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Pledges stir uneasy sense of déjà vu

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By Chris Giles, Christian Oliver and Alan Beattie in Seoul

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World leaders have tried to reduce trade imbalances many times since failing to agree on a comprehensive framework at the 1944 Bretton Woods conference.

In recent years, before the global economic crisis, the efforts were marked by the 2006 multilateral consultations run by the International Monetary Fund and, after the crisis, by the 2009 Pittsburgh G20 summit, where nations pledged to "promote more balanced current accounts ... to advance global prosperity and growth sustainability".

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In the "Seoul action plan" on Friday, only the language was different. The **G20 again pledged** to "strengthen multilateral co-operation to promote external sustainability and pursue the full range of policies conducive to reducing excessive imbalances".

Every time world leaders have made such statements, they have run into the insurmountable problem that they have not simultaneously been able to agree specific policies to achieve their ambitions, nor a timetable, nor an enforcement mechanism if anyone does not play ball.

Seoul was the same. Nevertheless, G20 leaders expressed the conviction that this time would be different. **Barack Obama, the US president**, said: "Step by step, what we're doing is building stronger international mechanisms and institutions that will help stabilise the economy."

David Cameron, the British prime minister, said: "The key thing is, [the global trade imbalance] is being discussed in a proper multilateral way without resort to tit-for-tat measures and selfish policies."

But their cause for optimism about the process is undermined by the similarities between current negotiations and past failures.

Agreeing measurable targets is almost impossible. Before the Seoul summit, China and Germany rejected specific targets for current accounts – just as other groups of countries refused in 2009 to sign up to specific stimulus targets.

As a compromise, the vague notion of "indicative guidelines" on current accounts was set to usher in a year of squabbling about the right indicators.

Angela Merkel, the German chancellor, showed the process would not be easy when she said "a number of indicators" would need to be used, and finance ministers would discuss them "in detail" next year. Dominique Strauss-Kahn, the IMF's managing director, went further.

"They all said they were going to do it, but I can hear in their voices that this is going to be one more [source of] trouble," he said.

Using **the IMF** as an arbiter or referee, as one US official suggested in Seoul, also fills Mr Strauss-Kahn with a sense of déjà vu. He predicted the fund would end up as the "bad guys" when it became the body pushing for co-ordination.

The underlying problem is that it is impossible to force nations to agree when they have irreconcilable differences over their global economic analysis and policy prescriptions.

As the US official admitted: "There is no country that is going to be willing to cede sovereignty of its basic economic policies to a committee or to an independent agency."

Prof Eswar Prasad of Cornell University in New York said: "[This summit] has rendered the G20 goal of strong, sustainable and balanced growth into a meaningless mantra with little follow-through of policies."

That sort of damning assessment has not stopped the optimistic President Nicolas Sarkozy of France from saying that his G20 chairmanship next year will aim to build a "more stable and more resistant" global currency system to attack imbalances.

"When France first spoke about a new Bretton Woods – I remember I spoke about this for the first time at the United Nations two years ago – we were seen as oddballs," said Mr Sarkozy.

"Today, the whole G20 and the rest of the world reckons that we should look at improving the international currency system."

He added: "With [China's] participation, it is a huge step forward. No one denies there's a problem."

Most economic experts have more limited ambitions and greater concerns. "The global economic recovery is proceeding on twin tracks. The discordant outcome of this summit poses the real risk that we could be in for a train wreck," said Prof Prasad.

Additional reporting by Alan Beattie