in the 1970s and 1980s. This may cause money managers to ignore larger risks in the search for higher returns.[22]

The recent increase in international interest rates has caused a great deal of concern in investments circles and can harm emerging markets in a number of ways. First, and most directly, increases in international interest rates will cause investors in these markets to shift their asset allocation into fixed income instruments (i.e., guaranteed income certificates (GICs), savings bonds, etc.) and away from equity portfolio and non-investment grade bonds in these countries. With the exception of Chile, none of the countries of Latin America have had their bonds receive an investment grade rating by both of the major U.S. bond rating services. This means that higher interest rates must be offered for investors to accept the higher risk involved in holding these bonds; as much as 500 basis points above those of industrial country bonds.[23] Second, a number of these countries still have sizeable outstanding debts to international commercial banks. Higher interest rates increase payments to these commercial banks, increasing the burden on these countries and possibly limiting growth rates as larger proportions of public funds are earmarked for debt servicing. Furthermore, the emerging private sector is also faced with higher interest rates, limiting the number of cost-effective projects they will be willing to undertake. The result will be an exodus in portfolio capital as the once-sound investments lose their attractiveness and international investors seek higher rates of return elsewhere.

It is unlikely that the large capital flows to the countries of Latin America will continue at the same rate experienced over the early part of the decade. The amount of capital flight returning is a finite amount and debt-equity swaps and privatization programs are nearly exhausted in countries such as Mexico and Argentina. The World Bank estimates that 16% of all FDI flows to Latin America over the 1988-92 period were the direct result of privatization programs.[24] As the number of enterprises being privatized diminishes, so too does the amount of capital inflow. In addition, capital inflows have been concentrated in countries such as Mexico, Argentina and Chile, the economies that have implemented massive structural reforms. Future capital inflows may be directed at countries such as Brazil which is just beginning to reform its economy. Rather than how to cope with the large inflows in capital, it is argued that Latin America may be forced

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[22]Organisation for Economic Co-Operation and Development, *Financial Market Trends* 57 (Paris: OECD, February 1994), p. 22.

[23]Loxley, *op. cit.*, pp. 15-6.

[24]World Bank, *op. cit.*, p. 61.