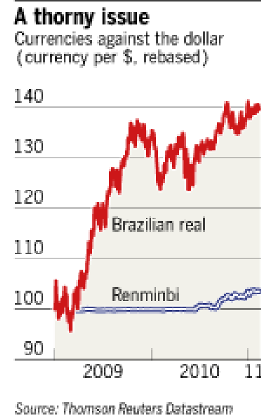
G20 leaders see little hope of quick fix

By Alan Beattie in Washington

Published: February 16 2011 17:51 | Last updated: February 16 2011 17:51

In the run-up to France's G20 presidency, Nicolas Sarkozy last year called for sweeping changes in global economic governance, warning that a lack of vision would make the forum irrelevant.

But faced with a struggle for consensus, the French government has since struck a more muted note.



Finance ministers from the G20 group of leading economies meeting in Paris this weekend expect incremental change rather than revolution.

Rapid progress on the main subject – exchange rates and economic imbalances – is unlikely, as the divisions between the big economies, apparent at the G20 summit in Seoul last November, remain.

Meanwhile, two newer issues for discussion – the dollar's dominance as a reserve currency and governments' use of capital controls – are likely to take a while to resolve.

Eswar Prasad, former head of the International Monetary Fund's China department and now at the Brookings Institution in Washington DC, says: "I see a lot of agreement on broad principles but not much agreement on specifics."

Governments, with the help of the IMF, are moving towards agreeing "indicative guidelines" intended to help reduce global imbalances, though not without resistance from the likes of China, which has been quibbling about the focus on current accounts rather than a narrower measure of trade in goods and services.

But with countries such as Germany opposing numerical targets for those indicators, and given the failed attempts to broker global rebalancing deals in the past, it remains to be seen whether there will be any substantial shift on policy.

Any hope of a big move in the entrenched battle lines of the currency wars also seems at best premature. With US monetary policy remaining very loose, emerging market countries such as Brazil continue to accuse Washington of creating destabilising capital flows: a complaint only heightened by rising food prices and general inflation in many developing countries.

The US has long argued that the main cause of such distortions are the manipulated exchange rates of countries such as China, which put upward pressure on other currencies.

But despite complaints directed by Brasilía to Beijing, and a visit to Brazil last week by Tim Geithner, US Treasury secretary, Washington has yet to assemble a firm alliance with other emerging market capitals.

Guido Mantega, Brazil's finance minister, said on Tuesday that there was no joint plan of action with Washington to put pressure on China. "Brazil is as concerned with the weakening of the US dollar as it is with the Chinese currency," he told reporters.

Indeed, the use of capital controls by middle-income countries such as Brazil to protect themselves from hot money inflows has become the subject of another complex and slow-moving negotiation.

The IMF last year suggested global rules to govern the use of such controls to stop their effects spilling over from one country to another.

The history of multilateral attempts to regulate countries' capital accounts is politically fraught – in particular an abortive effort to change the IMF's articles of agreement in the 1990s to promote capital account liberalisation, which was opposed by developing countries.

TRICKY AGENDA

● **Global Targets**
At the US's urging, the G20 will look at agreeing a set of indicators to address global imbalances, **writes Alan Beattie**.

At the US's urging, the G20 will look at agreeing a set of indicators to address global imbalances, **writes Alan Beattie**.

These will most likely involve real exchange rates, foreign exchange reserves, government debt and deficits, private savings and current account balances.

But governments such as Germany's do not want to set numerical targets for each country to hit.

● **Capital flows and controls**
Some emerging markets have experienced rapid and volatile

Today, however, with emerging markets concerned about the spillover effects of capital controls on other countries, there may be more appetite for guidelines administered by the IMF. But that debate is only just starting.

Finally, the issue that at one point seemed like it would overshadow the whole G20 presidency, the search for a new global reserve currency system to supplant the dominance of the dollar, has also lost much of its urgency.

Consensus is settling around the idea that the world is shifting slowly towards a multipolar reserve currency world, a process likely to take years or decades rather than months.

With the rhetoric having deflated to match the reality, the outcome of this weekend's meeting should at least not come as a disappointment. But nor is it likely to promise a quick resolution to problems that appear as acute now as when the G20 last met.

Copyright The Financial Times Limited 2011. Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

inflows of foreign capital and increases in exchange rates, and have variously blamed the US for very loose monetary policy or China for holding down its currency and driving capital elsewhere.

The G20 will start to look at a code of conduct which will govern the imposition of capital controls in such cases.

● **Reserve currency**
France and China have said that the dollar's dominance as a global reserve currency threatens economic stability. But rather than a grand plan, such as replacing it with the special drawing right, a reserve asset used by the International Monetary Fund, the G20 is likely to accept a more evolutionary approach.

● **Commodities prices**
France wants more global regulation to prevent speculative bubbles in commodities prices, which it says reduce food security in developing countries.

But exporters such as Brazil say that increasing output rather than more regulation is the answer.

"FT" and "Financial Times" are trademarks of the Financial Times. Privacy policy | Terms
© Copyright The Financial Times Ltd 2011.