G20 gulf widens on source of fragility

Print

By Chris Giles in Washington

Published: April 14 2011 21:03 | Last updated: April 14 2011 21:03

Deep divisions over the sources of global economic fragility intensified on Thursday before the Group of 20 meeting of finance ministers and central bank governors, undermining talk of greater international co-operation.

The US strengthened its rhetoric on inflexible exchange rates as the main causes of economic imbalances, while China's president insisted that the most pressing concern was inadequate development of emerging economies.

Despite the differences, the G20 meeting on Friday in Washington was expected to avoid a breakdown and instead agree on some technical methods to measure imbalances in the global economy.

A senior US official put a positive gloss on the disagreements. "I expect this process to be contentious, but that is a sign it is making progress. It is contentious precisely because it is ploughing new ground."

Christine Lagarde, French finance minister, also maintained that the G20 was still moving forward. "It is laborious, it is tedious, it is time consuming, it seems petty at times," she said. "But by the end of the year we will have agreed measures with a view to co-ordinating our economies."

Ms Lagarde's optimism was not entirely shared by the International Monetary Fund, which warned this week that unless the world's leading economies co-operated more effectively, "the recovery will stand on increasingly hollow legs over the medium term" and noted that "the imperative for action and willingness to co-operate are diminishing".

Dominique Strauss-Kahn, managing director of the IMF, said the G20 process "could have been done more rapidly" but added that the level of co-operation in the world was still much greater than could have been dreamed about five years ago.

The predictions of G20 success could not, however, disguise the substantive disagreements. Professor Eswar Prasad, of Cornell University, dubbed the mood in the G20 as "acrimony around some acronyms".

"Even if agreement is reached on guidelines [to measure economic imbalances], the big question is whether there is any sort of commitment or enforcement mechanism," he said.

Such a mechanism seemed far away as countries upped the ante on their differences. Speaking at the Bric summit in Sanya, China, Hu Jintao, China's president, said although there was much discussion on imbalances, "the biggest imbalance in the world economy is the development imbalance between the north and the south and the most fundamental problem in the world economy is the inadequate development of developing countries".

Earlier, Li Yong, China's vice-minister of finance, wrote that developed countries' concern over current account imbalances and China's managed exchange rate was "another political tool ... to contain China's economic development".

In contrast, senior US officials strengthened their objections to China's continued large current account surplus and managed exchange rate. "The key challenge is to enable exchange rates to perform their critical function in facilitating adjustment," the senior official said.

G20 expected to support new sources of finance for the Middle East and north Africa