capital (both portfolio and FDI) searching for higher rates of return.[8] Still, a recent International Monetary Fund (IMF) study notes that external factors could not be the primary cause of the inflows in the six countries under study since changes in external factors did not precede capital inflows.[9] Nonetheless, while changes in external economic conditions may have not started the capital inflows, there is little doubt that they contributed to its persistence.

Third, financial market regulation changes in developed countries increased the popularity of new financial instruments (i.e., mutual funds and derivatives), and the dramatic growth in pensions as a result of an aging population has increased the pool of investible international capital.[10] In a number of OECD countries, for example, there has also been a move towards advanced-funded pension systems over "pay-as-you-go" pensions which has increased contributions to these funds.[11] The growth in these instruments, along with the limited opportunities in traditional markets, the rise in the philosophy of international portfolio diversification and increasing information about emerging markets, has led to capital looking for the highest rate of return in non-traditional markets. A 1992 survey notes that institutional fund managers have quadrupled the amount of their international portfolio allocated to Latin American and Asian markets, with Latin America accounting for 39% of emerging market portfolios.[12]

Fourth, the passage of the North American Free Trade Agreement (NAFTA) by its member states, along with talks regarding accession to the agreement, has resulted in an increased interest in the region, mainly Mexico at the moment. It has been argued that the economies of Latin America which have not reformed as

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[8]For an explanation of changes in the U.S. economy which caused capital inflows into Latin America, see Guillermo A. Calvo, et al., "Capital Inflows and Real Exchange Rate Appreciation in Latin America," *IMF Staff Papers*, Vol. 40, No. 1 (March 1993), pp. 108-51.

[9]Susan Schadler, et al., *Recent Experiences with Surges in Capital Inflows* (Washington: IMF, December 1993), p. 5. The countries included in this study were Chile, Colombia, Egypt, Mexico, Spain and Thailand.

[10]For a review of the changes in U.S. capital markets, the largest source of foreign capital in Latin America, see Roy Culpeper, "Resurgence of Private Flows to Latin America: The Role of American Investors," North-South Institute, February 1994.

[11]Organisation for Economic Co-Operation and Development, *Financial Market Trends 56* (Paris: OECD, October 1993), pp. 37-38. Generally, "pay-as-you-go" pensions are a transfer from the cohort of people currently employed to beneficiaries in the cohort who have retired. Advanced-funded pensions are funded by the cohort of people currently employed and invested for the future retirement benefits of the same cohort.

[12]Kleiman International Consultants, "1992 Emerging Stock Market Survey," (Washington: 1992), cited in, International Monetary Fund, *International Capital Markets Part II: Systemic Issues in International Finance* (Washington: IMF, August 1993), p. 58.