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Industrialized nations pursue currency compromise

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The U.S. and other industrialized countries are pushing to create a broad set of economic targets that would hold key countries - notably China - more directly accountable for their currency and other policies.

The idea, under discussion as financial leaders try to resolve a stubborn dispute over China's closely managed currency policy, is to expand the discussion beyond exchange rates - an acknowledgment of the political sensitivities around an issue that touches on sovereign power.

Instead, countries would commit to meet other, related targets and guidelines - such as avoiding excessive accumulation of foreign reserves or running an outsize current account surplus. The current account is a basic measure of the goods, services and capital moving into and out of a country; the accumulation of reserves can signal that a country's economy or exchange rate is out of balance with its trading partners.

In a speech at the International Monetary Fund annual meeting Saturday, Treasury Secretary Timothy F. Geithner repeated his recent call for the fund to take a more aggressive role in ensuring that exchange rates are not used by countries to gain the upper hand in trade - as China is accused of doing. Although the fund has no power to control a country's currency policies, it could reprimand a country when it thinks it is accumulating excess foreign reserves or running a current account surplus or deficit that threatens the stability of the world economy, Geithner said.

China's $2.5 trillion in reserve holdings represent the world's largest such stockpile and the amount is increasing.

"Excess reserve accumulation on a global scale is leading to serious distortions in the international monetary and financial system," Geithner said, urging the fund to develop new "reserve metrics," and "increase the candor" of its public statements about whether individual national policies are complementing or impeding the global recovery.

Geithner's statements come amid growing concern that countries - particularly China - are using their exchange rates to gain an edge in the competition for global trade and jobs, and risking a broader round of protectionist retaliation. Geithner and others have urged a more central role for the IMF in tempering that dispute, and officials said a more precise set of global norms may need to be developed.

Canadian Finance Minister Jim Flaherty said the major industrialized countries were in broad agreement on the need for more specific "parameters and guidelines" for large trading nations to follow. Such a pact could be made at the upcoming meeting of the G-20 nations in South Korea. China is part of that group.

"We need to aim for more clarity over what the rules of engagement are," he said.

The Chinese renminbi is widely considered to be held below its true market value, but officials in Beijing have only committed to a gradual rise - and say that loose U.S. monetary policy is as much to blame for any distortions in the world economy.

Developing new guidelines - for currency or other economic measures - won't be easy. The IMF largely failed in earlier efforts to police exchange rates, said Cornell University economics professor Eswar Prasad, and potential divisions among importing and exporting countries may make agreement on other targets difficult.

"The major economies are each encouraging the IMF to push harder on other countries but showing no willingness to yield to the IMF any leverage over their own policies," Prasad said.

But pressure for a solution is mounting. China's policy of pegging the renminbi to the dollar has ripple effects throughout the world, and particularly among other export-dependent countries struggling to keep their goods and services competitively priced. Investment capital has been flooding into emerging-market nations in Asia and Latin America, and the local currencies in those regions have been rising in value as a result - making goods from countries such as Thailand more expensive compared with those from China.

The Thai baht has risen 10 percent this year, and Thai Finance Minister Korn Chatikavanij said that is not only hurting the country's exports, but complicating internal debate over issues such as raising the minimum wage.

"There is every fundamental reason our currency should appreciate. But if we adjust, everybody should adjust," Chatikavanij said. "We need to see the major economies sit down and talk about it like adults."

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