1950s). By the end of the decade, Japan and the UK had begun deregulation, followed later by France, Italy and some other EU countries.

The reduction or elimination of capital controls facilitates increases in foreign direct investment. In so far as the global increase in the stock of foreign direct investment leads to a more "cosmopolitan" approach to business, companies, as well as governments, become more aware of international sources of capital. Borrowing abroad and/or placing equity issues abroad are likely to be more routine for enterprises already active in foreign markets through direct investments.

Another factor often cited as important to the increase in international capital flows is the large current account imbalances experienced by the industrial countries.[1] By 1980, the collective current account deficit of industrial countries reached US$63 billion.[2] Partially offsetting capital account surpluses -- implying sizeable international capital flows -- were run to finance the current account deficits. Those international capital flows caused a certain degree of convergence in terms of investment returns as financial markets became more competitive.

The increased integration of world financial markets would not have been possible without advances in technology, particularly in telecommunications and the accessability of computers. The complexity of new financial instruments, such as financial futures, options on futures, index options and swaps, requires the application of custom software to determine their price and monitor the variables that effect price movements.

Technological advances have led some stock markets, as well as futures and options markets, to establish international links with other markets. For example, between 1985 and 1988, the American Stock Exchange and the Toronto Stock Exchange had an automated trading link for a few of the major companies listed on their markets. However, such links are superseded by around-the-clock electronic trading. Yet, for markets to become 24-hour operations they require more than the

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[1] See, for example, W. White, *Some Implications of International Financial Integration for Canadian Public Policy.* Technical Report No. 57. Ottawa: Bank of Canada, December 1991, p. 3. White points out that without sufficient capital, the current account imbalances would have been reduced. It is not clear whether the current account imbalances led to mobile capital or mobile capital allowed current account imbalances.

[2] International Monetary Fund, *International Financial Statistics Yearbook.* 1992, p. 128.