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World Bank president Robert Zoellick has called on bickering G20 nations to bring gold back into the global monetary system as an anchor to guide currency movements.

Ahead of a G20 summit this week in Seoul, Zoellick wrote in Monday's Financial Times that an updated gold standard could contribute to retooling the world economy at a time of tensions over currencies and US monetary policy.

Zoellick said the world needed a new regime to succeed what he called the "Bretton Woods II" system of floating currencies, which has been in place since the fixed-rate currency system linked to gold broke down in 1971.

"Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today," Zoellick wrote in a commentary for the FT.

The new system "is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi (Chinese yuan) that moves towards internationalisation and then an open capital account," he said.

"The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values," Zoellick added.

His comments came amid worries of a so-called "currency war", when countries jostle for trade advantage by massaging their exchange rates lower.

The United States has led accusations that China cheats in world trade by artificially weakening its currency.

But Washington also stands accused of tolerating a weak dollar, roiling emerging markets whose own currencies are rising strongly, hurting their export competitiveness.

The complaints have intensified since the Federal Reserve last week announced a 600-billion-dollar shot of monetary stimulus -- in effect printing money that other economies worry will flood their markets.

Zoellick also called on the Group of 20, whose leaders meet in the South Korean capital on Thursday and Friday, to forge structural reforms, including more domestic demand in China and more debt-reduction in the United States.

Major economies "should agree to forego currency intervention, except in rare circumstances agreed to by others", he added.

The G20 could work out tools to help emerging economies cope with the kinds of hot-money flows that are now driving up their currencies and creating fears of asset bubbles.

And the G20 should "support growth by focusing on supply-side bottlenecks in developing countries", such as infrastructure, agriculture and a lack of skilled labour, Zoellick said.

"Perhaps most importantly, this package could get governments ahead of problems instead of reacting to economic, political and social storms," the World Bank chief argued.

AFP Economy

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