Argentina stood at US $27 billion.[5] Total portfolio equity inflows also increased from next to nothing at the end of the 1980s, to almost US $8 billion in 1992 (Table 1). Commercial bank lending, however, has not been as buoyant; new commercial bank credit commitments to the region averaged just over US $1.5 billion between 1989 and 1993.[6]

Factors Behind the Resurgence of Capital Inflows

Why has money flowed back into these countries? Several factors have converged which have allowed a number of countries in Latin America to attract large amounts of international capital flows.

First, domestic changes in the countries themselves have made them attractive destinations for foreign capital. Countries in Latin America, which once viewed foreign investment as a threat to sovereignty, began to welcome foreign investment by changing regulations which discriminated against foreign investors. Furthermore, inflation began to be tamed and most governments throughout the region became fiscally responsible in controlling government deficits. Trade regimes were liberalized and exchange rates began to reflect their true market values. In addition, the sale of state-owned firms, through debt-equity swaps or privatization programs, provided investors with good investment opportunities. The Brady Plan, the only effective concerted effort to address the debt overhang, has reduced the debt-servicing burdens of a number of Latin American countries. It has further acted as a signal to global investors that the unmanageable debt overhang is gone and that these countries once again present acceptable risks.[7] The return of flight capital, which left in the tens of billions of dollars during the crisis of the 1980s, has further bolstered the activity in these markets.

Second, sluggish growth rates, low interest rates and balance of payments problems in countries such as the United States have resulted in large amounts of

[5]World Bank, *op. cit.*, p. 26. For a good review of the factors behind the growth and internationalization of emerging stock markets, see Peter K. Cornelius, "The Internationalization of Emerging Stock Markets," *Intereconomics*, Vol. 29, No. 3 (May/June 1994), pp. 131-8.

[6]World Bank, *op. cit.*, p. 18.

[7]For a fuller discussion of related issues, see Richard E. Mueller, *Still an Albatross? The LDC Debt Crisis Revisited*, Policy Staff Paper No. 94/09 (Ottawa: Department of Foreign Affairs and International Trade, May 1994).