under free capital mobility. This exchange-rate system, moreover, is vulnerable to speculative attacks that can force the country to undertake unwanted policy measures.

Some of the key proposals for capital controls, and the arguments for and against these controls can be summarized as follows.

- One well-known proposal would impose a tax on foreign exchange transactions.

- Alternative proposals would introduce restrictions on capital outflows and a deposit (or a reserve) requirement on capital inflows.

These schemes are designed to provide more macro policy autonomy by slowing down international capital movements. The empirical evidence on the effects of capital controls under different exchange rate regimes leads to the following conclusion.

- It is generally found that while controls are usually successful in introducing a small wedge between national and foreign interest rates, there is no compelling evidence that they tend to significantly improve the macro-economic performance of the economy.

To motivate the discussion to reform the capital control regime, we zero-in on Chile's experience with capital controls. Foreign investors in Chile are required to maintain interest-free deposits, and are not allowed to repatriate capital before one year. The main purpose of these restrictions is to stabilize the value of the Chilean peso by controlling speculative activity.

- The experience of other countries suggests that capital controls are likely to have limited success in achieving this goal.

Long-term investment in resource sectors is not an attractive channel for speculative activity. Thus, even if Chilean controls are deemed useful for curtailing speculative capital flows, they should not penalize non-speculative direct investment. Our assessment of Chile's capital controls allows us to make a case for reforming the foreign investment regime. Should the Chilean authorities consider reforming their regime, we discuss certain proposals that would reduce barriers to