

G20 officials to wrestle over economic imbalances

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The world's top financial officials on Friday sought a blueprint for securing future global growth and worked to break a deadlock over who bears the cost of fighting climate change.

Even as the world emerges hesitantly from recession, finance ministers and central bankers from the Group of 20 leading rich and developing countries meeting in Scotland are likely to agree that it is too early to pull the plug on economic stimulus measures.

While Britain remains officially in recession, the United States, Germany, and Japan have all recorded renewed growth and the 16-country euro zone is expected to do the same when figures are released next week.

British Treasury chief Alistair Darling, the host of the gathering, urged the group to maintain the collective approach forged in more dire circumstances at summits in London in April and in Pittsburgh in September, arguing that sustainable growth would only come from agreed action to increase trade and boost productivity.

Some countries are more eager to begin sketching out exit strategies to unwind the recent massive government spending, low interest rates and expansion of the money supply that are supporting the world economy. And the European Central Bank broadly hinted Thursday that it will soon begin cutting back some of its emergency lending to banks, ramped up during the finance crisis.

There are also disagreements on banking reform, with Canadian Finance Minister Jim Flaherty acknowledging on the eve of the meeting that there were "disparate views" on how to address the problem of banks being too big to fail. Britain is forcing major bailed-out banks to sell part of their business, while the U.S. has shied away from calls to break up major banks. Meanwhile, a French official said his country is worried that the momentum behind tightening rules on bonuses is flagging.

"There can be no room for complacency amongst G-20 countries this weekend," Darling said in a speech in Edinburgh on his way to chair the grouping that represents around 90 percent of the world's wealth, 80 percent of world trade, and two-thirds of the world's population.

Darling acknowledged that plans for recovery must eventually be coordinated, but said "as we draw up our plans, we must accept that the biggest risk to recovery would be to exit before the recovery is real."

The other key item on the agenda for the officials -- holed up away from the blustering Scottish winds in a seaside golf resort -- is tackling the financial cost of climate change.

With the major UN climate conference in Copenhagen a month away, Darling said that "heavy lifting" was needed to push through a deal on so-called climate finance, which would give developing countries funds to help them cut emissions by switching from fossil fuels to cleaner energy such as wind and solar.

EU leaders last week agreed to a euro100 billion annual package of public and private finance by 2020 to help poorer nations develop green industries and adapt to climate change.

"We need further progress, the Americans have to be more specific and also more clear about their contribution," said Swedish finance minister Anders Borg. Sweden currently holds the EU chair.

The climate issue was the focus of a small protest in the center of the university town of St. Andrews, where around 20 people waved homemade banners saying "Nae Tae G20" ('No to G20' in local dialect) and "Nature doesn't do bailouts."

Ministers are also turning their thoughts toward a new system of checks to help rebalance world growth and prevent future crises but longstanding disagreements suggest that progress will be slow.

The finance ministers and central bankers are trying to find a way to make good on a pledge by world leaders at their September summit in Pittsburgh to subject their economic policies to the scrutiny of a peer review. That process would determine whether each country's efforts were "collectively consistent" with sustainable global growth.

The goal is to avoid repeating problems like huge trade deficits and credit-fueled consumption in the U.S., and massive trade surpluses and savings in China and elsewhere. China's appetite to fund U.S. debt by buying Treasuries was seen as playing a major role in fueling the U.S. housing boom and subsequent collapse.

Finance officials will seek to decide what economic data each country will submit for review by the International Monetary Fund. The IMF will review the individual country data and submit a report that would form the basis for discussion at the June meeting in Canada.

It is unclear, however, just how detailed and effective the reports will be -- given governments' resistance to outside pressure to change their economic policies.

Highlighting the problem is resistance to confront exchange rate issues, which could play a key role in correcting trade imbalances. While the weakness of the U.S. dollar and the strength of the Chinese yuan will almost certainly be discussed to some degree, the currency issue is not on the formal agenda.

The G-20 is comprised of Argentina, Australia, Brazil, Britain, Canada, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United States and the rotating EU presidency.

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