Introduction

In August 1986, the year after UNU-WIDER began its work, the Institute hosted a conference to honour the memory of Carlos Díaz-Alejandro. Nearly twenty years on it is instructive to look over the resulting conference volume, *Debt, Stabilization and Development* (Calvo et al. 1989) to see how the world has, and has not, moved on. The book contains much discussion of whether a truly global market in capital has emerged, as well as the real effects of capital flows on developing countries—both areas of major debate today. Latin America's deepening debt crisis and the effects of the 'first generation' of reform programmes then underway across the developing world also featured. The terminology of 'emerging economies' was not yet common coin (the first retail fund for emerging markets did not list on the New York Stock Exchange until 1987), and the major global macroeconomic imbalance was between the USA and Japan (not China). Moreover, the acceleration in financial globalization via the new information technologies was only just beginning; Raj Kumar and Joseph Stiglitz (1989: 442) in their paper on sources of technological divergence between developed and developing economies write of '… greater talk about computers in Silicon Valley'.

Much has changed over twenty years. Funds investing in emerging market bonds and equities are taking in record amounts, and the pensions of Mr and Mrs Virtanen (Finland's Mr and Mrs Smith) now in part depend on the prospects for Chinese sovereign debt.[1] But much also remains the same, in particular Africa's plight. In the mid 1980s Africa was undergoing the first of many structural adjustment programmes, some of which worked and many of which failed dismally—resulting in the debt accumulation that has been one of the big concerns of recent years. UK finance minister, Gordon Brown proclaims the need for a new 'Marshall Plan for Africa' but this call first went out in the 1980s.

In 1985 new events and crises were just around the corner: notably the Japanese financial bubble and subsequent collapse; economic transition and meltdown in the communist world; the Asian financial crisis of 1997-98 and the rapid integration of China into the global economy (resulting in trade tensions that have now come to the fore). These outcomes were largely unforeseen twenty years ago. So it may seem reckless to try and make predictions about the next twenty years. Nevertheless, speculation about the future is irresistible, not least to see how far one gets it wrong when we look back from the vantage point of 2025—the year in which UNU-WIDER will celebrate its fortieth anniversary.

International finance and the developing world is necessarily a very large subject, and therefore I confine myself to only some important aspects, leaving many others for discussion elsewhere—thus, on official aid flows see Addison et al. (2005); on new and innovative sources of development finance see Atkinson (2004); and on foreign direct investment see Asiedu (2006). The aspects that I do cover are as follows: the implications of ageing in the 'North' for investment in the 'South'; the expected growth in the financial services industry in emerging economies and the consequences for their capital flows; the impact of the present low levels of global interest rates on emerging market debt; and the impact of globalization in goods markets in lowering inflation expectations, and therefore global bond yields, and the implications of China's rise for this story. I close the paper by noting the paradox that today we see ever larger amounts of capital flowing across the globe in search of superior investment returns, and yet the financing needs of the poorest countries (and the world's poorest people) remain largely unmet.