

G20 sceptics wait for shift in behaviour

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Wolfgang Schäuble, German finance minister, chats with Christine Lagarde, his French counterpart, after the laeklustre summit

If the French thought that chairing the G20 this year would involve smiling benignly as its members happily reordered the world economy around them, they will have been disillusioned by this weekend's meeting of finance ministers in Paris.

Although the gathering cobbled together a set of economic indicators whose monitoring by the International Monetary Fund is intended to help rebalance the global economy, the difficulty in agreeing the list does not inspire confidence that the exercise will prompt G20 members to change their behaviour.

In the face of determined and often solo opposition from China, the finance ministers did not mention foreign exchange reserves in the list of indicators. The **communiqué** also folded plans for specific guidelines on real exchange rates and current account balances into a broader commitment to monitor "the external imbalance composed of the trade balance and net investment income flows and transfers, taking due consideration of exchange rate, fiscal, monetary and other policies".

Christine Lagarde, the French finance minister who chaired the meeting, said: "The negotiations have been frank and sometimes tense, but always respectful. It has not been simple." The agreement, she added, represented "a spirit of compromise".

Wolfgang Schäuble, German finance minister, said the outcome was "a result which we all can live with".

Participants said that with Tim Geithner, US Treasury secretary, at one end of the spectrum pushing for binding commitments and China at the other trying to remove all references to exchange rates, Germany manoeuvred itself into the position of being a conciliator.

Mr Schäuble, who has faced criticism for Germany's own current account surplus, helped to persuade Xie Xuren, his Chinese counterpart, to accept a compromise that would not involve setting numerical targets.

Mr Geithner declared himself happy with the outcome, but the episode will have done nothing to convince the many sceptics who say that the indicator debate will be just another episode in the long history of trying to use IMF analysis and moral suasion to achieve global rebalancing.

Dan Price, an enthusiast for the G20 heads of government process who helped to set it up in 2008 when he was a White House official, lauded the "remarkable success of the G20 in putting on the table for international discussion topics that major players once considered solely within their domestic discretion".

But even he conceded that progress is "incremental rather than seismic". And most officials with inside experience

of trying to use IMF analysis as a lever to achieve such goals as getting China to alter currency policy held out much less hope that agreement on the indicators would lead to real change.

Ousmène Mandeng, head of public sector investment at Ashmore Investment Management and a former deputy division chief at the IMF, said the outcome of the G20 talks was a “big disappointment”, and that the communique sank to the lowest common denominator. Plans for greater IMF surveillance, he said, represented almost no advance on the fund’s current functions.

[G20 summit](#)

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“The fundamental problem is whether [IMF] surveillance is truly effective,” Mr Mandeng said. “If you look at the record you must conclude that it is not.” He said the G20 should stop trying to create unenforceable obligations and instead think more creatively to change governments’ incentives.

Another phenomenon on display was China’s willingness to continue fighting on its own in the G20 if necessary. Though it generally dislikes being isolated in international discussions, Beijing was not put off by the concern shown by other emerging markets such as [Brazil about the renminbi](#).

Its determination suggests more struggles ahead. “The outcome reveals how central China has become to global macroeconomic management and how much clout it has in international policy discussions,” said Eswar Prasad, former head of the IMF’s China division. “With the rest of the G20 arrayed against it, China still managed to hold its own.”

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