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Deep fractures damage hopes of G20 breakthrough

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Governments have played down expectations of a big breakthrough in resolving global economic imbalances from **the G20 leaders' meeting** this week in Seoul after clear divisions emerged over currencies and current account deficits.

On Wednesday Barack Obama, US president, reiterated the need for countries with current account surpluses – a category including China and Germany – **to increase domestic demand** rather than relying on exports.

A plan agreed at an October meeting of G20 finance ministers "commits us all to pursue policies to reduce the risk that unsustainable external imbalances will re-emerge", he said.

But experts said the meeting would end without a clear map about how to get there. Eswar Prasad, formerly a senior International Monetary Fund official, said: "The summit will highlight areas of general agreement, even if those lack specifics, and paper over areas where there are deep fractures among the G20."

A proposal floated last month by the US to set numerical targets or "indicative guidelines" for current account imbalances is being rested for this particular match to avoid injury. In avoiding open confrontation with China, Washington is playing the long game, reckoning that pressure may be counterproductive to the internal debate under way in Beijing.

The People's Bank of China, the central bank, is keener on letting the renminbi appreciate and more open to the idea of setting current account targets, but for the moment other voices within the Chinese government have dominated. How long that will continue is anybody's guess, most likely including that of the White House.

In the meantime the US has had to cope with **a counterattack from Beijing** and Berlin, which last week inveighed against the US Federal Reserve for further monetary easing, which they said was worsening imbalances and destabilising the world economy. Wolfgang Schaüble, Germany's finance minister, provocatively described US policy as "clueless", arousing surprise and concern from some other G20 officials – especially since finance ministers generally refrain from commenting on the actions of their own or others' central banks.

Mervyn King, governor of the Bank of England, on Wednesday made what appeared a coded criticism of China and Germany, telling a London press conference: "I hope that at the G20 meeting this weekend that we will get a co-operative message rather than some of those that we have been getting in the last few days and weeks."

Ousmène Mandeng, a former IMF official now at Ashmore Investment Management in London, expressed the frustration of many with the underperformance of the grouping. "The aim seems to be to damp expectations," he said. "But should it be? At this juncture one would think that the G20 needs to demonstrate leadership."

Earlier this week Robert Zoellick, World Bank president, startled many with his suggestion that currency values be determined with reference to gold. Monetary affairs are generally the provision of the bank's sister institution, the IMF.

"Zoellick's [plan], a wrong proposal from the wrong institution I think, illustrates that there is quite a lot of appetite for ideas but also that there is a vacuum on idea leadership," said Mr Mandeng.

In other areas, actions are either being postponed or implemented partially and at a country level. The G20 is likely to defer decisions on whether large financial institutions should be made to hold more capital, given their threat to the financial system, and people familiar with the process say many decisions are being left to national regulators.

In trade, although the G20 communiqué is likely to restore the ritual call for a conclusion to the Doha round" of multilateral trade talks, Indian and Brazilian negotiators have said they will not give ground to the US to get to a deal.

Recently the European Union did improve considerably the preferential access it offers to exports from poor countries by relaxing the "rules of origin" that determine how many imports those economies can use, but other countries have declined to offer more concessions.

The summit will have some good news: reform of the IMF's governance, which will give more votes and more seats on the executive board to emerging market countries. But that deal was concluded among the G20 weeks ago and confirmed by the IMF board last Friday, so will be a success to reflect on rather than to announce.