China scorns focus on imbalances

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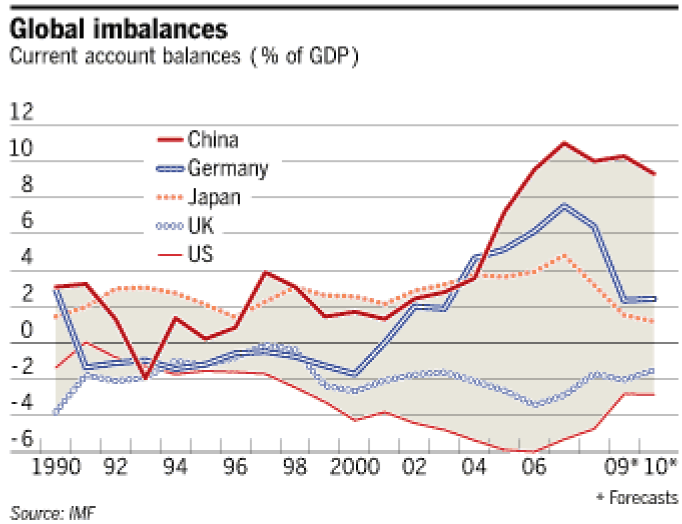
China expressed scepticism on Thursday about a US and European push to launch an effort to tackle global economic imbalances at next week's G20 summit in Pittsburgh.

Zhou Wenzhong, China's ambassador in Washington, said: "People should not focus on only one thing, that is balancing the economy." The International Monetary Fund should concentrate on doing a better job of monitoring the build-up of financial risks.

He said China – which reacted angrily to US moves to slap countervailing duties on tyre imports this week – wants the G20 to make a strong commitment to avoiding protectionism.

Mr Zhou's comments, echoed by officials in Beijing, came as the White House and European nations move to try to agree in Pittsburgh a framework for tackling global imbalances – big gaps between savings and investment rates among countries, reflected in big current account surpluses and deficits.

"We hope to reach agreement on a framework for balanced growth, for agreeing on how to address the imbalances that led to this crisis and on some process for holding each other accountable," Michael Froman, the US's deputy national security adviser for international economics, said on Wednesday.



US officials see co-ordinated efforts to reduce global imbalances as essential to underpin the recovery from the global recession and ensure the future pattern of global growth does not rely on bubble-fuelled spending in the US.

"Global imbalances have to add up to zero, so if the US is going to be less the consumer and importer of last resort then other countries are going to need to be in different positions as well," a senior administration official told the Financial Times recently.

Britain, France and other European nations are backing a push on global imbalances at the G20 summit. Gordon Brown, the UK prime minister, said this week: "When I attend the G20, I will be putting the case for a global compact for growth and stability for now and for the future."

These nations want a credible process for monitoring national efforts to bring greater balance to their own economies. The Obama administration insists this is not about blaming China and other surplus nations for helping cause the crisis – but rather about ensuring the global economic exit from the crisis is well choreographed and the world is able to grow strongly with greater stability in the future.

US officials believe there is a considerable degree of consensus on the need for this, including in Beijing. Economists, meanwhile, are warning that the pattern of global imbalances could re-emerge as

IMF reform hope

There may be a "breakthrough" in the long-running battle to reform the governance of the International Monetary Fund at the G20 meeting next week, the head of the IMF said on Thursday, reports Sarah O'Connor in Washington.

Dominique Strauss-Kahn, the IMF's managing director, said he expected progress at Pittsburgh in the push to give developing countries greater representation at the fund. He also suggested the G20 should think about how to include poorer countries in its decision-making process.

Mr Strauss-Kahn said the meeting in Pittsburgh would test whether countries would act together as the crisis global recovery strengthens, creating the risk of instability.

"The deep irony is that the recovery is setting the stage for a resurgence of global macroeconomic imbalances, which contributed to getting us here in the first place," said Eswar Prasad, a professor at Cornell University and former IMF official.

While China is committed to shifting its growth model over time so it is less reliant on exports and more based on domestic demand, it is wary of a global push on imbalances, apparently due to fears it could become a way of bashing Beijing over its trade surplus.

Imbalances were "certainly not the root cause of the problem", Mr Zhou said. "The root cause of the crisis is the lack of supervision and abuse of the openness of the market, very risky levels of leverage and too much speculation."

He said China wanted to see moves to improve global financial supervision, strengthen bank capital and create global early warning systems to identify threats.

began to ease. "We're still at the point where national concerns, domestic problems may overcome," he said in comments after a speech to the Centre for Global Development in Washington.

His speech focused on the world's poorest countries, which he said needed around $55bn in additional external financing this year and next. The IMF could provide around a third, he said, but he urged donor countries to step up their aid at least to match promises made in 2005 at the Gleneagles summit.

"At times like this there is always a temptation for countries to retreat inwards .. But the world community cannot ignore the needs of the low-income countries, especially since the poorer countries are paying the price for rich-country mistakes," he said.

"China intends to play an active role in international efforts to revive the global economy but the responsibility for causing the crisis is not ours," said a senior official in Beijing on Thursday.

China is likely to argue that it is already doing a substantial amount to rebalance its economy. Although imports and exports have both slumped this year, imports have fared less badly as a result of demand for commodities created by the government's fiscal stimulus programme.

China's current account surplus, which reached nearly 10 per cent of gross domestic product last year, is forecast to fall to about 5 per cent of GDP this year.

Li Rongrong, head of the government body that runs state-owned companies, said that a proposal of 20 policies to boost the private sector had been submitted to the State Council.

"If these pro-private investment policies can be formulated and implemented successfully, they will potentially have a game-changing effect on China's private-sector economy," said Li Wei, an economist at Standard Chartered in Shanghai.