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Globalization has been the driving force of the world economy for two decades. Economic growth, expansion of trade and capital flows, a broad diffusion of wealth, tens of millions of people lifted out of poverty – these are testimonies of its impressive success. The fall of the Berlin Wall marked the dawn of a new era based on an unprecedented combination of free market and political democracy. For a decade – to risk oversimplification – we relied on the visions of Francis Fukuyama (“The end of history”) and Thomas Friedman (“The world is flat”). The political economy of globalization looked as simple as that : *Market + Democracy = Peace + Prosperity*

As evidenced by Martin Wolf, “globalization worked”. It fueled an unprecedented period of rapid growth; simultaneously, a greater flexibility of labor markets in industrialized countries and the lowering impact of Chinese costs on manufactured goods prices delivered a long period of low inflation. This conjunction opened new options in the design of monetary policy which the Fed under Alan Greenspan was quick to seize. Yet these were, and could only be, extraordinary conditions. And the follow-up proved to be an extraordinary crisis. An aggressive use of monetary and tax policies was certainly more than needed to avoid the risk of the recession turning to depression; but short-term measures are not sufficient to restart a vibrant international economy. Whatever the form of the ongoing recovery (U,V,W…), the present crisis should be seen as an opportunity to reassess global economic arrangements and prevalent economic doctrines.

An excessive faith in the virtues of self-regulating markets, the whole concept of self-regulation to which authorities have been strongly committed fore years is severely damaged. The question of rules and enforcement has to be newly answered. In this process, governments are back; their support, in particular, is massively needed to rescue the financial industry. State intervention is welcome as far as it is the answer to the risk of a systemic crisis but with the size and range of this intervention come an extensive power of governments more and more interfering with the economy.

Trade and capital flows will decrease in 2009; these were the natural engines of globalization and their downturn could pose a major threat to open world markets. Countries that have relied on export-driven growth, from China to Germany, already are and will be severely hurt. Capital-importing countries will face major difficulties to finance current account deficits; the IMF has already started its traditional business vis-à-vis some of these countries and this trend can only go further in 2009. Governments are under increasing pressure to prop up domestic demand and jobs. With the global economy facing its worst recession in decades, protectionism has been kept at bay until now, is this for ever?

Increasing trade and capital flows have gone hand in hand with ballooning "global imbalances". Those are the result of a polarized world divided between countries with huge savings surplus and other ones, mostly the US, in deficits. There is a fascinating link between the technicalities of international finance and the protests against outsourcing. On the one hand, we have leverage finance, capital flows, a "new class of investors" as Alan Greenspan said. On the other hand, we have workers struck by the consequences of the new division of labor: "outsourcing is a "new industrial revolution" threatening not less than 40 million jobs in the US according to Alan Blinder, the Princeton Professor and former governor of the Fed. The backlash against globalisation is becoming more pronounced every day in many countries, in particular in the US. We see it in rising nationalism and protectionist temptations. It has been simmering in the 2006 and 08 elections; it has been manifest in the eruptions in Congress against a Chinese company buying American oil assets or in the virulent response to an attempt by an Arabic group to invest in US harbours.

Finally, this survey of difficult challenges currently facing the world economy should have nothing to surprise anyone familiar with economic history. Even without referring to the first half of the XXth century, the last 40 years look like a golden age only if one forgets the breakdown of the gold-exchange standard, the oil crises, stagflation in the industrialized world, and financial crises everywhere in emerging countries. From a long-term perspective, however, what is fascinating about these episodes is the flexibility with which adaptations have occurred, offering solutions to seemingly intractable problems. This is where we are again, with higher stakes than anytime since WW II. But the economy will not today recover following previous lines, easy credit and cheap commodities, continuously increasing outsourcing and global imbalances. Globalization as we knew it has gone out of momentum. We are definitely entering a new phase of globalization. We need a better governance of globalization; and we need it urgently.

In this context, the G20 summits really are a breakthrough for three reasons. One, it has finally enlarged to major emerging countries the obsolete G7 which was trying to square the circle with infamous G8+5 formulas. Second, it convened the Leaders, even to tackle an issue of their finance ministers responsibility; this is good news because building new international arrangements is a question of political will and power-sharing, which only Leaders can deal with. Third, it has now decided to meet on a regular basis. Where are we going from there? For Leaders, it might seem logical to attack the formidable international agenda by going trough a series of successive issues, finance, climate, energy, trade, exchange rates, food, development… But trying to close each of the issues one after the other could prove the wrong method. This piecemeal approach, tackling problems in isolation from the others, will quickly hurt the same difficulties we have been stuck in for years.

G20 discussions has so far focused on providing a common platform for thinking about the response to the economic and financial crisis. While discussions have centered on the appropriate fiscal and monetary policy response, they have not addressed, however, the policy shifts required for long-term sustainable growth of the global economy. Despite the novelty of the current G20 process, there are, therefore, some elements in common with the traditional approach of the international community to the episodes of instability affecting the world's monetary and financial system since the 1980s. Following such episodes, the response was typically conducted on a case-by-case basis, with an emphasis on domestic factors rather than on systemic determinants. In this respect, the G20 has re-proposed a format similar to that of IMF multilateral surveillance following the demise of the Bretton Woods system, whereby policy developments are discussed and views are exchanged, but (systematically-important) countries zealously retain their national prerogatives in formulating economic policies and in deciding the pace of their implementation, despite such policies having unprecedented spillover effects to the global economy.

The current financial crisis can be partly attributed to the false sense of security created by the previous several years of low interest rates and high world growth. While macroeconomic forces were at work, in the guise of low interest rates driving investors to seek out returns further down the credit quality curve, the financial system, partly in response to this, came up with new structures and financial instruments offering higher risk-adjusted returns, instruments in fact far riskier than they seemed. It was not long before market discipline fell short, as optimism prevailed and due diligence was outsourced to credit rating agencies.

Against these developments, there has been: fragmented surveillance, with policy debates scattered across various forums such as the BIS, the G7 and G20, the Financial Stability Forum now Financial Stability Board, FSB), and, of course, the IMF; and, finally, insufficient cooperation among national financial regulators. This has prompted the G20 to strengthen the mandate of the FSB and to expand its membership to the remaining members of the G20, thereby drawing in the large emerging economies. The crisis has also prompted the IMF and the FSB to better coordinate their respective work. While surveillance of the global macroeconomic and financial system is the sole responsibility of the IMF, elaboration of international financial sector supervisory and regulatory policies and standards, along with coordination across the various standard-setting bodies, is the principal task of the FSB. On top of that, history tells us that member countries want to retain flexibility by having their own inter-ministerial forums in which to discuss economic issues of common concern, in addition to multilateral forums. As a result, the relationship between the different instances remain an open question as well as the best strategy to efficiently implement reforms.

Issues for Discussion

1. Macroeconomic issues

1.1 Is this a cyclical adjustment similar to (even if more violent than) the many previous ones? Is this a more significant turning point which calls for structural transformation in particular regarding international economic cooperation?

1.2. Has the G20 achieved a satisfactory degree of coordination among systemically important countries in formulating the macro-economic policy response to the crisis?What is now the appropriate "exit strategy" and its timing? Are we already entering a new bubble?

1.3. Is there a real danger of rising "patriotic" or nationalist postures? If yes, could this turn as real threats to open markets? Which initiatives would be best to avoid them? How important is the issue of "global imbalances" and exchange rate adjustments likely to be?

1.4. What scope is there for far-reaching IMF reforms ? Are systemically-important countries prepared to endow the IMF with the necessary political capital to make it an effective multilateral forum? If so, under what conditions?

2. Microeconomic issues

2.1. What is your assessment of recent changes in the regulatory systems of G-20 countries?

2.2. Are regulations becoming less counter-cyclical?

2.3. Are they defining a level-playing field regarding capital requirements? How far should we push the harmonisation of new financial regulations? What about their implementation?

2.4.How does regulation impact capital flows to emerging markets? And what are the

regulatory issues for emerging markets?

The future of capitalism

3.1 What is the future of capitalism? Is its "anglo-saxon" version out of mode? How far will its "chinese" version rise? Which political consequences will derive from the global redistribution of wealth and power?

3.2. Which form of global governance would be adapted to a world of different forms of capitalism?

3.3. What are the different currents of thought within the US, China, the EU as to their respective role regarding the future of the international economic architecture?

3.4. How could we make existing international institutions work better in a world of different forms of capitalism? Does this require the creation of new international institutions?