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From the Plaza Accord to the Busan Truce and Back

The French presidency of the G7 has been remarkably effective at reviving the policy discussion around global imbalances and international economic policy coordination after more than a decade of complete neglect by the International Monetary Fund (IMF). But the dominant economic consensus that has emerged around these issues in the last year has systematically minimised both the role that exchange rate policy management plays in fuelling global imbalances as well as the role that international coordination on exchange rates could play in addressing them.

While most economists, including at the IMF, agree that the Plaza Accord of 1985 has been the only successful experience of orderly global rebalancing, there is a general belief that such a feat cannot be repeated today. The arguments against such an effort are either political – contending that it is not possible to compel China to change its currency arrangement and economic policies today in the way Japan did in the 1980s, or economic – stating that currency markets are so deep today that it is not possible to durably affect exchange rates through coordinated currency interventions or the threat thereof. More bizarrely, the economic consensus of the day seems to have shifted towards the view that nominal exchange rates do not matter because any movement in exchange rates will be perfectly offset by an equivalent movement in domestic prices. This rubs against conventional macro models and empirical evidence that argues instead that there are strong nominal rigidities and that domestic prices do adjust but imperfectly and after long lags.

This coyness about putting exchange rates on the policy agenda is all the more surprising given that East Asian economies are now recording the largest-ever external surpluses and, for many of them, historically low exchange rates versus the US dollar. The reason is that a policy – intervention, reserve accumulation, hedge ratios on sovereign and pension assets, and a state financial sector leaning against appreciation – is doing the work to offset market forces. My argument is straightforward: rebalancing the world economy will not happen without a realignment of these exchange rates, and the simplest, fastest lever available is coordinated appreciation across the region rather than piecemeal, country-by-country pressure that Beijing, Seoul and Tokyo can each wait out.

The most natural way to start a global rebalancing process would be to engage in a real discussion about exchange rate policy coordination, which would itself force domestic policy action to avoid its most immediate deflationary impact. Exchange rate adjustments alone do not work in the long run, but they would force the necessary economic, industrial and fiscal policy changes that would make the adjustment sustainable over time. Exchange rate moves work best, and last longest, when they are locked in by parallel commitments on the macroeconomic side that create a shift in the savings and demand patterns that produced the surpluses in the first place. Currency policy and macro policy have to move together, but moving on the exchange rate first creates the commitment device that makes the domestic economic policy change more likely.

Chancellor Merz seems to have decided to put the exchange rate discussion on the table since the G7 meeting in Evian, but this has yielded limited results for the time being. While

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the new Trump economic team seemed very intent on making exchange rate policy part and parcel of the US' ambition for a "grand economic reordering", the tariff action of April 2025 and the violent Chinese retaliation has stolen the US' thunder and forced the Trump Administration to retreat. As a result, the US Treasury's currency manipulation report of January 2026 carefully avoided opening another front with China or other Asian trading partners and found that no major trading partner met all three criteria for enhanced analysis under the Trade Facilitation and Trade Enforcement Act of 2015. The Treasury has kept most Asian currencies on a monitoring list but avoided designating any of them as currency manipulators. The US Presidency of the G20 could in principle offer an avenue to bring the topic back on the agenda of the multilateral policy discussion, but this US administration has limited trust in and ambition for the G20 as well as limited space for opening a new front with China.

Given the current appetite for international economic policy coordination, Europeans must come together strongly on these issues and try to move the discussion from the G7 to the G20. This would wager that the US will eventually return to a more offensive approach towards exchange rate manipulation and less defensive approach towards China. Keeping the topic a multilateral policy conversation and negotiation such that countries like Taiwan, South Korea or Japan are prepared to see their currency appreciate could help bring China onboard towards a more rapid and sustained appreciation. In fact, since the Busan truce in May 2025, it is worth noting that China has allowed the renminbi to appreciate slowly and steadily, a move that illustrates that China understands and practices currency diplomacy more than one generally accepts. Such an agreement to revalue Asian currencies would however only be credible if it can be backed by a set of coordinated foreign exchange (FX) interventions or the threat thereof. This would not apply to the Chinese renminbi, which is fully managed and controlled by the People's Bank of China, but would potentially be necessary to support the appreciation of the won or yen and the broader Asian currency complex and would need to be undertaken and supported by global central banks like the Federal Reserve and the ECB under a framework similar to the G7 FX interventions agreed to following the Fukushima Daiichi nuclear incident in 2011.

But such a currency revaluation arrangement would only be credible if complemented by a set of solid domestic policy moves to sustain it, and this is where more work is required. The currency adjustments by themselves would require domestic policy changes that multilateral surveillance could help make more credible. In 2006, the IMF convened its first – and, to date, only – multilateral consultation, bringing together the United States, the euro area, Japan, China and Saudi Arabia specifically to discuss global imbalances and policy commitments. It was a genuine innovation: structured bilateral consultations followed by joint sessions, culminating in an April 2007 report in which each participant set out its own policy commitments. But the design had flaws and it produced no enforcement mechanism beyond peer pressure. The global financial crisis arrived a year later with the imbalances unravelling with a bang rather than through coordinated actions.

The post-crisis response of the G20 was more ambitious in scope. The Framework for Strong, Sustainable and Balanced Growth, launched at the Pittsburgh summit in 2009, established a Mutual Assessment Process in which the IMF would evaluate whether the collective policies of G20 members were consistent with reducing imbalances, reporting back to leaders and finance ministers on a regular cycle. For a couple of years, this gave rebalancing real institutional weight – it was the closest the international system had come to a standing macro-coordination mechanism. When the acute phase of the crisis passed, attention moved to fiscal austerity and euro area stress, and the Mutual Assessment Process quietly unravelled. The lesson from both episodes is not that coordination is futile. It is that coordination frameworks need two things and the 2006-07 and post-2009 versions lacked one: an explicit exchange rate component.

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