of interest which promote rent-seeking activities in favour of fixed investment. In Chile, Mexico and Argentina, for example, investment as a percentage of gross domestic product (GDP) has not yet reached its levels of the late 1970s and early 1980s. In addition, domestic savings have decreased, implying that foreign savings have had to make up for the gap between domestic savings and investment.[16] Furthermore, a significant proportion of new inflows have been the result of debt-equity swaps or privatization offerings, rather than new investment, with the United States being the main source of foreign investment in Latin America.[17] Therefore, dealing with the debt overhang has not had the impact on investment that many thought it might have had in Latin America.[18]

The financial system in Latin America is still fragile and investors in (primarily) OECD countries are still not comfortable with these markets. The recent assassination of Mexican presidential candidate Luis Donaldo Colosio is a case in point; only extraordinary efforts by Mexican officials stopped the political event from causing a drastic reversal in the recent surge of capital inflows.[19] The political uncertainty in the lead-up to the August presidential elections has also taken its toll on capital flows. Recently, at least US $100 million has reportedly been leaving Mexico each week.[20]

In addition, there is concern that the world capital market is still very concentrated, lacks adequate flows of information and is subject to inadequate regulation, problems which plagued international financial markets at the beginning of the debt crisis, although these problems do not appear to be as threatening to the international financial system as they were in the late 1970s.[21] In addition, fund managers face intense competition and are under increasing pressure to increase returns, much as the commercial banks were under to pressure to perform

[16]Investment as a percentage of GDP was estimated to be 19.9% of GDP in 1990-93, up from 18.1% in 1986-89, but down from 20.6% and 21.6% in 1971-78 and 1979-85, respectively. Domestic savings have also not recovered, amounting to 15.5% of GDP over 1990-93 down from 17.0% ,18.4% and 16.2%, respectively, in previous three periods. Meanwhile, foreign savings have increased to cover this investment gap. See International Monetary Fund, *World Economic Outlook* (Washington: IMF, October 1993), p. 82.

[17]IMF (Oct. 1993). *op. cit.*, p. 75.

[18]Loxley, *op. cit.*, p. 18.

[19]See Craig Torres, "How Mexico Averted Panic," *Globe and Mail*, March 29, 1994, p. B9, for a good hour-by-hour account of the period immediately following the assassination of Colosio.

[20]*Wall Street Journal*, July 19, 1994, p. A10.

[21]Loxley, *op. cit.*, p. 17.