. The factors that prevented the attractiveness of Peru

Source	**Deficit or problem**	**Suggestions**
Foreign investors	Dominant policy	Improvement of the local conditions
Peruvian government	Infrastructures improved mostly in urban regions	More effective regional allocation of FDI inflows
Peruvian government	Further improvement of the investment environment	Promotion of an investment – friendly policy environment
Peruvian economy	External debt	Effective foreign debt management strategy
Peruvian business industry	Private sector	Increased privatizations
Peruvian government	Protection of the natural resources	Effective management system in natural resources

It should be noted that the present paper is subjected to certain limitations. The first limitation refers to the fact that the study focuses on the case of a single country and therefore it is difficult to generalize the findings. However, the case of Peru is chosen based on its ranking in total FDI inflows over the past years. Secondly, the study is limited on the Latin American and the Caribbean countries. As a result we have not conducted a comparative analysis towards countries of other geographical regions, such as Asia, that proceed to various reforms but never managed to become the top FDI destination. In summary, we argue that the above mentioned limitation do not influence the study's findings.

5. Conclusions and recommendations

Significant flows of foreign capitals are directed towards the Latin American and the Caribbean countries annually over the past decades. Nevertheless, the recipient countries faced severe obstacles and weaknesses in exploiting FDI for their benefit. Therefore, the countries of the region had to improve the microeconomic and macroeconomic stability, to improve the infrastructure, to absorb new technology methods and to improve the legal and political framework. Similarly, Peru proceeded to such reforms so as to attract more foreign capitals, to reduce the poverty rated, to improve the infrastructure and to achieve economic growth via increasing the GDP. Peru, in order to increase its attractiveness, made efforts so as to achieve macroeconomic stability, to control the foreign debt, to render its regime more democratic through fighting against populism and to become a politically stable country. We observe that these efforts, along with the abundance in natural resources and the neoliberal and export – oriented policy applied, increased the country's' attractiveness to foreign investors.

However, we argue that the efforts, so that the country increases further its attractiveness, should be intensified. We observed that efforts should be made in improving the local conditions, in allocating more effectively the regional FDI inflows, in promoting an investment – friendly policy strategy, in managing more effectively the external debt, in increasing privatizations and in managing more effectively the natural resources. Therefore, we conclude that efforts towards these directions could render Peru the top FDI destination among the Latin American and the Caribbean countries. In summary, the country should offer more generous financial, social and governmental incentives to the foreign investors. The further improvement of the political and macroeconomic conditions would improve its attractiveness. However, measures should be taken so as to protect the environment and to manage the resource reserves. Furthermore, in order to improve the political stability increased privatization is suggested. Hence, more financial and political measures are suggested so as to improve its rank among the region's top FDI destinations.

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