

Abstract: The focus of this paper is on capital flows from developed to less developed countries and in particular on the question of why such flows are not much larger. I first outline the theoretical arguments with regard to such flows and then go on to review the historical evidence on international financial integration more generally. I then turn to the related literature on economic development, which over the past decade has shifted its emphasis from technology and capital accumulation per se to the underlying institutional factors that affect investment. I present evidence that such factors also affect to rich-to-poor country capital flows. Good policies - pursuit of price stability, fewer direct interventions and sound institutional structures are accompanied by higher capital flows and bad policies by lower capital flows.