The bulk of investment into Chile currently takes place under DL 600. The above reforms we have suggested would reduce barriers to this investment. These proposals would not significantly increase speculative pressures on the Chilean peso and thus would not create additional problems for exchange-rate policy in Chile.

5. Conclusions

The basic argument for capital controls is based on the concern that free capital mobility subordinates domestic macro policy to foreign conditions. There is a considerable difference of opinion about how capital controls affect macro-economic conditions in economies with fixed or flexible exchange rates.

However, it is generally agreed that these controls restrict foreign-exchange transactions and thus impede international flows of goods and capital. As many countries have recently adopted measures to liberalize international trade and investment, capital controls would hinder such liberalization.

Given that the benefits of capital controls are uncertain, except as a limited prudential measure, it is not prudent to adopt a policy that jeopardizes economic gains expected from freer trade and investment. Thus, this Paper finds that potential NAFTA partners, who currently regulate capital movements, should be prepared to reform their policy toward foreign investment and meet the NAFTA standards.