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# FDI in Peru and Uzbekistan: A comparative analysis in brief

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### Abstract

The majority of the developing economies worldwide use foreign capitals inflow so as to achieve economic growth. The host countries proceed to economic and political transformations so as to improve their attractiveness and to become top foreign direct investment destinations. In addition, the foreign inflows enable the host country's productivity rates and improve the standard of living. A significant amount of these capitals are directed in the developing economies of the Latin American and the Post – Soviet Central Asian countries. The cases of Peru and Uzbekistan are chosen among these developing economies of the regions so as to investigate the impact of the foreign inflows on the economic growth of these countries.

**Key – words:** F.D.I., developing countries, Peru, Uzbekistan, Latin America, Central Asia,

**JEL:** F21, O18, O16, R11

## **1. Introduction**

The present paper focuses on the foreign direct investment (F.D.I.) directed in Peru and Uzbekistan. The cases of these countries have been chosen since they are located in different regions (Peru is located in South America, while Uzbekistan is located in the Post – Soviet Central Asia). In addition, Peru is listed among the highest recipients of F.D.I. in the region, contrary to Uzbekistan that present low F.D.I. stock. In addition, Uzbekistan is the most populated country in the region.

The purpose of the study is to investigate the factors that influence the attractiveness of Peru and Uzbekistan towards foreign investors, as well as the benefits deriving from the foreign inflows. Thus, the measures taken by both countries so as to attract more F.D.I. inflows are studied. Moreover, it is studied whether F.D.I. led these countries to economic growth.

Therefore, at first the factors that the foreign investors take into consideration when investing in Peru and Uzbekistan are investigated, as well as the factors that influence the amount of foreign capitals received. Then, the benefits and the advantaged deriving for these countries when receiving F.D.I. are investigated. Also, the sectors that attract most of the F.D.I. inflows in each country are studied and finally it is investigated whether there are possible disadvantages and problems deriving from the F.D.I. inflows.

The contribution of the study refers to fact that there has not been presented so far a comparative analysis between Peru and Uzbekistan regarding the F.D.I. inflows received. Also, there have been chosen countries located in different regions, with different political, economic and social characteristics, aiming at investigating whether they have common characteristics so as to attract F.D.I. Finally, we compare the strategies and the measures taken of a neoliberal regime contrary to the ones taken by an autocratic government.

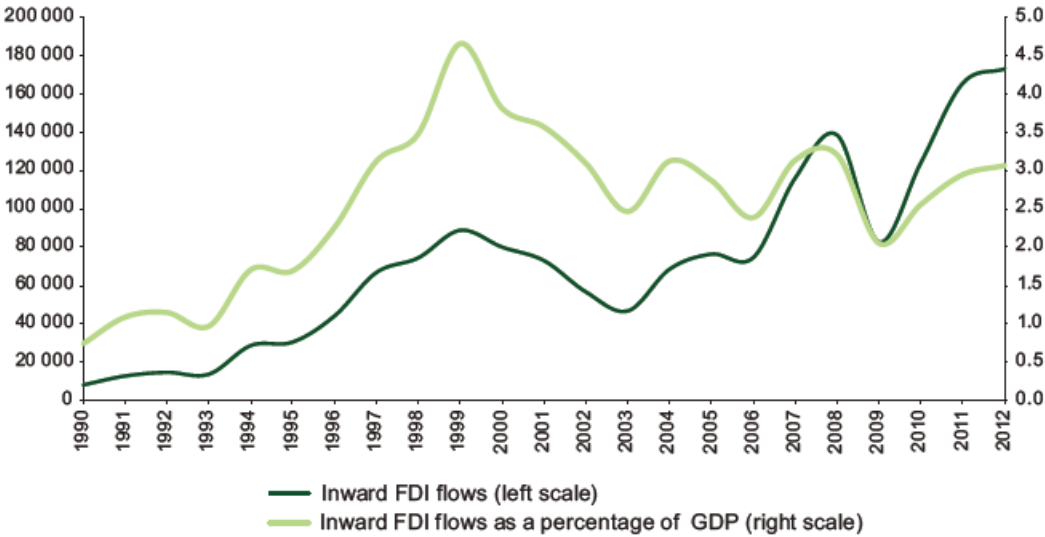
## **2. F.D.I. in the Latin American and the Caribbean countries**

Over the past years the Latin American and the Caribbean countries have attracted a significant amount of F.D.I. inflow, taking into consideration the economic problems observed worldwide because of the financial crisis (Olapido, 2013). Moreover, during the period 1980 – 2010 there has been observed a positive relation between F.D.I. and economic growth in a sample of six Latin American countries (Anaya & Alvaro, 2012). In addition, F.D.I. 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 F.D.I. 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 F.D.I. inflow contributed to economic development for the countries that receive foreign capitals. Nevertheless, it is important for the host countries to afford human capital, to be economical stable and opened to international markets (Bengoa & Sanchez – Robles, 2003). In the following figure presents the F.D.I. flows in Latin America and in the Caribbean from 1990 to 2012. It is observed that the F.D.I. flows in the region are characterized by a stable increase, except the year 2010, that the flows remained stable to the levels of 2009.

Figure 1: Latin America and the Caribbean: F.D.I. flows (1990 – 2012)  
(Millions dollars and G.D.P. percentage)

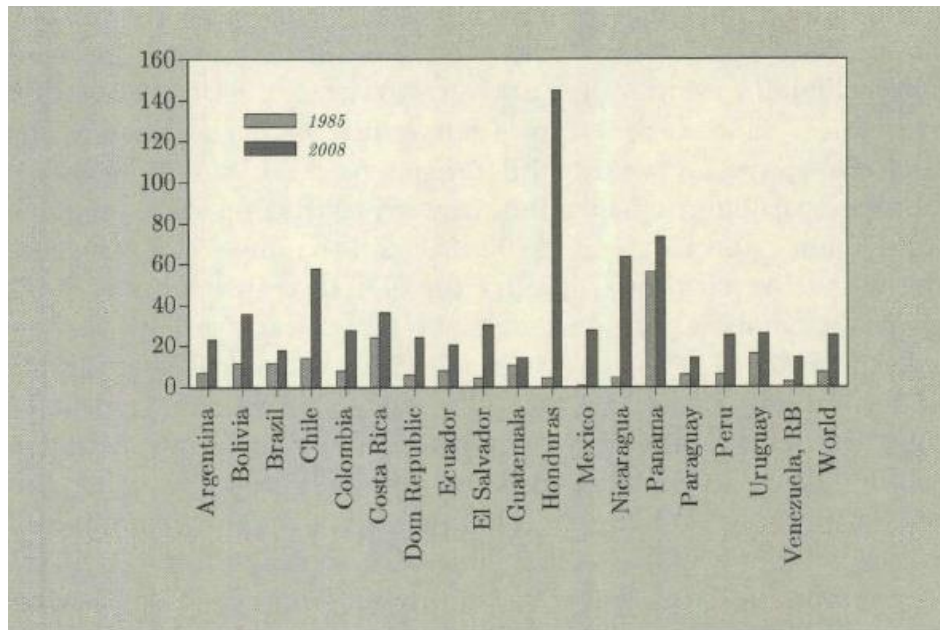


Source: ECLAC (2012)

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 F.D.I. 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 F.D.I. stock as a percentage of G.D.P. 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 F.D.I. stock as a percentage of G.D.P. (1985 – 2006)



Source: Subasat & Bellos (2013)

As for the remittances, it has been investigated whether they are positively related to F.D.I. 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 U.S. 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 U.S. investors aim at developing a free trade market in the Latin American countries through performing F.D.I. and developing free trade agreements (Arbelaez & Ruiz, 2013). Similarly, the U.S. 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 U.S. investors, the Latin American countries have also been influenced significantly by the Chinese investors. In particular, U.S. investors increased the amount of F.D.I. 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 F.D.I. 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 when attracting F.D.I. 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 F.D.I. and economic development in Latin America (Adbelmalki et. al., 2012). Furthermore, it has been observed a positive relation between F.D.I. 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 F.D.I. 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 F.D.I., such as an effective bureaucracy and legal system (Subasat & Bellos, 2013). Similarly, it is argued that there is a positive relation between F.D.I. inflow and institutional quality in a sample of 19 Latin American countries (Fukumi & Nishkima, 2010).

## **2.1 F.D.I. in South America**

The South American countries have also attracted significant capital inflow which has contributed to their economic growth. Thus, it has been investigated whether the capital inflow has influenced the inequalities in these countries for the studied period 1970 – 2007. The study concluded that the capital inflow has contributed to the progressive reduction of the inequalities in the region, along with the political and economic stability (Bittencourt, 2014).

The economic development in the South American countries has also been supported by the trade relationships developed with China. During the past two decades the South American countries have attracted foreign capitals from China which has led to the development of bilateral relationships between them. In addition, most of the capitals have been invested in the agricultural sector (O' Connor, 2012). Similarly, it is observed that the foreign inflows deriving from other developing countries, such as China, improved significantly the economies of the South American countries and promoted the host companies' productivity (Gonzales – Vicente, 2011).

Among the South American countries, mostly Brazil managed to attract a significant amount of Chinese capitals. Hence, China and Brazil developed bilateral investment agreements and they have been characterized as developing countries with high potentials (Wei, 2012). Furthermore, the South American countries have managed to attract significant capital inflow in various sectors. These capitals have been invested mostly in natural resources. Certain countries, such as Peru and Chile, intensified the efforts to receive foreign capitals and to take advantage of the natural resources so as to participate in the free trade market (Belloni & Wainer, 2014).

## **2.2. F.D.I. in Peru**

F.D.I. 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.

In addition, it is suggested that the Peruvian economy has managed to attract F.D.I. 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 F.D.I. inflow (Bury, 2005). It is also suggested that the national culture influences positively the amount of the F.D.I. 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. Furthermore, the Peruvian economy has performed various economic and political reforms over the past ten years. 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).

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 F.D.I. (Trevino & Mixon, 2004).

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 F.D.I. inflow (Rojas, 2001).

Moreover, it has been investigated whether F.D.I. 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 F.D.I. lead to financial development. Additionally, the study concluded that there is bidirectional causality between F.D.I. 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). Moreover, Peru is listed among the countries that received most of the F.D.I. 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	
	F.D.I.	G.D.P.	F.D.I.	G.D.P.	F.D.I.	G.D.P.	FDI	G.D.P.	F.D.I.	G.D.P.
Haiti	109,1	0,01	127,0	-0,1	200,4	0,5	37,4	2,9	150,4	-5,1
Barbados	128,4	2,23	224,4	1,87	675,3	1,2	159,7	-5,3	162,8	0,7
Bahamas	566,1	4,04	1,026	1,64	5,087	1,68	664,0	-5,4	499,1	0,9
Guatemala	1,108	0,97	2,273	4,07	4,200	3,75	573,7	0,5	678,3	2,8
El Salvador	179.7	-1.9	581.3	4.89	3,947	2.55	430.6	-3.1	89.0	1.4
Dominican Republic	352.2	3,79	129,2	4,89	5,148	5.33	2165.4	3.5	2625.8	7.8
Costa Rica	781.1 2.29 1,539	2,29	1,539	4,2	5.48	5,600	4.64	1322.6	-1.3	1412.0
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
Ecuador	976.2	2,27	3,578	1,84	8,935	5,01	319,0	0,4	164.1	3.6
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
Venezuela	1,932	-0,2	13,146	2,46	41,617	4,78	-3,105	-3,2	1,404. -	1.5
Chile	12,440	4,39	26,062	4,39	66,603	6,38	12,874	-1,7	15,095	5.2
Argentina	4,323	-0,7	29,124	4,52	61,227	3,87	4.071,1	0,9	6193.0	9.2
Mexico	8,590	2,29	44,821	3,38	203,398	2,82	15,206	-6,2	17,725	5,5
Brazil	25,438	2.99	61,369	1.70	182,052	3,72	25,948	-0,6	48,461	7.5

Source: Olapido (2013)



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

The F.D.I. 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 – years 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, while it ranks sixth when regarding to the mining companies worldwide, as shown in Table 2

Table 2: 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	U.S.A.	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 more foreign capital inflow. It is estimated that the mining investment in the country increased by 13%, reaching to almost \$50 billion, as presented in Table 3. Thus, the increase percentage was higher compared to other countries, among which Brazil and South Africa (Larsson & Ericsson, 2014).

Table 3: Top 10 Mining Investment, 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	U.S.A.	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 4, Peru is listed among the countries that the Chinese mining companies choose to invest their capitals worldwide.

Table 4: Top Destinations for Chinese Mining F.D.I. 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 ranks fourth 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.

Apart from the mining industry and the food industry, the Peruvian economy also managed to attract foreign capital from 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 Peruvian 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 F.D.I. 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 F.D.I. 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 F.D.I. inflow and the financial stability using time series models.

### **3. F.D.I. in Asia**

The Asian countries over the past years have managed to interact successfully with other developed and developing economies worldwide. Hence, the employees in the Asian companies have achieved great human capital, to improve their capabilities and finally to use the most recent technological achievements (Branch & Vang, 2012). In addition, the F.D.I. inflow contributes to the accumulation of the human capital and to the industry growth (Li, 2013). These findings were also confirmed by Agrawal and Khan (2011) who argued that F.D.I. inflow contributes to economic growth. Moreover, there has been observed a long – term relationship between the F.D.I. inflow and the economic development in the highest Asian countries recipients (Flora & Agrawal, 2014).

The Asian companies mostly receive foreign capitals deriving from the United Kingdom, the U.S.A. and Japan. These capitals enabled the Asian companies so as to face the globalization challenges and the financial crisis consequences. Finally, they contributed the development of the Asian region (Mohnot, 2007). Hence, the Asian region growth as a result of the foreign capitals received from other developed and developing regions. Therefore, the exchange of foreign capitals along with the increasing trade worldwide resulted to the development of the Asian companies (Akin & Kose, 2008). Apart from the development of these regions, the productivity of the Asian companies was also improved. Thus, the foreign capitals received by the Asian countries, along with the imports performed, resulted in higher productivity levels for the companies of the region (Marwah & Tavakoli, 2004).

Furthermore, F.D.I. inflows in the Asian countries contribute to the import of equipment and machinery and thus they enable the technological exchange worldwide. However, it is observed that some of the countries of the region, such as Malaysia and Singapore, managed to achieve higher technological growth through receiving foreign capitals (Lee & Tan, 2006). In addition, F.D.I. is used

as a channel to transfer technological techniques among the Asian countries and it is positively associated to innovation and research and development (R&D). (Sivalogathan & Wu X., 2014).

The foreign capitals inflow is therefore positively associated with the economic growth and as a result the competition among the countries of the region increased so as to attract more F.D.I. capitals (Masron & Nor, 2013). Thus, the Asian countries make efforts so as to improve several economic and structural factors and to increase their attractiveness. It is argued that the Asian countries that mostly attract foreign capitals have improved the macroeconomic factors, they have become more opened to the international trade and they have improved their economic stability (Teulon & Guesmi, 2013). Also, the investment liberalization and the international cooperation are suggested so as to improve the country's attractiveness (Li, 2013).

Moreover, it is suggested that the Asian countries that were politically stable, that were characterized by low level of corruption and violence managed to receive higher foreign capitals. Thus, effective governance is related to F.D.I. inflow in the region (Mengistu & Adhikary, 2011). Actually, there has been observed that higher corruption levels affect negatively the amount of foreign capitals invested in the Asian region since they reduce the attractiveness of the recipient countries (Woo & Heo, 2009). Similarly, it is suggested that political instability and exchange rate affect negatively the F.D.I. inflow in the region (Solomon & Ruiz, 2012).

In addition, the freedom of expression is as well positively related to attracting foreign capitals in the region, along with the lack of corruption and the effectiveness of the recipient country's legal system (Bissoon, 2012). Furthermore, economic freedom and financial stability, as well as investment and trade openness are positively linked to foreign capitals inflow in the Asian region (Nasir & Hassan, 2011).

Nevertheless, it is argued that foreign capital inflow may not lead to economic development. Hence, the sector of the host economy that attracts F.D.I. capitals plays an important role. It is suggested that F.D.I. contribute to the economic growth when invested in the manufacturing industry, while they play a less important role in the economic development when invested in other sectors (Wang, 2009). Similarly, Tiwari (2011) observed a negative relation between economic development and foreign capitals inflow in a sample of 28 Asian countries.

Finally, there has been observed a negative long-term relation between trade openness and foreign capitals inflow in the region because of limited creditability (Azam et al, 2012). Moreover, it has been argued that there is a negative relationship between F.D.I. and the host country's stock market capitalization (Raza & Jawaid, 2014).

### 3.1. F.D.I. in Post – Soviet Central Asian countries

The foreign capital inflows in the Post – Soviet Central Asian countries have been studied by Akbar et. al (2006) who focused on the economic development in the region. The researchers argued that the initial economic growth of the region is positively related to the F.D.I. flow received. Similarly, Doytch and Uctum (2011) argued that F.D.I. inflows in the economic services of the Post – Soviet Central Asian countries enhanced the region’s development. Nevertheless, it is argued that F.D.I. inflow might not affect significantly the development of the local economies. It is observed that foreign capitals inflow could influence positively the technology transfer and the local productivity; however, it could affect negatively the local competitors. Thus, the F.D.I. impact on the local economies should be taken into consideration when designing policy interventions (Kaditi, 2006).

Moreover, it has been argued that foreign capitals inflow do influence positively the level of productivity in the host economies of the region, but this influence is lower compared to the one deriving from the imports. Hence, it is suggested that imports lead to greater productivity rather than the inflow of foreign capitals. Therefore, both imports and F.D.I. inflows are considered channels of diffusion so that the host countries manage to achieve R&D and human capital accumulation (Krammer, 2010).

Regarding, the F.D.I. inwards in the Post – Soviet Central Asian countries, as presented in the following table, it is observed that Russia, Estonia and Azerbaijan receive the greater amount of capitals inflow, contrary to Uzbekistan and Kyrgyzstan.

Table 5: F.D.I. attracted into Post – Soviet Central Asian countries

Rating	Country	Average annual inward F.D.I. for 2002 - 2004	2005	2010
1	Russia	21.164	8.500	17.500
2	Estonia	3.171	485	795
3	Azerbaijan	3.149	1.100	1.500
4	Kazakhstan	2.982	2.025	2.950
5	Ukraine	1.517	2.500	3.988
6	Lithuania	1.209	800	1.560
7	Latvia	759	547	1.030
8	Georgia	334	170	370
9	Belarus	196	520	1.100
10	Armenia	179	200	340
11	Turkmenistan	117	218	517
12	Moldova	112	100	180
13	Tajikistan	113	54	120
14	Uzbekistan	92	200	800
15	Kyrgyzstan	43	123	215

Source: Kenisarin and Andrews – Speed (2008)

Moreover, natural resources have attracted a significant amount of foreign capitals in the region of Central Asia. Thus, despite the investment risk in the region it is observed in the following table that Kazakhstan and Turkmenistan have managed to attract most of the foreign capitals among

the Central Asian countries. Uzbekistan ranks third among the recipients in the region and it is argued that this is due to the fact that Uzbekistan along with Turkmenistan applied reform strategies later than the other countries.

Table 6: Foreign Direct Investment to Post Soviet Central Asian states (1996 – 2004)  
(US\$ million)

Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Cummulative
Kazakhstan	1.137	1.320	1.143	1.468	1.278	2.861	2.164	2.188	3.282	16.841
Uzbekistan	90	90	140	121	75	83	65	70	180	991
Kyrgystan	47	47	87	38	-7	-1	5	46	116	631
Turkmenistan	108	108	63	125	131	170	276	218	225	1.423
Tajikistan	18	18	25	21	24	9	36	32	272	455

Source: European Bank for Reconstruction and Development, Transition Report Update (London: European Bank for Reconstruction and Development, 2005, p. 19) in Blackmon (2007)

Similarly, natural resources attract foreign capitals in the agricultural and the manufacturing industry (Doytch & Eren, 2012). Apart from the natural resources sector, the relationship between the manufacturing sector and the amount of F.D.I. inflows has been investigated. Thus, it is argued that the manufacturing industry of the region attracts foreign capitals, while it is possible to be led to deindustrialization in case these capitals are attracted by the services sector (Doytch & Uctum, 2011). Nevertheless, it is argued that there is a positive correlation between the F.D.I. inflow in the region and the increase in CO<sub>2</sub> emissions in the studied area (Omri et al, 2014).

It is argued that the countries in the Post - Soviet Central Asia that attracted the larger amount of foreign capitals had certain common characteristics. Thus, the largest recipients had lower criminality rates, bigger large market and less investment risks. Nevertheless, it is observed that the infrastructure and the educational level of the workforce in the recipient country do not influence significantly the amount of the received foreign capitals (Brock, 1998). Similarly, it is argued that the low risk companies operating in the host country enhance the attractiveness and correlate positively with the F.D.I. inflows (Lankes & Venables, 1996).

As for the development aid it has been studied whether it can enhance the amount of the foreign capital inflow in the region. Thus, it is argued that there is a conservative complementary impact of the development aid on the F.D.I. inflow in Central Asia. There has been observed a positive relation between the amount of the F.D.I. flows and the employment opportunities in the Post – Soviet Central Asia. The countries of the region were characterized by absorptive ability and developed infrastructure so as to receive development aid and F.D.I. (Arazmuradov, 2015).

As presented in Table 7, the economies of the region attracted various amounts of foreign capitals. Kazakhstan ranks first among the F.D.I. and the developing aid recipients in the region. However, it is obvious that the annual average growth of F.D.I. inflow was negative for Uzbekistan, contrary to the annual average growth of F.D.I. and developing aid for the rest countries.

Table 7: Inward F.D.I. and developing aid in Post – Soviet Central Asia, 1993 - 2008

Country	F.D.I		Official development assistance	
	Sample mean (\$US)	Annual average growth (%)	Sample mean (\$US)	Annual average growth (%)
Kazakhstan	3.505,73	33,98	175,81	30,11
Kyrgystan	81,87	91,70	239,11	10,70
Tajikistan	100,33	117,09	155,54	24,74
Turkmenistan	296,75	26,77	29,98	5,69
Uzbekistan	179,91	-6,83	147,55	16,89

Source: UNCTAD database in Arazmuradov (2015)

Another factor affecting the F.D.I. inflows in the Post - Soviet Central Asia refers to the investment policy and the regime of the host economy. It is observed that F.D.I. investors are attracted by democratic regions and choose to invest their capitals in the manufacturing and the agricultural industry. Moreover, F.D.I. inflow invested in the services industry lead to the improvement of the local workforce educational level (Doytch & Eren, 2012).

The relation between the level of corruption in a sample of the Post – Soviet Central Asian countries and the F.D.I. flows has also been studied. It is argued that the amount of the F.D.I. inflow in the region and the countries’ openness to worldwide trade do not have an impact on the level of corruption (Bayar, 2011). The role of the social health insurance has also been investigated. It is argued that an ineffective system of social health insurance could reduce the host economy’s competitiveness worldwide and thus rend the country less attractive to the foreign investors. Nevertheless, it is observed that there is no correlation between the social health insurance and the F.D.I. inflow in a sample of Post – Soviet central Asian countries (Wagstaff & Moreno – Serra, 2009). In addition, it has been argued that F.D.I. inflow might be related to child labor. Thus, it is observed that in the agricultural sector of the Post – Soviet central Asia there is a positive relationship between capitals inflow and child labor so as to enhance the local labor market (Doytch et al, 2014).

### 3.2. F.D.I. in Uzbekistan

The factors that determine the amount of F.D.I. received by Uzbekistan have been investigated by Kenisarin and Andrews – Speed (2008). Thus, it is argued that the F.D.I. inflow in these countries, among which Uzbekistan, is influenced by the governance of the recipient country, by the economic liberalization as well as by the corruption level. As for Uzbekistan, it is observed that, along with Tajikistan and Kyrgystan, ranks last when regarding to the F.D.I. stock and the predicted F.D.I. inflow.

Moreover, since 1991 several improvements observed in the foreign policy of Uzbekistan. Thus, the government of Uzbekistan promoted the country’s independence, as well as its cooperation with other nations, through which Russia, China and the U.S.A. so as to improve its attractiveness. In addition, the foreign policy aimed at minimizing the possibility of conflicts with other countries and at improving the social and the educational infrastructures (Spechler & Spechler, 2010).

Nevertheless, according to Blackmon (2007) the government of Uzbekistan has not proceeded to significant reforms so as to improve its attractiveness. Thus, the economic reforms in the country were not as successful as in other countries of the region, such as Kazakhstan. Therefore, it is observed that Uzbekistan has not made significant steps regarding the improvement of the infrastructure, the legal framework and the taxation system.

In addition, the government of Uzbekistan was characterized authoritarian and thus it came up with difficulty accepting the inflow of foreign capitals. Thus, along with the government of Turkmenistan among the countries of the region, the foreign policy was reformed so as not to face the capitals inflow as propaganda (Ancheschi, 2010). Similarly, the autocratic government of Uzbekistan delayed the country’s economic, political and religious development. Nevertheless, the autocratic government achieved economic development, controlled the revolutionary actions and collaborated successfully with the domestic institutions (Murtazashvili, 2012).

Furthermore, the unstable political and financial conditions in Uzbekistan reduced its attractiveness to the western foreign investors. The prices of the war materials remained high despite the increase of the foreign capitals inflow and thus mostly the Russian and the rest Asian countries continue investing their capitals in Uzbekistan. Nevertheless, the government improved its relations with other countries of the region, such as Turkmenistan, but did not manage to restore its relations with the European countries (Kamenka, 2008).

Thus, the following table presents the key social and economic indicators in Uzbekistan so as to take into consideration the difficulties that the foreign investors faced when investing in the country.

Table 8: Key socioeconomic indicators for Uzbekistan

Indicator	Uzbekistan
Population	25,6 million
Per capita GDP	US\$ 2.324
Literacy	99,3%
Services within economy	43,8%
Income level	Low income
Human Development Index	0,727
Female economic activity level	62,3%

Source: World Bank, WTO data (2002 – 2004) in Baum & Thompson (2007)

However, several advantages derive for the economy of Uzbekistan when receiving foreign capitals. It is suggested that F.D.I. inflow contribute to development of the foreign ownership companies via increasing the productivity rates, intensifying the capital, improving the exports and imports rates and developing job opportunities. In addition, there is a positive influence to the domestic firms that collaborate with the multinational ones which enables them to improve their performance (Yasar & Morrison Paul, 2007).



Thus, during the past decade the economy of Uzbekistan has been significantly improved. The country’s development strategy mostly focused on exporting natural resources, such as natural gas and mineral and on importing equipment. Nevertheless, the economy of the country has been little affected by the recent financial crisis since it is not yet directly connected to the worldwide market. On the contrary, the government of Uzbekistan set an anti – crisis strategy via attracting foreign capitals and improving exports rates (Spechler, 2010). In addition, Uzbekistan applied a staple globalism policy through taking advantaged of its natural resources and managed to attract foreign capitals despite the underdeveloped business climate (Spechler & Spechler, 2009). The following table presents the foreign capital trends from 2003 to 2014. It is observed that during this period the total capital investment observed was \$23.148. Moreover, the foreign capital inflow resulted in the rise of the job opportunities since 46.225 jobs were created.

Table 9: F.D.I. trends by year in Uzbekistan

Year	Number of projects	Jobs created (total)	Capital investment (total USD million)
2014	5	862	88,30
2013	7	1.127	265,70
2012	11	3.524	4.478,30
2011	15	9.950	7.388,00
2010	13	2.765	867,70
2009	21	5.750	1.342,40
2008	20	3.840	964,70
2007	12	2.026	936,50
2006	12	962	601,40
2005	13	2.616	1.548,70
2004	16	3.234	485,10
2003	31	9.569	4.181,50
Total	176	46.225	23.148,30

Source: fDi Markets (2014).

Uzbekistan has received foreign capital inflows mostly in developing the energy industry so far (Reynoldson, 2005). In particular, the former Soviet countries, among which Uzbekistan, have attracted F.D.I. so as to develop sustainable energy technologies, while they have been economically liberalized. Furthermore, the foreign capitals received have contributed in reducing the poverty rates and protecting the environment. In addition, the economy of Uzbekistan aims at achieving effective water management through attracting F.D.I. (Abdolvand et al, 2014). Similarly, it is argued that Uzbekistan paid significant attention on the use of the recent renewable energy applications. Thus, the government improved the relevant infrastructure so as to apply renewable energy technologies and promoted strategies and actions (Saidmamatov et al, 2014).

In addition, Uzbekistan is considered one of the most populated countries in the Post – Soviet central Asia, basing most of its activities on the agricultural sector. It managed to attract foreign capitals in the agricultural industry and thus to achieve economic development and to perform

financial reforms. Nevertheless, efforts were made so as to protect the amount of natural resources in the area, and mostly the water reserves. Thus, the quantity of the natural resources should be taken into consideration so as to qualify the increasing needs of the foreign investors in Uzbekistan (Yakubov & Manthrithilake, 2009).

Another characteristic of Uzbekistan which is expected to attract foreign capital is its cultural and archaeological characteristics. The economy of the country should attract F.D.I. inflow so as to become a top tourist destination. Taking into consideration the limited domestic resources, it is suggested that it is essential for the economy of Uzbekistan to receive foreign capitals in order to develop the tourist industry. Thus, it is argued that an investment strategy should be applied so as to attract F.D.I. inflow, providing incentives to the foreign investors, such as low taxation and interest rates and long term land leasing opportunities (Kantarci, 2007).

Similarly, Uzbekistan could take advantage of the tourist industry so as to come up with the globalization challenges and gain economic profits. Thus, it is argued that foreign capitals could be invested in the tourism industry of the country so as to increase its competitiveness, its attractiveness, the human capital accumulation and to improve the workforce skills (Baum & Thompson, 2007). Apart from the tourist industry, the service sector has also attracted a significant amount of F.D.I. in the country. Thus, according to Estrada et al (2013) over the past decade foreign capitals have been invested in the Uzbekistanian services so as to achieve greater labor productivity and development. Nevertheless, it is argued that more capitals should be invested in order to increase the human capital and to reduce the productivity costs.

In addition, it is observed that Uzbekistan offers significant motives so as to attract foreign capitals in the textile industry. These incentives were based on the denationalization and privatization strategies promoted by the government of Uzbekistan for the host companies. The companies of Uzbekistan have managed to reduce the production cost rendering the production procedure more profitable, compared to other F.D.I. recipients. Thus, the provided motivations have increased the country's attractiveness for F.D.I. (De Coster, 2005).

Moreover, the spatial characteristics of the economy of Uzbekistan have been investigated (Hanks, 2000). It is argued that Uzbekistan is expected to attract low level of capitals inflow in the future since the neighboring countries are expected to attract most of the F.D.I. inflow in the region. Thus, the unemployment rates will increase while the standard of living could not be improved. Therefore, a decentralized financial development is suggested. In addition, according to Spechler (2010) the limitations on the operation of the private firms and on the banking loans should be reviewed. In addition, it is observed that the remittances in the countries of the region, among which in Uzbekistan, have increased significantly over the past years. It is estimated that at present the

remittances correspond to 10% of the country's GDP and they are higher than the F.D.I. inflow and the foreign aid (Kakhkharov & Akimov, 2015).

#### **4. The comparative analysis methodology**

Comparison is a widely used method of research, which can be applied in almost every scientific field. The comparative analysis method chosen refers to variables which can easily be compared. Thus, these variables should have common characteristics in order to investigate the relation between them and the dependent variable (Lijphart, 1971). Hence, the comparative analysis method is chosen so as to achieve in depth knowledge of certain cases, to analyze the relation between a set of variables and to generalize, if possible, for further cases (Collier, 1995). According to Azarian (2011), the purpose of a comparative analysis refers to the identification of the similarities and the differences among social units. In addition, It is argued that comparisons are essentials in researches so as to control the studied variables and to investigate the circumstances under which an interaction occurs with a *ceteris paribus* clause (Sartori, 1991). From Mahoney point of view (2000) the specific method refers to the comparison between a limited number of cases in order to investigate historical data, behaviors or mechanisms compared to a set theory. Therefore, the comparative analysis refers to the research method applied so as to verify or falsify a case (Sartori, 1991). Furthermore, it is defined as one of the basic research methods applied that leads to general conclusions and suggestions. Thus, it is used to investigate the empirical relation among a set of variables and hence not to measure them (Lijphart, 1971).

So far, three types of comparative analysis method have been suggested based on the purpose of the research. The first type refers to comparative analysis that focuses on the particularity. This type mostly refers to a person's perspective and thus enables the ability to open its horizons. The second type refers to the differences observed in units that belong to a united and undifferentiated category so as to investigate possible convergences and divergences. Thus, it refers to a comparison among similar units which however differ from each other under a specific criterion. The last type of comparative analysis refers to comparisons performed so as to develop random theories which could be applied generally (Azarian, 2011). Therefore, the present study is based on the second type since it aims at the investigation of similarities and differences between two countries under certain political, social and financial criteria.

Another classification of the comparative analysis method is based on the object of the investigation. Thus, the comparative analysis could be variable – oriented or case – oriented. The first category refers to a comparison made so as to achieve generality, to investigate propositions deriving from specific theories and to test possible statements. On the other hand, the case – oriented comparative analysis is chosen so as to control the complexity, to investigate the historical

conditions and to relation between stable and unstable variables (Lijphart. 1971; Kohn, 1987). Hence, it is observed that the study is based on the case – oriented comparative analysis based on two case studies, that is to say Peru and Uzbekistan.

**4.1. Advantages and limitations of the comparative analysis method**

The comparative analysis method is associated with several advantages. It is argued that the main advantage of this method refers to the fact that the complexity of the research is reduced because of the limited number of variables and observations compared to a specific theory. Thus, the researcher achieves in depth understanding of the relation between the chosen variables (Mahoney, 2000). Moreover, it is a qualitative research based on a limited number of case studies, compared to other research methods. Finally, it includes a logical combination of a set of variables that influence the dependent variable based on actual data (Dixon – Woods et. al., 2005).

As for the limitations of the comparative analysis, it has been suggested that the main disadvantages of the specific method refers to the fact that there are too many variables compared the limited cases. Therefore, there should be set a limit to the variables chosen so as to analyze their impact on the dependent variable (Lijphart, 1971). In the present study, in order to overcome this problem, a variables’ subsystem has been chosen including the political regimes of the two countries, their financial policies and reforms, as well as the cultural characteristics.

Moreover, when choosing the comparative analysis method it is difficult to generalize the findings of the research and it is possible that these findings are only limited to the cases studied (Mahoney, 2000). In order to overcome this problem, efforts have been made so as to investigate in depth the cases of Peru and Uzbekistan so as to balance the difficulty of generalizing the findings.

**5. Overall Assessment**

In the present section the results of the comparative analysis are presented. Thus, Table 9 presents the similarities and the differences between the studied countries regarding the factors that mostly affected the amount of F.D.I. inflow.

Table 10: Comparative analysis of the factors influencing F.D.I. inflows between Peru and Uzbekistan

	Peru	Uzbekistan
<b>Government</b>	<b>Neoliberal regime</b>	<b>Authoritarian regime</b>
Political and financial conditions	Stable political and economic environment	Unstable political and economic environment
Ownership	Increased privatizations	Denationalizations and privatizations mostly in the textile industry
Economic development	Achieved great economic growth	Achieved moderate economic growth through limiting the revolutionary actions
Socioeconomic indicators	Reduced the poverty rates, increased the G.D.P.	Reduced the poverty rates, increased the productivity rates, achieved environment protection, increased exports, created job opportunities, moderate increase of G.D.P.

Finally, Table 10 presents the sectors that received most of the foreign capital inflows in the studied countries. It is observed that in both cases the minerals sector attracted F.D.I. inflow, as well as the energy sectors. Nevertheless, the infrastructure sector in Uzbekistan mostly absorbed foreign capitals in the renewable energy industry, while Uzbekistan managed to attract F.D.I. inflows in more sectors compared to Peru.

Table 11: The sectors absorbed F.D.I. inflows in Peru and Uzbekistan

Peru	Uzbekistan
Mining industry	Mining industry
Food industry	Agricultural sector
Petroleum, oil and gas industry	Energy technologies industry, renewable energy industries
Hydroelectric industry	Water management technologies
Infrastructure industry	Infrastructure on renewable energy sector, not enough infrastructures in other sectors
	Service sector
	Textile industry
	Tourist, cultural and archaeological industry

**6. Conclusions and Recommendations**

An increasing amount of foreign capitals is absorbed at present by the Latin American and the Asian economies. In particular, in the studied areas 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.

The F.D.I. inflows enabled the host economies to improve their infrastructure, to offer tax motives to the investors and to achieve macroeconomic stability. In addition, the host countries can improve their governmental policy via receiving F.D.I. 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. From the studied regions, the cases of Peru and Uzbekistan have been chosen. It has been observed that in both cases the political and the financial stability of Peru and Uzbekistan respectively are taken into consideration by the foreign investors. Moreover, the market size increases the attractiveness of both countries.

Nevertheless, it is important to highlight that both countries managed to attract foreign capitals despite the different regime. Thus, Peru was characterized by a neoliberal regime, contrary to Uzbekistan which was characterized autocratic. Peru improved even further its attractiveness to the foreign investors through proceeding to political and economic transformations, the host companies became more innovative and the Peruvian economy increased its openness to foreign markets and

international trade. Therefore, it is observed that Peru managed to reduce the poverty rates and to improve its investment climate.

Similarly, Uzbekistan proceeded to transformations to its foreign policy so as to improve its attractiveness and to increase its independency. However, these transformations were not sufficient so as to render the economy more attractive to foreign investors since little improvement has been presented in the legal and taxation system, as well as in infrastructure. In addition, the autocratic governmental policy held back the country's financial, political and religious growth. Moreover, Uzbekistan, contrary to Peru, did not manage to achieve sufficient political and economic stability. Thus, this reduced even further its attractiveness to foreign investors.

However, both countries attracted foreign capitals because of their rich natural resources reserves. Thus, Peru attracted foreign inflows in the petroleum, the oil and the gas industry, while it also improved the hydroelectric sector. Likewise, Uzbekistan attracted foreign capitals because of its reserves in natural gas and minerals. Therefore, it should be noted that Uzbekistan managed to attract foreign capitals in these sectors despite the underdeveloped business circumstances in the country. Furthermore, the Peruvian government used the foreign inflows so as to improve the infrastructures and the energy systems. Similarly, Uzbekistan developed the sustainable energy systems. In addition, in both cases the foreign capitals received have contributed in reducing the poverty rates and in protecting the environment.

Nevertheless, the present study is subjected to certain limitations. The first limitation refers to the number of the case studied chosen. Thus, there has been performed a comparative analysis between two countries, while future researches could include more countries of different regions. The second limitation refers to the future of the comparative analysis and thus to the number of the variables chosen. In addition, given the nature of the comparative analysis method, it is difficult to generalize the findings in other developing countries.

In conclusion it is proposed that both countries should offer more generous financial, social and governmental incentives to the foreign investors. The further improvement of the political and macroeconomic conditions would improve both countries attractiveness. However, since it is observed that both countries are rich in natural resources, it is proposed that 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, as well as price deregulation. In other words, despite the inability of Uzbekistan to improve its attractiveness, it has been observed that the F.D.I. inflows enabled the economic development. Hence, more financial and political measures so as to improve its rank among the region's top F.D.I. destinations.

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