American debtor countries including Brazil, Chile and Mexico. Under such schemes, Fiat has bought Brazilian debt at the going discount rate, for which the Brazilian central bank gave Fiat the equivalent in domestic currency, a sum it subsequently invested in Brazil. Nissan Corporation has arranged a similar deal in Mexico. In other cases, bank debt has been swapped for shares in companies, a mechanism that could make easier the privatization of some state-owned companies.

Discouraging capital flight

Capital flight, discussed earlier in chapter two, reached massive proportions in several middle-income debtor countries, notably Venezuela, Argentina, Mexico, Nigeria and the Philippines. In a number of cases it appears to be continuing. The effect of this outrush of capital is to increase a country's balance-of-payments problem and, accordingly, the difficulty of servicing its debt, to reduce external investment in the debtor countries, and to deter commercial banks from making new loans to these countries when they see the funds being siphoned right out again.

The Committee recognizes that unfortunately there are no simple actions that governments can take to prevent capital flight. It is now virtually impossible for governments, other than the state-controlled economies of Eastern Europe, to maintain effective foreign exchange controls. But much can be done to discourage the export of capital. Establishing an appropriate and competitive exchange rate is obviously extremely important and the IMF has rightly made this a condition of all its agreements with debtor countries. Effective management of the economy, including tighter money policies, a positive real rate of interest and a control on inflation can all help to create situations in which the owners of capital will not face the same inducements to invest abroad. **It is essential that developing countries introduce measures to discourage capital flight, including an appropriate exchange rate.**

More difficult than discouraging capital flight is the problem of persuading those in developing countries who have already invested money abroad to repatriate their capital. While tighter money can exert pressure on some manufacturers to repatriate capital in order to finance their operations, many people who have capital invested abroad are looking for security and lack confidence in the economic prospects of their own country. The process of providing the necessary reassurance that domestic holdings would be secure is bound to be slow and gradual and easily undermined by political instability stimulated by persisting reductions in the standard of living. Nonetheless, in 1986 the tight credit situation forced Mexican businessmen looking for working capital for their firms in Mexico to repatriate significant capital funds which they had invested abroad. If such capital repatriation were to continue and were repeated in other middle-income debtor countries, it could have a positive impact on the debt problem, although widespread capital repatriation is probably unlikely until economic conditions have improved significantly in these countries.

Population pressures

One subject that is seldom raised in the context of the debt problem is the issue of population growth and the pressure which that growth exerts on scarce resources. The case of Mexico illustrates the problem. In 1930, Mexico's