9. TRADE AND INVESTMENT BETWEEN PERU AND THE UNITED STATES

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The relationship between Peru and the United States has undergone a wide range of political and economic circumstances in the last twenty-five years, some of them rather difficult. In the first half of the 1970s, under the socialist military regime of General Velasco (1969-1975), the bilateral relationship reached one of its lowest points of this century. This period was marked by bilateral tension, especially after the nationalization of the International Petroleum Company that took place shortly after the military coup that brought Velasco to power. Entrepreneurial confidence was so low that even when effective protection was raised to promote selected economic sectors, U.S. corporations such as Ford and General Motors left the country. While the Morales Bermúdez (1975-1980) and Belaúnde (1980-1985) administrations were friendlier to the United States, this was not enough to attract U.S. direct investment, not only because macroeconomic policy was not adequate, but because the whole Latin American region was still under turmoil. The worst came with García (1985-1990), whose populist policies and administrative mismanagement brought about hyperinflation, international financial isolation, widespread corruption and the escalation of terrorism. García's anti-American rhetoric further deteriorated the political and economic relationship with the United States. It was only under the Fujimori administration, which started in 1990 and introduced market-oriented policies and economic discipline, that a softening of political and economic tensions took place. Thus, 1990 marked the beginning of a stable and growing United States-Peru relationship.

As we will review in the next section, although the United States has remained Peru's main trading partner during the whole period, its relative significance has diminished. Although diversification has taken place to a certain degree, raw materials still represent most of Peruvian exports to the United States. Short and long term capital flows have rebounded in the 1990s, in the new form of direct and portfolio investment rather than the old form of finance to the public budget.

With this basic picture in mind, it is relevant to explore the main forces governing the bilateral economic relationship. From the American point of view, Wiarda (1992, p. 291) has pointed out that among the main U.S. economic interests in the South American region, "maintaining access to the markets, raw materials, and labor supplies of the area; being able to invest and remit profits" should be stressed. The openness of Peruvian economic policy in the 1990s has contributed to those goals.

However, the primary interest of the United States, whose objectives extend further than economics, has been the fight against drug trafficking. The main economic aspects involved have been the channeling of financial aid for this purpose, and the implementation of the Andean Trade Preference Act (ATPA). The ATPA, which was passed in 1991 during the Bush administration, was intended to help crop substitution in Andean countries where coca is grown by granting preferential access to the U. S. market. Currently Peru is one of the beneficiary countries.

On the Peruvian side, now that Peru's economic isolation has come to an end, it is difficult to identify a specific economic interest other than exports and attracting foreign investment. These notions have become so deeply embedded in the mind of policy makers that, until recently, Peru's membership in the Andean Community was in question due to its preference of multilateral over regional liberalization.

Before examining the composition and patterns of bilateral trade between the United States and Peru, it is appropriate to first review what has happened with respect to U.S. export and import shares over time. In the 1970s Peruvian exports to the United States exceeded 30 percent of total exports. As shown in Figure 9.1, this proportion declined throughout the late 1980s and in the1990s. During this period the European Union (EU) and, by a lesser measure, Asian countries such as China and South Korea, have increased their shares. In 1980 exports to the United States were 31.3 percent, while in 1996 they were around 20 percent. Meanwhile, the EU's share was 22 percent in 1980, but in 1996 commanded 26 percent. Asian countries (Japan, People's Republic of China and South Korea) accounted for ten percent of total exports in 1980, but the current figure has grown to 6

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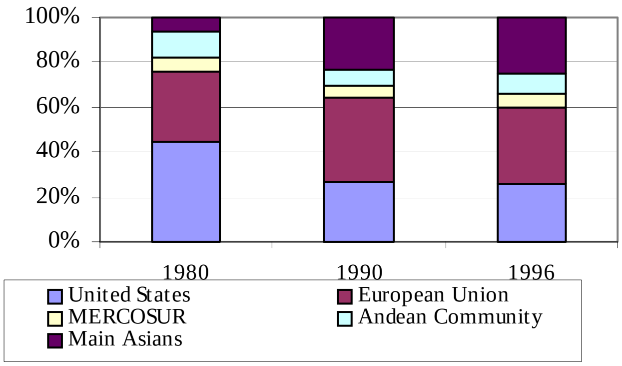
percent. Note that from the 1980s to the 1990s neither MERCOSUR nor the Andean Community as blocs has experienced an increase in their shares as destination markets.

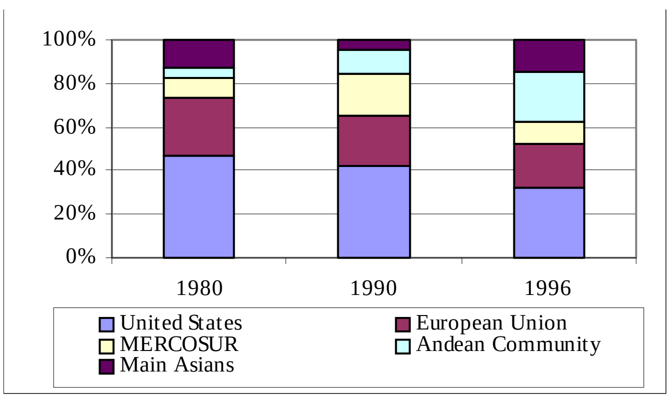
FIGURE 9.1. EXPORT SHARES



Sources: ADUANAS and Central Bank of Peru.

Regarding Peruvian imports from the United States, the picture is quite similar (see Figure 9.2). The U.S. share has declined from 34 percent in 1980, to 26 percent in 1996. Unlike exports, countries that have increased their relative share of Peru's importance have been the members of the Andean Community and, more recently, Asian countries like the People's Republic of China and South Korea. The EU's participation has tended to decline, falling from 19 percent in 1980 to 16 percent in 1996.

FIGURE 9.2. IMPORT SHARES



Sources: ADUANAS and Central Bank of Peru.

Table 9.1 shows the ratios for the most important Peruvian partners, divided into individual countries, groups of countries or trade blocs (the annual data is available in annexes 1 and 2). The conclusion is that the United States still hold by far its position as the main supplier of imports to and recipient of exports from Peru.

Table 9.1 Evolution of Trade Sectors by Periods (AVERAGE ANNUAL GROWTH, IN PERCENTAGE)

	Exports			Imports		
	1980-1984	1985-1989	1990-1996	1980-1984	1985-1989	1990-1996
United States	32.1	27.4	19.7	32.1	26.4	25.3
European Union	18.4	26.2	28.2	18.6	17.6	14.3
MERCOSUR	2.8	4.5	4.6	8.4	11.2	10.6
Canada	6.5	6.7	7.5	2.8	5.9	14.5
Main Asian	13.6	15.2	17.0	9.1	6.5	10.4
Residual	22.0	16.1	13.1	28.9	32.4	24.8

Source: National Customs Superintendency of Peru. Calculations done by the authors.

The main reason for this behavior can be found in the trend of global diversification, despite the trade stagnation of the 1970s and 1980s due to the high levels of protection not only in Peru but in the whole world. In the case of exports, mostly concentrated in raw materials (basically copper, iron, fishmeal and iron), market diversification has been easier because they are commodities. In particular, as we saw in Figure 9.1, EU countries have captured a greater share of Peruvian exports, a fact associated with their being industrialized economies.

Meanwhile, imports consist mostly of manufactured goods. The declining U.S. share can also be associated with the increasing importance of two groups of countries: the Andean Community and the Asian countries. The rising share of the Andean Community can be linked to the deepening of the liberalization programs launched in these countries, aimed at forming a free trade area as a first stage towards economic integration, in which Peru is involved. Through trade creation or trade diversion, imports from the Andean Countries have grown steadily in the last years, and to a certain degree have taken the place of imports coming from third parties, among them the United States. On the other hand, in the 1990s the growth of trade with countries such as the People's Republic of China and South Korea has had to do more with the recent openness of the former and the global expansion of the latter.

Having described in general terms the behavior of Peruvian relative exports to and imports from the United States, we now turn to certain aspects of the composition and patterns of trade between these two countries. Peru's long history as an exporter of raw materials goes back to the arrival of the Spanish conquerors in the 16th century. In colonial times the main export items were gold and silver, and after independence there was a succession of different goods: saltpetre, rubber, oil and, in more recent times, minerals and fishmeal (see, for example, Thorp [1980]). That does not mean that Peru did not export other kinds of products, but the so-called traditional exports have dominated.

TABLE 9.2. MAIN PERUVIAN EXPORTS TO THE UNITED STATES (percent)

Group of goods	1983	1996
Crude oil from petroleum and bitumenous minerals	15.0	16.4
Refined copper & alloys	3.4	10.8
Articles of jewelry	2.1	8.0
Silver in different forms	15.2	6.9
Oil from petroleum and bituminous minerals	21.1	6.5
Lead ores and concentrates	9.3	5.9
Coffee	5.8	4.3
Sweaters, pullovers., vests	0.1	3.6
Men's or boys' shirts, knitted or crocheted	0.2	3.2
Zinc	3.0	2.6
Gold	3.4	2.2
Cane or beet sugar	3.5	1.9
T-shirts, singlets, tank tops etc.	0.1	1.8
Crustaceans	3.1	1.6
Exports of repaired imports	1.4	1.6
Waste & scrap of precious metals	0.6	1.4
Lead	0.3	1.4
Women's or girls' blouses & shirts, knit	0.0	1.4
Zinc plates, sheet, strip and foil	0.0	1.2
Wood sawn or chipped length, sliced etc.	0.1	0.9
Copper ores and concentrates	1.1	0.7
Cotton yarn (not sewing thread)	0.5	0.7
Coloring matter of vegetables or animal origin	0.0	0.6
Vegetables, fresh or chilled	0.0	0.6
Mollusks & aqua invertebrates	0.6	0.6
Woven cotton fabrics	1.0	0.5
Unrefined copper	0.5	0.5
Total	91.5	82.9

Source: U.S. Department of Commerce

Common destinations were the advanced industrialized countries, where these raw materials could be processed. The United States was, at least in this century, the main market for those goods. However, although around 75 percent of Peruvian exports are still raw materials or traditional goods, the export supply has been diversified to a certain degree, and so have U.S. imports from Peru. In Table 9.2 we can see the main Peruvian exports to the United States for 1996, covering 83 percent of the total. When we compare what has happened with the composition of Peruvian exports to the United States between 1983 and 1996[1], the structure does not seem to have changed much. With certain shifts in order, crude and refined oil, refined copper, silver, coffee, lead, gold, zinc, textiles and jewelry remain at the top of the list. There has also been a growing diversification, which can be seen in the fact that the twenty-seven groups listed in the table represented 92 percent of total exports in 1983 versus 83 percent in 1996, which is attributable to the introduction of new products and access to new markets.

This slow diversification reflects the poor performance of the productive structure, which was highly protected by high tariffs and wide non-tariff barriers in the 1970s and 1980s, and intended to supply mainly the domestic market.

TABLE 9.3 MAIN PERUVIAN IMPORTS FROM THE UNITED STATES (percent)

Group of goods	1983	1996
Wheat and meslim	14.0	7.5
Parts for machinery	10.3	5.6
Automatic data process machines	1.0	4.5
Parts for typewriters and others office machines	0.6	3.2
Corn	6.4	3.1
Polymers of ethylene in primary forms	1.0	2.2
Rice	4.9	2.0
Machinery for sorting screening	0.5	1.9
Oil from petroleum and bituminous minerals	4.4	1.8
Motor vehicles for transport of goods	0.4	1.8
Motor cars & vehicles for transporting persons	0.7	1.6
Parts for television, radio and radar apparatus	0.2	1.5
Articles for arcade, table or parlor games	0.0	1.3
Apparatus for radiotelephony	0.5	1.3
Self propelled bulldozers, graders, scrapers	0.5	1.1
Nitride function compounds	1.0	1.1
Parts for engines	1.5	1.1
Fertilizers	0.0	1.0
Pumps for liquids	0.6	1.0
Medical, surgical, dental equipment	0.3	0.9
Parts & access for motor vehicles	1.3	0.9
Leguminous vegetables, dried shelled	0.5	0.8
Soybean oil & its fractions	4.4	0.8
Aircraft, powered, spacecraft & launch vehicles	3.9	0.7
Tubes, pipes & hoses	0.0	0.7
Antiknock preparations & other additives	0.8	0.7
Total	60.4	52.7

Source: U.S. Department of Commerce

The case of imports is similar in the sense that the main imports are almost the same in 1996 as they were in 1983: wheat, parts of machinery, corn, rice and oil, among others. However, a greater diversification is noticeable than in the case of exports. From Table 9.3 it can be seen that the change in the composition of imports is more dramatic for exports. For example, shares of wheat and soybean oil have been reduced by half, due to the fact that Peru now purchases these goods from alternative suppliers such as Argentina and Bolivia. The same has happened with rice, which is now imported mainly from Asian suppliers.

In conclusion, in terms of both exports and in imports, trade with the United States has experienced some changes in rank order and relative shares over time, but basically the same items have retained their importance, especially in the case of exports. In the case of imports the relatively recent openness of the economy and the significant technological gap between the two countries have contributed to diversify this kind of trade. On the other hand, the bilateral trade structure has been diversified, witnesses by the fact that the commodities that in 1983 represented 92 percent of Peruvian imports now represent just 60 percent, while the main export items, which formerly represented 60 percent, now make up 52 percent.

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[1] It was very difficult to rebuild bilateral trade information prior to 1980 on both exports and imports.

Finally, from Tables 9.2 and 9.3 it is easy to discern the pattern of trade between Peru and the United States, despite the observed changes in composition and the declining relevance of the bilateral trade in Peru's total trade. Peru exports raw materials (minerals, fisheries and certain crops), which reveals its comparative advantage. Peru also exports labor-intensive items in which it has developed a certain competitive advantage, as in the case of textiles (fibers and threads) and clothing, helped by the good quality of cotton and wool. In this case there is some intraindustry trade, maybe based on differentiation and economies of scale. The United States exports a great variety of manufactured goods (consumption, intermediate and capital goods) to Peru, either more capital-intensive, more human-capital-intensive or based on economies of scale.

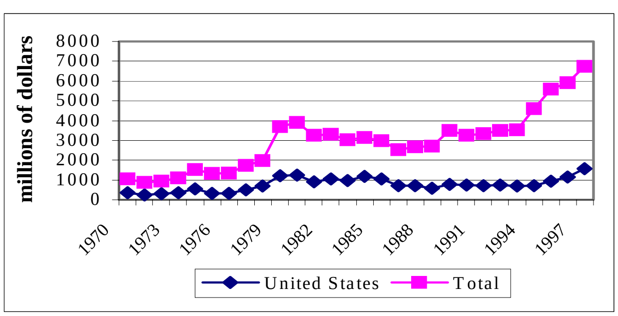
Thus, in spite of the great influence of the protective structure that prevailed before the 1990s, bilateral trade continues to reflect the typical trade pattern between a developed and a developing country, based primarily on comparative advantages.

ANALYSIS OF THE ECONOMIC DETERMINANTS OF BILATERAL TRADE

The main problem in econometrically estimating a particular model of any kind for a developing country like Peru is the lack of quality data. This is magnified by the hyperinflation of the late 1980s, which distorted the significance of macroeconomic variables such as the consumer price index, and by the significant structural changes undertaken in the last seven years. For that reason, our endeavor will be to focus more on general associations among basic variables with the help of figures, in order to achieve a better understanding of the general trends of bilateral trade.

In the previous section we discussed the participation of exports and imports in the Peru-United States commercial relationship. Now we turn to the evolution of the levels of this trade. For this purpose, Figures 9.3 and 9.4 present nominal annual data on bilateral and total exports and imports since 1980. From the two figures we can gather that bilateral and total trade follow basically the same pattern, with the exception of Peruvian exports to the United States in 1984, a year in which the U.S. economy grew at a rate above 11 percent in real terms[2]. In particular, total exports fell continuously in the period 1980 to 1988, coincidentally with the Belaúnde (1980-1985) and García (1985-1990) administrations, which were plagued by expansive monetary and fiscal policies, misguided exchange rate policies and highly unstable commercial policies. These are described in Dornbusch and Edwards (1989) and Boloña and Illescas (1997). Under the Belaunde government there was first initially a period of commercial liberalization involving a dramatic reduction in tariffs and elimination of non-tariff barriers (1980-1981), only to be reinstated in following years as a response to the critical external situation (see Boloña and Illescas, 1997). The country was driven to unequaled economic disarray under the administration of President García. At the end of his term hyperinflation reached 2,775 percent, with a high volatility in the bilateral and multilateral real exchange rates.

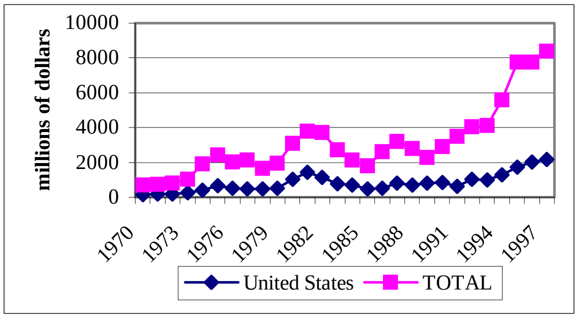
FIGURE 9.3. PERU'S EXPORTS (millions of dollars)



Sources: National Customs Superintendency and Central Bank of PERU.

[2] Of course, this stimulated a high demand for raw materials from developing countries like Peru.

FIGURE 9.4. PERU'S IMPORTS



SOURCES: NATIONAL CUSTOMS SUPERINTENDENCY AND CENTRAL BANK OF PERU.

Exports and imports, along with national output, recovered in the 1990s. During this period, a healthier environment resulted, due to the implementation of highly disciplined macroeconomic policies. These included the deregulation of the key markets such as foreign exchange, financial and labor, etc. In the area of trade, more than 50 existing tariff levels were reduced to three (50 percent, 25 percent and 15 percent) in 1990, and to just two (25 percent and 15 percent) in 1991.[3] Peru's reinsertion into the international financial community came about during this period through the regularization of arrears with international organizations (IMF, IBRD, IDB), with the government of the Paris Club, and most recently with the international commercial banks through a Brady Plan arrangement. Also significant was the pacification of the country. In this framework, the threat of hyperinflation was eliminated and Peru's trade with the world improved significantly. Exports to the United States have picked up since 1993, helped by the fact that since this point Peru has been able to apply for the preferences offered by the ATPA.

This U.S. law, passed in 1991, allows Andean countries to exports goods to the United States tariff-free, to help them in the fight against drug trafficking through the promotion of alternative crops and the development of export-oriented investment. Around 6,300 items are currently exported to the United States under this scheme, but because of a lack of productive potential, Peru has only "the capacity to profit effectively in the short run from it in approximately 670 items"[4]. Despite this low coverage, 63 percent of Peruvian exports were sold in to the U.S. market in 1995.

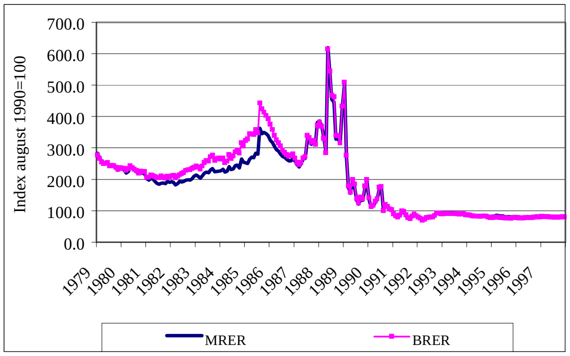
The previous analysis allows us to infer that there are some general fundamentals that drive both Peru's bilateral and total trade. However, as was noted, particular qualitative and quantitative aspects, related to U.S. economic growth, access to the Andean Trade Preference Act, and the level of U.S. protection (which goes beyond the tariff structure), explain the distinctive behavior seen in the bilateral trade relationship. There is little direct evidence of a clear influence of variables such as the bilateral real exchange rate (BRER) between the Peruvian currency and the dollar[5]. Figure 9.5 shows the annual average for this variable and for the multilateral real exchange rate (MRER). In neither case is the path consistent with the evolution of trade.

[3] Since April 1997 the rates are twenty-five percent and twelve percent, with an additional five percent for some agricultural items.

[4] See Preferencias Comerciales (p. 7).

[5] Average annual data for U.S. tariff levels were not available, and in the case of Peru, only annual end of period levels were available.

FIGURE 9.5 REAL EXCHANGE RATE FLUCTUATIONS

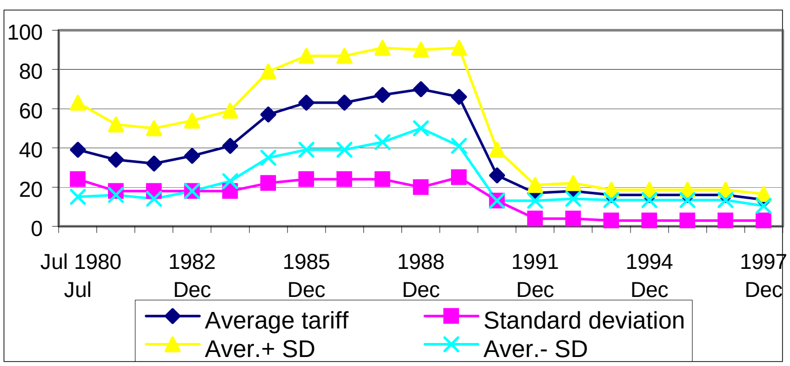


Source: Central Bank of Peru

For example, even when the BRER increased from 1978 to 1988, this real depreciation was not associated with an increase in Peruvian exports to the United States. The evidence is similar for imports. The declining trend of imports in the 1980's is largely explained by the low economic activity and the heavy protection that existed through high tariffs, extensive non-tariff barriers and the foreign exchange budget of the García administration between 1987 and 1990.By contrast, the surge of imports in the 1990s coincides with the opening of the economy (see Figure 9.6 and Table 9.4) and the fact that Peru is highly dependent on intermediate and capital goods.

When the economy grows a trade deficit develops, either because the private sector purchases items from abroad to keep up with the business cycle or the public demands more consumption goods. The facts jointly contribute to an external imbalance, with a significant portion of this deficit corresponding to bilateral trade with the United States.[6]

FIGURE 9.6. THE EVOLUTION OF PERU'S TARIFFS



Source: Central Bank of Peru

In conclusion, total and bilateral imports are mostly governed by the determinants of the domestic business cycle. Noting also that it seems that Peru is not yet going through the kind of trade deviations other Latin American countries are experiencing as a result of the proliferation of Preferential Trade Arrangements. In the case of exports, other factors such as the implementation of the Andean Trade Preference Act by the United States play a relevant role.

[6] In 1996 the bilateral commercial deficit with the United States was forty-five percent of the total deficit.

TABLE 9.4 IMPORTS FACING NON-TARIFF BARRIERS (item shares, in percentages)

		Free	Restricted	Prohibited	Temporarily Prohibited	Universe
1978	Dec	38	22	40	0	100
1979	Mar	38	22	28	12	100
1979	Dec	75	25	0	0	100
1980	Jul	93	7	0	0	100
1980	Dec	98	2	0	0	100
1981	Dec	98	2	0	0	100
1982	Dec	97	3	0	0	100
1983	Dec	98	2	0	0	100
1984	Dec	94	2	0	3	100
1985	Jul	90	7	0	4	100
1985	Dec	61	29	10	0	100
1986	Dec	60	29	10	0	100
1987	Dec	0	90	10	0	100
1988	Dec	0	90	10	0	100
1989	Dec	80	10	10	0	100
1990	Jul	90	0	10	0	100
1990	Dec	100	0	0	0	100
1991	Dec	100	0	0	0	100
1992	Dec	100	0	0	0	100
1993	Dec	100	0	0	0	100
1994	Dec	100	0	0	0	100
1995	Dec	100	0	0	0	100
1996	Dec	100	0	0	0	100
1997	May	100	0	0	0	100

Source: Boloña and Illescas (1997)

ANALYSIS OF INVESTMENT AND FINANCIAL FLOWS

It is somewhat difficult to speak definitively about the determinants of bilateral investment and financial flows with the United States, as insufficient reliable data is available. However, some insights can be extracted from the available aggregate data, as well as from general information about the United States on financial and investment flows to Peru.

The last twenty-seven years can be broken up into three periods. The first one, from 1970 to 1978, was characterized by massive government indebtedness. The years under the military regimes of generals Velasco (1968-1975) and Morales Bermúdez (1975-1980) saw “good” levels of economic growth (an annual average of six percent). Between 1970 and 1973, external funds were plentiful, coming mainly from official agencies and governments, among them the United States. During this period, the socialist bias of the Velasco government caused many foreign corporations, most of them U.S. companies, such as International Petroleum Company, Ford and General Motors- to leave the country. Later on, from 1974 until 1978, as Culpeper (1995,) points out, “...when the first oil crisis took place (1973-1974), the banks found themselves in a good situation resulting from the absorption of the excess of international liquidity as petrodollars flowed from the oil-exporting countries in huge quantities towards the euromarkets. The banks used that money to extend loans developing countries”.

These banks were mostly American, like the Bank of America, Citibank, Wells Fargo, American Express and Morgan Guaranty Trust. In fact, while between 1973 and 1975, Peruvian indebtedness to agencies and governments was around 26 percent, indebtedness to international commercial banks rose to 43 percent in 1975. Several authors have discussed the macroeconomic consequences of this unsustainable situation. During this period, the pattern of Peruvian debt was heavily sustained by the public sector (mostly medium and long term). The amount of foreign direct investment was negligible.

The second period runs from 1978 to 1982, as identified by the Mexican unilateral debt default of 1982, which contributed to drying up sources of capital for the developing countries until the 1990s. Calvo, Leiderman and Reinhart (1992) also point out that “[d]uring the debt crisis of the mid 1980s, capital inflows to Latin America were reduced to about twenty percent of their earlier values” (Calvo, Leiderman and Reinhart, 1992). The worsening macroeconomic situation caused by the growing indebtedness of the government between 1980 and 1985, lead to debt renegotiations with foreign governments at the Paris Club in 1971, 1978, 1983 and 1984 (Central Reserve Bank of Peru, 1994). It is important to note that since this last year, debt with the international commercial banks was not paid. Meanwhile, with the advent of the democratic Belaúnde administration, FDI began to flow in. The following table compares the net flows of FDI by country from 1980 to 1994.

TABLE 9.5. FOREIGN DIRECT INVESTMENT FLOWS: 1980-1994 (millions of $)

	1980-1984			1985-1989			1990-1994		
	EU	**USA**	**Japan**	**EU**	**USA**	**Japan**	**EU**	**USA**	**Japan**
MERCOSUR	4060	3395	1165	4230	4465	970	5074	14589	772
CAN	420	1605	65	705	-2550	-190	2165	3857	230
Chile	340	340	15	585	720	60	987	2175	33
Mexico	710	990	935	565	2580	-100	1597	11158	882
Peru	40	650	30	80	-390	-240	1551	-206	-24
CACM	292	-----	-15	150	---	5	79	437	8
Latin America	5880	6315	2175	6325	4705	745	10410	33662	1930

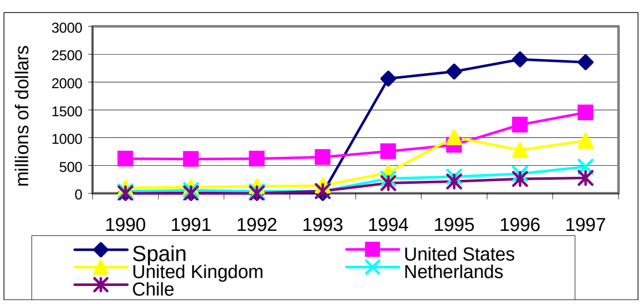
Source: IDB (1996).

The flow of FDI from the United States in the first part of the 1980s was $650 million, eleven times the amount received by Peru from Europe and fifteen times that from Japan. It comprised 40 percent of the total FDI received by the now Andean Community Countries. However, this picture changes dramatically for the following period, which coincides with the populist García administration. Due to García's reluctance to service the national debt, and due to restrictions on royalties and profit remittances. Peru was declared *deteriorated value* and *non-eligible* for debt.

As a consequence, U.S. FDI fell $390 million between 1985 and 1989. While in 1991 there were many factors to attract capital inflows into a large number of emerging economies (such as a sharp drop of U.S. short-term interest rates, recession in the industrialized world, high capital demand from developing countries of trade, reduction of transaction costs for globalizing firms and the greater openness of the developing economies [Calvo, Leiderman and Reinhart, 1992] -including Peru), net United States and Japan FDI flows to Peru were negative. This may have been influenced by the fear that Peru was still risky, despite the advances in abating inflation but as well as in the fight against terrorism. On the other hand, FDI from Europe was $1,551 million in those years, basically due to the sale of the state-owned telephone company to Telefónica de España in 1994.

The main U.S. corporation subsidiaries in Peru are IBM, GoodYear, Occidental Petroleum Company and Mobil Oil. In the 1990s, the United States also started to participate in Peruvian privatizations. In total, since 1991, 130 entities have been privatized with a resulting revenue of $5 billion in cash and $343 million in Peruvian paper debt.[7] Of this, the total value, 32 percent, has come from U.S. investors, followed by 23 percent from Spain, six percent from Chile and five percent from Canada. However, in terms of the stock of FDI, Spain leads with thirty-three percent, followed by the United States with twenty percent (a stock of about $1.4 billion) and the United Kingdom with seventeen percent. These investments are concentrated in mining (53 percent), industry (20 percent) and oil (seven percent). The distribution of FDI sources is shown in Figure 9.7.

FIGURE 9.7. SOURCES OF FDI IN PERU



Source: National Commission of Investment and Technology

[7] Central Reserve Bank of Peru, Annual Report (1996).

Standing out as the most profitable among emerging economies in 1994, Peru has been deepening capital market reform, promoting investment in bonds, mutual funds, pension funds, etc. Foreign participation in portfolio investment, has grown steadily since 1993, reaching $3.1 billion in 1996, while investment in bonds has amounted to $112 million. As a result, the Lima Stock Exchange became attractive to equity investors. Peru has issued equities and bonds internationally since 1993.

Table 9.6 shows the 1996 foreign portfolio composition in the Lima Stock Exchange. The outstanding feature is that in overall equities, U.S. portfolio investors held 74 percent of all foreign tenures as of December 1996, with their portion concentrated in telecommunications.

TABLE 9.6. VALUE OF U.S. INVESTMENT IN THE LIMA STOCK EXCHANGE (DECEMBER 1996)

EQUITIES	(millions of dollars)	share of total (percent)
Telefónica del Perú	1,404.2	87.6
Buenaventura, cap A serie	74.1	36.5
MINSUR , labour	49.5	40.9
Backus, labor	33.6	65.1
Buenaventura, labor	33.6	66.3
Cementos Lima , cap	50.3	53.8
TELE 2000	101.1	90.5
Banco Wiese	69.7	96.9
C.F.P., labor	23.3	64.7
C.N.C., cap.	2.7	10.1
Other equities	355.6	58.9
Total value	2,197.6	73.9

Source: CONASEV, Stock Exchange Yearbook. (1996).

In conclusion, it can be said that the behavior of U.S. investment in Peru responded to economic, political and social factors.

CONCLUSIONS

Over the last twenty-five years, the Peru-United States bilateral economic relationship has been influenced by similar significant political factors that affected U.S. relations with all of Latin America. The wave of military and socialist dictatorships in the 1970s was followed by the advent of democracy with a populist-heterodox economic bias in the late 1980s (the Cruzado plan in Brazil, the Austral plan in Argentina and the García economic plan in Peru). Only Chile, still under a dictatorship, launched a market-oriented economic plan. The high country risk associated both with political problems and default debt on diverted capital flows not only from the United States but also from the rest of the world.

The 1990s have brought about some new and interesting features: the introduction of free-market policies, the end of the Uruguay Round leading to the establishment of the WTO, growth in the U.S. economy, and the proliferation of preferential trade arrangements.

The first three factors are directly related to the revival of trade with the United States and the restoration of the United States as one of the most significant sources of capital. While Peru has a very open commercial policy, the rest of the countries in the Americas have been busy looking for a way to join some kind of preferential trade arrangement, for example the NAFTA, MERCOSUR, the Andean Community, the Central American Common Market, CARICOM and various bilateral arrangements. More recently, almost all the countries of the American continent, Peru among them, are preparing to negotiate the Free Trade Area for the Americas (FTAA). Peru's unilateral commercial policy has been guided by a strong belief in free trade. This may have inhibited its membership in some of these agreements. Peru should be expected to follow a kind of second best policy, joining some arrangements. In the long run, the initiative to implement FTAA in 2005 could be consistent with a greater liberalization after 2000 when WTO members define the future pattern of trade liberalization.

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