much as countries such as Mexico and Chile have also benefitted from this boom as a result of the bandwagon effect in markets.[13]

Too Much, Too Fast?

The problem for the governments of Latin America today is not how to address negative foreign resource transfers, as it was throughout the 1980s, but rather how to manage the large increase in positive resource flows. Increasing foreign currency flows has led to a number of problems such as the appreciation of the domestic currency, large current account deficits and high domestic interest rates. Still, countries which have been subjected to large inflows have largely been successful in managing them.[14] These problems, moreover, are comparatively minor to the consequences of the massive outflow of capital during the 1980s.

If there is one thing that we learned from the debt crisis of the early 1980s, it was that financial capital is highly mobile internationally. This is even more true today. Although the region has recently been successful at re-attracting much of the capital flight that left during the 1980s, this could quickly be reversed. According to Loxley: "The fear is that these 'surges' in capital repatriation might just as rapidly be reversed, should either the external or internal climate change abruptly."[15] This could easily occur in equity markets, since financial liberalization has largely reduced restrictions on the inflows (and outflows) of foreign capital. In addition, bond maturities for most heavily indebted countries are short-term and, even where maturities are longer, bonds often have an early redemption option as a form of credit enhancement. Thus, the short-term nature of these inflows makes them very volatile and inconsistent with the longer-term financing necessary for investment in development projects.

Despite the surge in capital inflows, there has not been a significant improvement in the rate of investment for heavily indebted countries. Investment rates remain below their pre-debt crisis levels, likely the result of higher real rates

---

[13]Culpeper, *op. cit.*, p. 24. Culpeper argues that investors may not have the information necessary to differentiate between a country such as Mexico (which continues to reform its economy) and a country like Brazil, which has not. For this reason, investors will invest in the region through such instruments as mutual funds. This does not reflect irrationality of the part of investors, only the fact that information is costly. Of course, this lack of information is reflected in the yield spreads of international bond issues as Brazil generally must pay higher spreads than Mexico. See International Monetary Fund, *Private Market Financing for Developing Countries* (Washington: IMF, December 1992), pp. 62-65.

[14]See Schadler, et al., *op. cit.*, and World Bank, *op. cit.*, pp. 26-8.

[15]John Loxley, "International Capital Markets, the Debt Crisis and Development," paper presented at *Global Development 50 Years After Bretton Woods: A Colloquium in Honour of Gerald K. Helleiner*, Ottawa, June 22-24, 1994, p. 16.