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Group of 20 Struggles for Meaningful Closure

By The Moscow Times

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SEOUL, South Korea — The Group of 20 meeting on Thursday struggled to agree on meaningful action to rebuild the global economy as a crisis erupted in Ireland, pushing its bond spreads out to a record over Germany and infecting Spain and Portugal.

Even as U.S. President Barack Obama voiced confidence that the leaders would agree on steps for more balanced and sustainable global growth, financial markets sold vulnerable euro-zone bonds and shares of British bank RBS.

At the summit, European Commission President Jose Manuel Barroso said the European Union had the tools to help Ireland, but he did not commit to a fresh course of action that could reassure nervous investors. "What is important to know is that we have all the essential instruments in place in the European Union and euro zone to act if necessary, but I am not going to make any speculation," he told reporters.

The G20 summit, billed as a forum where rich nations struggling with the recent global financial crisis could ink a new world order with emerging economic powerhouses like India and China, appeared set to agree to little of substance, as policymakers preferred to avoid damaging disagreements.

"The real issue is given that it is a problem, how do we coordinate policy? I don't think you should be too demanding ... because such policy coordination has never been attempted before," Indian chief G20 negotiator Montek Singh Ahluwalia told Reuters.

Struggling to recapture the unity forged in the throes of the global economic crisis two years ago, the G20 club of rich and emerging economies had hoped to use the summit to soothe tensions over foreign exchange rates generated by imbalances between cash-rich exporting nations and debt-burdened importers.

But behind the scenes, negotiators squabbled over the language in a closing statement to be issued at the summit's conclusion on Friday. The final version may not venture far beyond agreements reached by G20 finance ministers last month, yet it was still proving difficult to agree on the wording.

A major irritant in the run-up to the meeting was the U.S. Federal Reserve's $600 billion bond buying spree to revive the economy. Former Fed Chairman Alan Greenspan stirred that pot, saying the United States was deliberately weakening the dollar. "The U.S. will never do that," U.S. Treasury Secretary Timothy Geithner shot back a few hours later in an interview with CNBC. "We will never seek to weaken our currency as a tool to gain competitive advantage or to grow the economy."

Geithner again criticized China's currency policies, saying the world's second largest economy risked stoking inflation pressures. China earlier reported that consumer price inflation had hit a 25-month high in October.

Obama, speaking after a meeting with South Korean President Lee Myung-bak, said he was confident that leaders would support a program for promoting balanced growth, building on a agreement reached at a G20 summit in Pittsburgh in 2009. "I don't think this is a controversial proposition," he said.

Thursday's agenda included dozens of bilateral meetings, but the summit officially starts with a working dinner on Thursday. On the sidelines, the United States and South Korea failed to reach accord on a stalled free trade deal, an embarrassment to both countries' leaders. Lee said a "little bit" of progress had been made since the October finance ministers' meeting in Gyeongju, South Korea, but deep divisions remained over how best to reduce current account imbalances.

A draft of the final communique obtained by Reuters showed that the leaders would back the idea of "indicative guidelines" for the reduction of current account imbalances. But they were undecided on whether these would be based on "measurable" indicators or more vaguely "quantitative and qualitative."

An idea floated by Geithner earlier for numerical targets to be set for for trade imbalances has now been taken off the table. The draft showed that G20 members would agree to "refrain

from competitive devaluation" of currencies but were debating whether to include the words "competitive undervaluation," a reference to the U.S. view on China's currency policy.

China's yuan, also known as the renminbi, rose 0.25 percent on Thursday and has climbed almost 3 percent since Beijing loosened its grip on the tightly managed currency in June. Washington has welcomed the slow-but-steady appreciation, although it has said more movement is needed. By contrast, Ireland saw the spread over German bunds for its 10-year bonds hit 685 basis points for the first time as Ireland's fragile government battled to prove that it does not need a Greek-style rescue to help it reduce the worst budget deficit in Europe.

Elsewhere in Europe, austerity measures triggered new protests, with students in Britain rioting amid rising tuition costs, although in the South Korean capital there were only sporadic anti-G20 demonstrations.

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