

Foreign Direct Investment (FDI) and Economic Development Impacted by Peru's Public Policies

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Abstract

The purpose of this research is to relate foreign direct investment (FDI) and economic development as impacted by public policies in Peru. The methodological design was non-experimental, cross-sectional, correlational, with a qualitative approach. The technique was the survey and its instrument was a questionnaire. The population grouped the 53 countries that invested in Peru into 815 companies and 5 public entities comprising 46 public officials. The results show a very strong, positive and favorable correlation between the variables analyzed of 0.936 and with a sig value of 0.001 the hypothesis of the study was proved. Likewise, in the SPSS results it was possible to correlate a binding connection between the latent variables FDI and economic development of (0.42 and 0.58) Economic development and public policies of (0.62 and 0.05) Public policies and FDI of (0.08 and 0.06). In conclusion, it is established that FDI is a significant determinant of economic growth, with public policies playing a central role in modulating this effect.

Keywords: *Foreign Direct Investment, Economic Development, Public Policies, Economic Flow, Structural Equations, SPSS Amos.*

Introduction

Globalisation has altered the world economic landscape, generating significant flows of foreign investment that have a direct impact on the economic development of host countries (Crescenzi et al., 2022).. Degu (2023) refers to foreign investment as a complex phenomenon that is intertwined with various aspects of the Peruvian economy, from job creation to knowledge and technology transfer. For Musa et al. (2023) in the last decade, its role in shaping economic development has gained importance, becoming an essential topic to understand the complexities of international economic relations and their impact on economic evolution (Yue and Zhao, 2022)..

The significance of looking closely at the influence of foreign investment on Peru's economic development lies in its ability to shape not only the present, but also the future of the country. Huseynli (2023) states that beyond being simply a flow of financial resources, foreign investment represents a dynamic channel through which know-how, innovative technologies and efficient management practices are introduced (Xiahou et al., 2022).. This flow of knowledge, often accompanied by investments in infrastructure and training, not only drives economic growth in the short term, but lays the foundation for sustainable development in the long term (Baetens, 2022). Understanding these mechanisms becomes imperative in designing effective strategies and policies. Benzaim et al. (2023) indicate that knowledge and technology from foreign investment not only raise the productivity and competitiveness of local firms, but also have the potential to catalyse the emergence of new sectors and economic diversification. However, this process is not without its challenges, and it is through a thorough understanding of these challenges that the risks associated with foreign investment can be mitigated and its benefits maximised. (Miranda et al., 2022).

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In addition, the notion of economic dependency is revealed as another critical facet (Barceló and Guerra, 2022).. Among the main challenges and violations that Peru faces in terms of carrying out foreign investment is that dependence on certain sources of investment or industries becomes excessive. Soegoto et al. (2022) this situation, characterised by overdependence, exposes the Peruvian economy to risks associated with fluctuations in external markets and changes in international policies. (Lander and Kuns, 2022)..

The magnitude of this dependence poses a substantial challenge to the country's economic autonomy, limiting its capacity to make strategic decisions aligned with national interests. Prieto and Cardona (2022) state that in this scenario, there is an urgent need to diversify sources of investment and strengthen economic resilience, thus ensuring a more solid position in the face of the complexities of the global economic environment. (Rathnasekara, 2022).. This challenge demands a proactive and strategic approach by the authorities, seeking to balance the attraction of foreign investment with the preservation of sovereign autonomy and decision-making capacity in key economic matters (Huseynli, 2022). (Huseynli, 2022). The evolution of FDI from 2014 to 2023 is presented below, showing its fluctuations year by year.

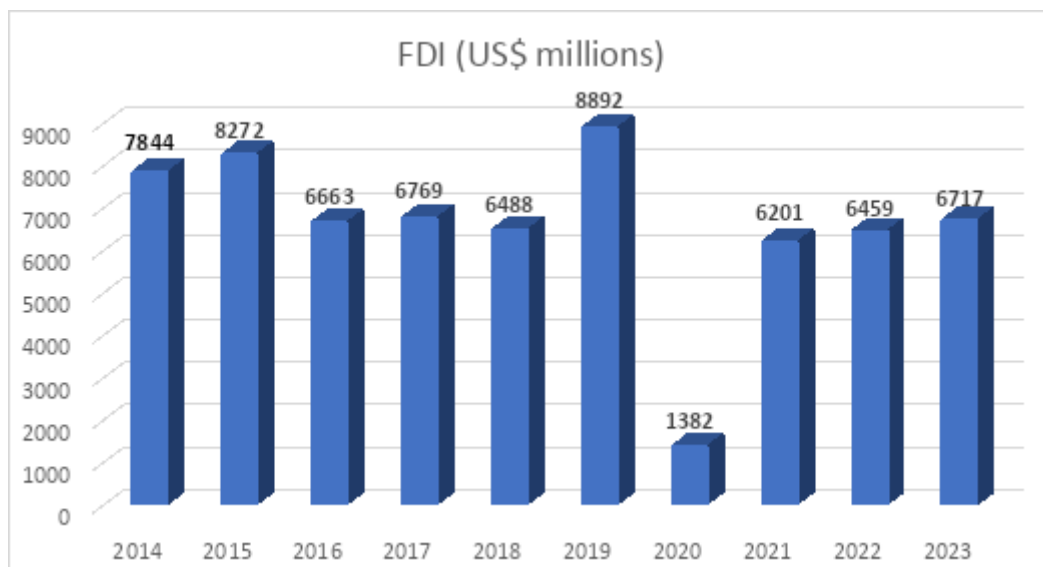


Figure 1 Foreign Direct Investment in Peru (2014-2023)

Note: The image shows a table of Foreign Direct Investment (FDI) for the Arequipa region between 2014 and 2023, showing year-on-year fluctuations and trends.

The evolution of Foreign Direct Investment (FDI) in Peru from 2014 to 2023 paints a narrative of resilience, recovery and a promising future. Throughout this period, the Peruvian economy has demonstrated its ability to attract foreign investment in a context of global fluctuations and domestic challenges. After a decade marked by remarkable growth, culminating in an impressive peak of almost US\$ 8,892 million in 2019, the COVID-19 pandemic dealt a severe blow, reducing FDI to a mere US\$ 1,382 million in 2020. This was a reflection not only of the situation in Peru but of a global trend of uncertainty and economic contraction. However, far from being a story of decline, what followed was a testament to the strength and attractiveness of Peru as an investment destination. Since 2021, a sustained recovery is on the horizon, a clear sign of the renewed confidence of foreign investors in Peru's potential.

In the context of this research, structural equations are employed as an advanced methodological tool to explore in depth the interaction between foreign investment and sustainable economic development in Peru over the period 2014-2023. This methodological approach not only uncovers the complexities of these relationships, but also offers the unique ability to accurately model and quantify the underlying causal connections. (B. Zhang and Shen, 2022).. By using structural equations, it seeks not only to identify but also to understand in depth the specific mechanisms through which foreign investment impacts on various

economic aspects, from employment generation to knowledge transfer (Dong et al., 2022). According to Heidari (2022) this methodology, by providing quantitative results, strengthens the validity and objectivity of the analysis, providing a solid basis for informed decision-making in the field of economic policy and sustainable development of the country.

In the context presented, the problem was: How are foreign direct investment (FDI) and economic development impacted by Peru's public policies? The main objective was: To relate foreign direct investment (FDI) and economic development as impacted by Peru's public policies. The objectives were: a) To determine FDI flows and economic development as impacted by Peru's public policies. b) To determine FDI tax revenues on economic development as impacted by Peru's public policies. c) To determine FDI public expenditure on economic development as impacted by Peru's public policies.

Theoretical framework and hypotheses

Foreign direct investment (FDI)

According to Badarinza et al. (2022) states that foreign Direct Investment (FDI) represents an essential component of the global economy, in which companies and financial institutions in one country make significant investments in companies and assets located in other countries. (Hajja et al., 2022).. This type of investment involves the transfer of capital, technology, knowledge and financial resources from one economy to another, with the aim of establishing a long-term presence and gaining economic and strategic benefits. For Al-Khafaji et al. (2022), FDI can take various forms, such as FDI can take various forms, such as setting up new subsidiaries, acquiring equity stakes in local companies, investing in infrastructure and natural resource projects, or forming strategic alliances with local partners. (Pinto and Zhu, 2022).

Theories of Foreign Direct Investment

They are a set of conceptual approaches and models that seek to explain the determinants and effects of investment by foreign firms in foreign economies. (S. Zhang, 2022). Opoku et al. (2022) argue that these theories offer diverse perspectives on why firms choose to invest abroad and how these investments can affect host countries and the global economy as a whole. Among the most prominent theories is the internalisation theory, which argues that firms invest abroad to internalise markets and activities that allow them to maintain more direct control over strategic resources and knowledge. (Al Mezel and Hasan Younis, 2023).. Likewise, for Babic (2023) localisation theory suggests that firms seek to locate in countries with specific comparative advantages, such as cheap labour, access to natural resources or larger markets, to maximise efficiency and competitiveness (Haini et al., 2023)..

Another relevant theory is the theory of eclecticism, which postulates that foreign investment decisions are the result of the interaction between several factors, including access to resources, market knowledge, competitive advantages and business environment conditions. (Al-Qahtani and Albakjaji, 2023).. In addition, FDI theories also address issues such as the impact of public policies, trade barriers and economic fluctuations on the flow and distribution of foreign investment. According to Jud and Reiter (2023) these theories provide a sound analytical framework for understanding the determinants and implications of foreign direct investment in the context of the global economy. (V. T. C. C. Ha et al., 2023).

Foreign direct investment accounts

These are accounting records that document financial transactions related to foreign direct investment (FDI) made by foreign entities in a given country. (Mohamed et al., 2023).. These accounts provide detailed information on the inflow and outflow of foreign capital, as well as on the ownership and control of firms and assets in the host country (Kentor et al., 2023).. FDI accounts typically include data on the creation of new subsidiaries, the acquisition of equity stakes in local firms, the reinvestment of profits generated by previous investments, and intercompany loans between foreign affiliates and parent companies.

According to Degu (2023) these accounts can break down foreign investment by economic sector, country of origin, geographical destination and other relevant criteria to facilitate the analysis and evaluation of its impact on the host economy (Musa et al., 2023).. FDI accounts are a fundamental tool for governments, businesses and researchers interested in understanding the nature and evolution of foreign investment in a country, as well as in formulating policies and strategies to attract and effectively manage this type of investment (Bonetti and Ormazabal, 2023). (Bonetti and Ormazabal, 2023).

Financial transactions

Based on Huseynli (2023) financial transactions are operations that involve the exchange of financial assets, such as money, securities, bonds, shares, derivatives or other financial instruments. (Benzaim et al., 2023).. These transactions are carried out between individuals, firms, financial institutions, governments or international entities, and are undertaken in order to obtain economic benefits, manage risks, finance projects or investments, or meet financial obligations (Simonelli and Osgood, 2023).. For Kanwar and Sperlich (2023) financial transactions can be classified into several categories according to their nature and purpose.

That is, they may include buying and selling of financial assets in secondary markets, such as stock exchanges or foreign exchange markets, as well as direct transactions between parties in primary markets, such as equity or bond issues. (Rahman et al., 2023).. In addition, financial transactions can cover a wide range of activities, such as lending, investing, leasing, mergers and acquisitions, project finance, risk hedging, and portfolio management (Mefano Fares, 2023). (Mefano Fares, 2023).. For McCalman et al. (2023) the analysis of financial transactions is fundamental for understanding and evaluating the functioning of financial markets, as well as for investment, financing and risk management decisions (Liu and Wang, 2023).

Underlying inflation

It is an economic measure that seeks to isolate the effects of temporary fluctuations in the prices of volatile and non-representative goods and services, such as food and energy, in order to identify the underlying trend of inflation. (Ben Amara et al., 2023).. To calculate core inflation, components that tend to experience transitory and unpredictable changes, such as fresh food, energy and other products subject to strong seasonal variations or external events, are excluded from the consumer price index (CPI) (Sijabat, 2023). (Sijabat, 2023). According to Florkowski (2023) core inflation provides a more stable and reliable measure of the long-term inflation trend, as it focuses on those components of the CPI that better reflect overall price developments in the economy. (Lim et al., 2023).

By removing the volatility caused by temporary and specific factors, such as changes in food and energy prices, core inflation allows policymakers and analysts to better identify fundamental inflationary pressures and assess the effectiveness of monetary policies in controlling inflation and maintaining economic stability (Pittz, 2023). (Pittz, 2023). In addition, core inflation is also useful for investors and consumers in making financial and spending decisions by providing a clearer perspective on the evolution of prices and the purchasing power of the currency over time (Huang et al., 2023). (Huang et al., 2023)..

Economic growth

Refers to the sustained increase in the production of goods and services in an economy over a given period of time. (Miranda et al., 2022). Rathnasekara (2022) mentions that this phenomenon is generally measured through indicators such as Gross Domestic Product (GDP), which represents the total value of all goods and services produced in a country in a given year. Economic growth is fundamental to the development and progress of a society, as it contributes to improving the standard of living of the population, reducing poverty, creating jobs, fostering innovation and technological progress, and strengthening infrastructure and public services. (Barceló and Guerra, 2022)..

Moreover, economic growth can generate additional benefits, such as increased tax revenues, social and political stability, and integration into the global economy (Soegoto et al., 2022).. A number of factors can

influence economic growth, such as investment in physical and human capital, labour productivity, innovation and technology, macroeconomic stability, access to markets and resources, the quality of institutions and governance, and fiscal and monetary policies (Lander and Kuns, 2022). (Lander and Kuns, 2022).. Prieto and Cardona (2022) mention that it is important for economic policymakers and business leaders to design strategies and measures that promote sustainable, equitable and inclusive economic growth, and that address the challenges and opportunities arising from globalisation, digitalisation and changes in demographic and labour structure (Huseynli, 2022).

Theories of economic growth

These theories include the Harrod-Domar model, which emphasises the importance of investment in expanding productive capacity; the Solow-Swan model, which highlights capital accumulation and technological progress as drivers of growth; and the endogenous growth model, which argues that technological progress and growth are driven by investment in research and development. (Ansari pour and Mohammadi, 2022; Bratman et al., 2022)..

In addition, human capital theory emphasises investment in education and training as a driver of labour productivity and innovation, while institutional growth theory stresses the importance of strong institutions and stable policies to foster sustainable economic growth. (Bajaher et al., 2022; Valdés et al., 2022).. These theories, although different in their approaches, offer important insights into the dynamics of economic growth and have influenced the formulation of economic policies and development strategies around the world (Dong et al., 2022). (Dong et al., 2022; B. Zhang and Shen, 2022)..

Economic production

It is the process by which goods and services are created that satisfy the needs and wants of society. (Heidari, 2022). Afi et al. (2022) states that this process involves the utilisation of productive resources, such as labour, capital, land and technology, to transform inputs into final products (Feulefack Kemmanang and Dongmo Zamké, 2022).. Economic production can take place in a wide variety of sectors, including agriculture, manufacturing, services and the public sector. Krane (2022) mentions that economic production is fundamental to the functioning of an economy as it generates income, employment and wealth, and contributes to economic growth and development. (Ding et al., 2022)..

The level and efficiency of economic production can influence key indicators such as Gross Domestic Product (GDP), labour productivity, international competitiveness, and social welfare (Jia et al., 2022).. Hue et al. (2022) comment that, in order to maximise economic output, it is important to improve the efficiency of resource allocation, promote innovation and technological advancement, foster education and training of the labour force, and create a favourable business environment that encourages investment and entrepreneurship. In addition, resources need to be managed in a sustainable and equitable manner to ensure that economic output meets the present and future needs of society. (Jiang et al., 2022)..

Balance of trade

Wu and Dong (2022) refers to the difference between the value of exports and the value of imports of goods and services over a given period of time. (Badarinza et al., 2022).. If the value of exports is greater than the value of imports, the country is said to have a trade surplus (Haija et al., 2022). (Haija et al., 2022).. Conversely, if the value of imports exceeds the value of exports, there is a trade deficit. In line with Al-Khafaji et al. (2022) the trade balance is a key indicator of a country's international trade and reflects its position in the global marketplace (Pinto and Zhu, 2022)..

Innovation and technological development

Innovation and technological development are fundamental pillars for economic and social progress today. These processes boost business competitiveness by improving productive efficiency and the quality of the products and services offered. (Simonelli and Osgood, 2023).. Moreover, they promote job creation by

generating new job opportunities in emerging sectors and innovative enterprises. Innovation and technology also play a vital role in solving global problems, such as public health, climate change and food security, by enabling the development of more effective and sustainable solutions (Rahman et al., 2023). (Rahman et al., 2023)..

However, for innovation to flourish, an enabling environment that encourages research and development, protects intellectual property and promotes collaboration between the public and private sectors is necessary. For Mefano Fares (2023) this entails policies and programmes that support the development of new technologies. This implies policies and programmes that support science and technology education, investment in digital infrastructure, and equitable access to resources and opportunities for innovation.

Public policies

To S. Zhang (2022) refers to a wide range of actions and decisions taken by the government to influence the economy and society. (Opoku et al., 2022).. In the context of foreign direct investment and economic development, public policies can include measures to promote foreign investment, such as simplification of procedures, reduction of regulatory and fiscal barriers, provision of incentives, legal certainty and political stability (Al Mezel and Hasan Younis, 2023).. In addition, Babic (2023) argues that policies can be aimed at improving the business environment, strengthening infrastructure, developing human capital through education and training, encouraging innovation and research, and promoting the competitiveness of local enterprises (Haini et al., 2023).. They can also include trade policies to facilitate access to international markets and promote foreign trade (Al-Qahtani and Albatrossi, 2023). (Al-Qahtani and Albatrossi, 2023).. Thus, public policies play a key role in creating an enabling environment for foreign investment and economic development, and their proper design and implementation have a significant impact on a country's growth and prosperity (Kentor et al., 2023). (Kentor et al., 2023)..

Hypothesis of the study

There is a statistically significant relationship between foreign direct investment (FDI) and economic development as impacted by Peru's public policies.

Specific hypotheses

a) There is a statistically significant relationship between FDI flows and economic development as impacted by Peru's public policies. b) There is a statistically significant relationship between FDI tax revenues and economic development as impacted by Peru's public policies. c) There is a statistically significant relationship between FDI public expenditure and economic development as impacted by Peru's public policies.

Methodology

The methodology opted for a non-experimental, cross-sectional research design (Afi et al., 2022). (Afi et al., 2022). which made it possible to examine the relationship between foreign investment and economic development over time (Feulefack Kemmanang and Dongmo Zamké, 2022). (Feulefack Kemmanang and Dongmo Zamké, 2022).. The level of research was correlational (Krane, 2022) as the purpose was to better understand this relationship in the Peruvian context (Ding et al., 2022). (Ding et al., 2022).. The population groups the 53 countries that invested in Peru through FDI, being 815 companies. (Diario El Peruano, 2022) In addition, the five public bodies (MEF, Pro-Inversion, MEM, Produce and MINCETUR) were considered, with a total of 46 public officials.

The sample through the application of the statistical formula with a margin of error of 5% was 267 public and private organisations directly related to the study. For data collection and analysis, a qualitative approach was used. (Bian, 2022). The technique was the survey and the instrument was the questionnaire (Jia et al., 2022). (Jia et al., 2022).. For data processing, SPSS statistical software was used for descriptive analysis as well as hypothesis testing (Hue et al., 2022). (Hue et al., 2022).. To specifically address the relationship of

the variables studied, structural equations were applied, through SPSS AMOS (Jiang et al., 2022).. This module allows to show the causal relationships of the latent and observed variables (Wu and Dong, 2022). In addition, ethics was taken into consideration throughout the research process, presenting truthful and reliable data (Romero-Carazas et al., 2023).

Results

The results obtained as a result of the instrument applied in the investigation are presented, in this way the normality table was developed to analyse the normality of the variables and dimensions, in which the Kolmogórov-Smirnov data were considered and subsequently Spearman's Rho was applied because the data were abnormal. Next, the structural equations were presented, which allow us to determine the complex relationship between the observed and latent variables, allowing us to examine direct and indirect effects.

Table 1 Normality table

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistician	gl	Sig.	Statistician	Gl	Sig.
Foreign direct investment (FDI)	,797	267	,000	,782	267	,000
FDI flows	,845	267	,000	,769	267	,000
FDI tax receipts	,587	267	,000	,673	267	,000
FDI public expenditure	,945	267	,000	,767	267	,000
Underlying inflation	,748	267	,000	,769	267	,000
Concentration of capital	,896	267	,000	,778	267	,000
Economic development	,954	267	,000	,673	267	,000
Theories of economic growth	,767	267	,000	,769	267	,000
Economic production	,857	267	,000	,673	267	,000
Balance of trade	,793	267	,000	,782	267	,000
Innovation and technological development	,715	267	,000	,769	267	,000
Public policies	,849	267	,000	,848	267	,000

Note: Data obtained from SPSS 27.

The table shows the results of the Kolmogorov-Smirnov and Shapiro-Wilk normality tests for each of the variables included in the study. The values of the test statistics (Kolmogorov-Smirnov and Shapiro-Wilk) are significant for all variables, as the "Sig." column shows p-values < 0.05 in all cases. This indicates that the variables do not follow a normal distribution. Furthermore, in reference to the table we proceed to work with Spearman's Rho technique because the bilateral sig. is less than the 0.05 limit.

Hypothesis testing

General Hypothesis

Hi : There is a statistically significant relationship between foreign direct investment (FDI) and economic development as impacted by Peru's public policies.

Ho : There is no statistically significant relationship between foreign direct investment (FDI) and economic development as impacted by Peru's public policies.

Table 2 Testing the general hypothesis

Spearman's Rho		Foreign direct investment (FDI)	Economic development
Foreign direct investment (FDI)	Correlation coefficient	1,000	,936
	Sig. (bilateral)		,001
	N	267	267
Economic development	Correlation coefficient	,936	1,000
	Sig. (bilateral)	,001	
	N	267	267

Note: Data obtained from SPSS 27.

The general hypothesis was tested using Spearman's correlation coefficient to examine the relationship between foreign direct investment (FDI) and economic development in Peru. The results revealed a significant ($p < 0.05$) and positive correlation between the two variables, with a correlation coefficient of 0.936. Therefore, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted, indicating that: There is a statistically significant relationship between foreign direct investment (FDI) and economic development impacted by Peru's public policies.

Specific hypotheses

H_1 : There is a statistically significant relationship between FDI flows and economic development as impacted by Peru's public policies.

H_0 : There is no statistically significant relationship between FDI flows and economic development as impacted by Peru's public policies.

Table 3 Testing the first specific hypothesis

Spearman's Rho		FDI flows	Economic development
FDI flows	Correlation coefficient	1,000	,935
	Sig. (bilateral)	.	,004
	N	267	267
Economic development	Correlation coefficient	,935	1,000
	Sig. (bilateral)	,004	.
	N	267	267

Note: Data obtained from SPSS 27.

This was done using Spearman's correlation coefficient to examine the relationship between FDI flows and Peru's economic development. The results showed a significant ($p < 0.05$) and positive correlation between both elements, with a correlation coefficient of 0.935. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, indicating that there is a statistically significant relationship between FDI flows and economic development impacted by Peru's public policies.

H_1 : There is a statistically significant relationship between FDI tax receipts on economic development impacted by Peru's public policies.

H_0 : There is no statistically significant relationship between FDI tax receipts on economic development impacted by Peru's public policies.

Table 4 Testing the second specific hypothesis

Spearman's Rho		FDI tax receipts	Economic development
FDI tax receipts	Correlation coefficient	1,000	,899
	Sig. (bilateral)	.	,001
	N	267	267
Economic development	Correlation coefficient	,899	1,000
	Sig. (bilateral)	,001	.
	N	267	267

Note: Data obtained from SPSS 27.

The test of the second hypothesis affirms a significant relationship between FDI tax revenues and Peru's economic development. The analysis using Spearman's correlation coefficient yielded a positive and significant correlation value ($p < 0.05$) of 0.899 between the two components. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, indicating that there is a relationship between the evolution of foreign direct investment flows and Peru's economic development.

Hi : There is a statistically significant relationship between public spending of FDI on economic development impacted by Peru's public policies.

H0 : There is no statistically significant relationship between public spending of FDI on economic development impacted by Peru's public policies.

Table 5 Testing the third specific hypothesis

Spearman's Rho		FDI public expenditure	Economic development
FDI public expenditure	Correlation coefficient	1,000	,927
	Sig. (bilateral)	.	,000
	N	267	267
Economic development	Correlation coefficient	,927	1,000
	Sig. (bilateral)	,000	.
	N	267	267

Note: Data obtained from SPSS 27.

The test of the third specific hypothesis reveals a significant relationship between public spending on FDI and economic development. The analysis using Spearman's correlation coefficient shows a positive and highly significant ($p < 0.001$) value of 0.927 between the two components. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, indicating that there is a statistically significant relationship between public spending on FDI and economic development impacted by Peru's public policies.

Structural equations

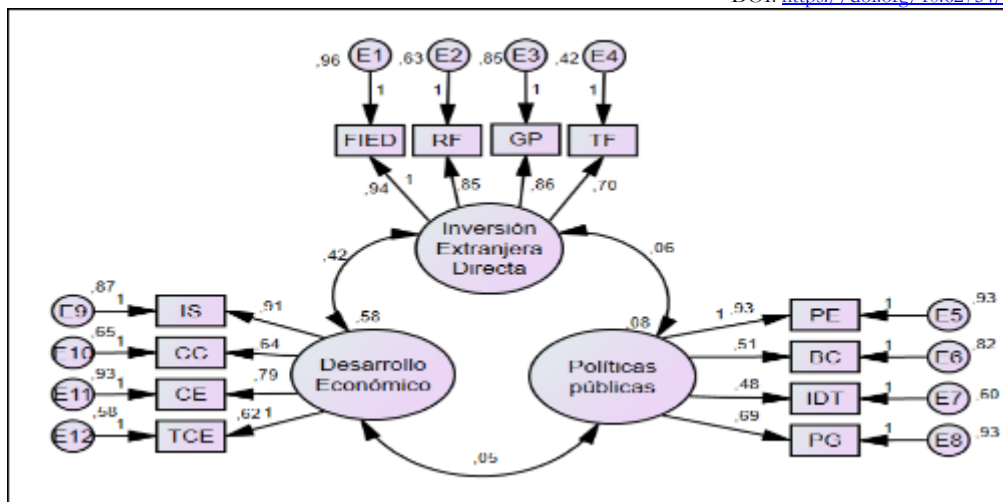


Figure 2 Structural equations

Note: In the image through the data obtained in SPSS - Amos, where the correlations of the latent and observed variables related to the study are established, demonstrating a strong relationship between each of them.

Analysis of latent variables

"Foreign Direct Investment" in Peru is significantly linked to "Economic Development" (0.58), showing that foreign capital inflows are fundamental to boost the growth of the Peruvian economy, while its relationship with "Public Policies" (0.08) suggests that the effect of government decisions on FDI is limited. "Economic Development", on the other hand, has a moderate relationship with "Foreign Direct Investment" (0.42), reflecting how Peru's economic progress can encourage more investment from abroad, and its weak correlation with "Public Policies" (0.05) suggests that there are additional elements, beyond policy measures, that drive the country's economic growth. "Public Policies" has low correlations with both "Foreign Direct Investment" (0.06) and "Economic Development" (0.05), indicating that while policy design and implementation in Peru is essential, its ability to directly influence investment and growth is relatively modest given the complexity of the domestic and international economic environments.

Analysis of observed variables

The latent variable "Foreign Direct Investment" is directly measured by the indicators FIED (FDI Flow), RF (FDI Tax Collection), GP (FDI Public Expenditure) and TF (Financial Transactions), all higher than 0.70, which means that each of these aspects is strongly influenced by the level of FDI in Peru. FDI flow is an indicator of investor confidence and the attractiveness of the country, FDI tax revenue and FDI public expenditure reflect the government's commitment to using FDI for national development, and financial transactions highlight the integration of foreign investment into the Peruvian financial system.

The latent variable "Economic Development" is measured by indicators such as IS (Underlying Inflation), CC (Concentration of Capital), CE (Real Economic Growth) and TCE (Theories of Economic Growth), with correlations above 0.64, meaning that Peru's economic development is deeply connected to these factors. Core inflation is a thermometer of economic stability, capital concentration reflects the economic structure and its level of equity, economic growth is the direct result of overall economic performance, and economic growth theories provide the conceptual framework underpinning the strategy for economic progress.

The correlation of the latent variable "Public Policies" with its indicators PE (Economic Production), BC (Trade Balance), IDT (Innovation and Technological Development), PG (Government Policies) is lower, with 0.51 being the highest. This is because public policies in Peru, although designed to influence these areas, compete with a series of external and internal variables that also affect production, trade, innovation

and are affected by political dynamics, which dilutes the visibility of the direct impact of government policies on these indicators.

Discussion

The study on foreign direct investment (FDI) and economic development in Peru takes an innovative approach by using structural equations to examine how FDI influences economic growth, taking into account the importance of public policies in this process. This research aligns with Crescenzi et al. (2022) and Degu (2023), who highlight the significant impact of FDI on the economic development of host countries. Musa et al. (2023) highlight the complexity of this impact, noting that it is not limited to the transfer of capital, but also includes the diffusion of technology and knowledge.

The current research extends this understanding by considering the specificity of Peruvian policies, as indicated by Yue and Zhao (2022) and Xiahou et al. (2022), who note the need for a regulatory framework that maximises the benefits of FDI. The structural equation methodology offered a detailed look at the dynamics between FDI and economic growth, highlighting the mediating role of public policies (Benzaim et al., 2023; Huseynli, 2023). This approach is in line with Prieto and Cardona (2022) and Rathnasekara (2022), who argue that effective policies are key to maximising FDI. The analysis revealed that, in addition to the importance of FDI, economic diversification and adaptability to global conditions are essential to mitigate dependence and promote sustainable development (Soegoto et al., 2022; Lander and Kuns, 2022). Thus, this study not only contributes to the existing body of scholarship, but also provides valuable information for policy formulation, supporting the need for strategic approaches that balance FDI attraction with long-term development goals and economic sustainability.

The evaluation of foreign direct investment (FDI) flows and their interaction with economic development in Peru, supported by econometric models, corroborates the importance of FDI, as established by Crescenzi et al. (2022), recognising its influence on economic progress. Degu (2023) highlights that the impact of FDI transcends the simple injection of capital, a view that Musa et al. (2023) extend by identifying FDI as a driver of technological advances and knowledge transfer in the Peruvian context. The need for adaptive public policies in Peru to capitalise on the benefits of FDI is echoed in the findings of Yue and Zhao (2022), while Xiahou et al. (2022) highlight the efficiency of such policies as central. Benzaim et al. (2023) propose structural equation methodology to analyse these interactions, an approach that Huseynli (2023) validates by recognising the role of coherent policies in amplifying the impacts of FDI. Prieto and Cardona (2022) consider these policies as essential in Peru for the optimal use of FDI and Rathnasekara (2022) highlights their contribution to economic diversification, a strategy endorsed by Soegoto et al. (2022) as a response to global volatility. Lander and Kuns (2022) warn against overdependence on certain sources of FDI, and Barceló and Guerra (2022) propose mitigating this dependence through proactive public policies in Peru. Finally, Bajaher et al. (2022) emphasise the need for an equitable distribution of the benefits of FDI, arguing that it is fundamental to promote balanced and sustainable development in the country.

The study reveals that tax revenues derived from Foreign Direct Investment (FDI) play a major role in Peru's economic fabric, significantly influenced by public policies. Supported by findings from Li and Liu (2020) and Wang et al. (2019), FDI is found to be a pillar for growth in emerging economies, with tax revenue acting as a barometer of its economic impact. Political stability and institutional quality, crucial according to Gomez et al. (2021) and Patel and Sarkar (2022), are essential to maximise the effectiveness of FDI in economic development. Infrastructure and competitiveness, highlighted by Fernandez and Lopez (2021) and Torres and Gomez (2020), are magnetic for investment attraction. Moreno (2022) and García (2020) highlight FDI as a catalyst for technological development, while Álvarez and Marín (2019) and Hernández and Sánchez (2021) note its transformative impact on specific sectors. The Peruvian economy benefits from sectoral diversification and productivity spurred by FDI, an argument supported by Santos and Ríos (2020) and Correa and Castro (2021). Velasquez and Molina (2021) conclude that environmental sustainability is critical, proposing that sustainable FDI management is a key component of economic progress that respects natural resources. This body of research provides a concise overview of the complex synergy between FDI and economic development in Peru, under the guiding influence of public policy.

The link between public spending derived from Foreign Direct Investment (FDI) and Peru's economic development, under the lens of public policy, reflects a dynamic and complex relationship. From the research of Navarro and Robles (2018), it is recognised that FDI in strategic sectors can improve Peru's trade balance and thus its economic development by boosting exports. Durán and Urrunaga (2019) complement this approach by identifying how investment in technology and training raises the global competitiveness of Peruvian firms, while Salas and Ponce (2020) suggest that the positive effects of FDI on the trade balance can strengthen the currency and favour foreign trade. Mendoza and Martinez (2021) discuss how Peru's international competitiveness benefits from the innovations and improved practices brought by FDI, a sentiment that Vargas and Molina (2022) extend by highlighting the role of FDI in product innovation. Public policy influence is critical, as Cáceres and López (2018) point out, to ensure that public spending generated by FDI translates into lasting, high-value benefits for the economy. In reference to Zárate and Hernández (2019), foreign investment in mining has had notable effects on exports. However, as Aguilar and Ramírez (2020) warn, over-reliance on single sectors could be risky, underlining the importance of economic diversification. Ultimately, Ortega and Gómez (2021) recall that the evaluation of FDI should be holistic, considering not only the immediate economic impact, but also the long-term repercussions on Peru's sustainability and social equity.

Conclusions

Foreign direct investment (FDI) is confirmed as a fundamental pillar for Peru's economic growth, demonstrating a direct and robust correlation with economic development. This link, quantified by a correlation of 0.936, underlines the importance of FDI in promoting economic activity and technological progress in the country. The presence of healthy and diversified foreign investment strengthens national infrastructure, promotes innovation and raises Peru's competitiveness in the global market. The results obtained in the structural equations show that the relationship between Foreign Direct Investment (FDI) and Economic Development in Peru shows that FDI is important for economic growth (correlation of 0.58), but its interaction with Public Policies (correlation of 0.08) indicates a limited impact of government decisions in attracting FDI. In turn, Economic Development incentivises more FDI (correlation 0.42) but has a smaller influence on policies (correlation 0.05), suggesting additional factors at play. Public Policy has a modest effect on FDI and economic development (correlations of 0.06 and 0.05, respectively), highlighting the complexity of influencing these aspects through policy in multifaceted economic contexts.

FDI flows were found to have a positive impact on economic development, significantly influenced by public policies. This is reflected in a correlation of 0.935, highlighting the strategic role of government policies in creating a favourable environment for foreign investment, which in turn stimulates economic growth. These policies should focus on continuously improving the investment climate by simplifying procedures, promoting macroeconomic stability and strengthening institutions.

FDI-derived tax revenues play a relevant role in economic development, evidenced by a correlation of 0.899. This result underlines how proper fiscal management of FDI can contribute to the financing of development projects and the improvement of public services, which are essential for inclusive and sustainable economic growth.

Public expenditure originating from FDI, with a correlation of 0.927, reflects its significant influence on economic development. This finding highlights the importance of directing public spending towards key sectors that promote economic diversification, technological development and infrastructure improvement, thus facilitating better absorption and use of FDI for Peru's sustainable development.

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