

implement strong and pervasive controls. These results support the view that there is substantial evasion of controls, and as familiarity with controls increases over time, evasion becomes more successful. Some studies have also examined the effect of capital controls on international capital flows, and have found that controls tend to decrease officially recorded capital flows. It is not clear, however, to what extent the observed decreases are offset by “unofficial” capital flows that successfully avoid the controls.

A number of studies have also compared the behaviour of regimes with and without capital controls before a currency crisis or a major devaluation. These studies support the view that controls do not appear to prevent successful speculative attacks.

- When crises occur, countries with control do not appear to fare any better than countries without them. Controls do not seem to help countries avoid reserve losses or interest-rate increases.

Inconsistent regimes may, however, be able to use controls to survive for a longer period.

Since Mexico did not restrict capital flows before its peso crisis of December 1994, advocates of capital controls have pointed to this crisis as a dramatic example of the consequences of unrestricted capital mobility. However, as mentioned above, evidence on other currency crises suggests that capital controls are not very helpful in preventing currency depreciation under a major speculative attack. Indeed, given the severity of the attack on Mexican peso, it is unlikely that restrictions on capital flows would have allowed Mexico to even delay the collapse of the peso.

4. Case Study: Capital Controls in Chile

4.1. Current Capital Controls and Exchange Rate Policy in Chile

Chapter XIV of the Compendium on Foreign Exchange Regulations sets out general rules for all types of capital inflows (exceeding US\$10,000) in Chile. The two key restrictions on capital flows under Chapter XIV are: