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G20 draft no longer rejects protectionism or competitive devaluations

FILE PHOTO: Flags of G20 countries are seen outside the G20 venue before the start of the G20 Summit of major world economies in Cannes November 3, 2011. REUTERS/Dylan Martinez

By **Jan Strupczewski** | BRUSSELS

The world's financial leaders may no longer explicitly reject protectionism or competitive currency devaluations, a draft communique of their meeting next week showed, promising only to keep an "open and fair international trading system".

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Finance ministers and central bank heads from the Group of 20 major developed and developing economies will meet on March 17-18 in the German town of Baden Baden to discuss the world economy.

It will be the first meeting of G20 finance ministers attended by representatives of the administration of U.S. President Donald Trump, who has more protectionist policy views on trade.

The draft communique seen by Reuters, which may change before March 18, appears to accommodate the new U.S. position.

The draft, dated March 1, drops the phrase adopted by G20 finance ministers last year to "resist all forms of protectionism". A warning against protectionism has appeared in G20 communiques for more than a decade.

"The lack of any reference to protectionism in the draft is strange," said one official

The draft also no longer contains the sentence, used in previous statements, that the G20 should "refrain from competitive devaluations" and should not "target our exchange rates for competitive purposes."

Instead, it says: "We will maintain an open and fair international trading system" and "We reaffirm our previous exchange rate commitments."

G20 communiques last year began including a phrase that was part of Group of 7 language for years: "Excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will consult closely on exchange markets."

This sentence is now also missing from the draft.

The G7 groups Britain, Canada, France, Germany, Italy, Japan and the United States.

G20 countries "are fighting a rearguard action to deflect the protectionist approach" of the Trump administration, said Eswar Prasad, the former head of the International Monetary Fund's China department who is now a trade and economics professor at Cornell University.

"The G20 is clearly struggling to find a way to stick to its previous policy statements on these issues in the face of hostility from the new U.S. government," Prasad added.

Nathan Sheets, a former U.S. Treasury undersecretary for international affairs in the Obama administration, said the early March 1 draft will likely change substantially before it is published, subject to "a lot of back and forth."

"There is nothing wrong with reaffirming previous commitments, especially in the spirit

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of streamlining the communique. We've done that before and sometimes this is done to avoid a disruptive difference in views," said Sheets, now a senior fellow with the Peterson Institute for International Economics.

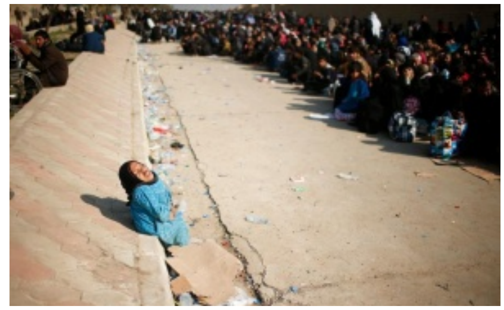
Trump's trade adviser Peter Navarro said on Monday the $65 billion U.S. trade deficit with Germany, which holds the G20 presidency this year, was "one of the most difficult" trade issues. Bilateral discussions were needed to reduce it outside of European Union restrictions, he said.

Navarro's comments followed his complaints last month that Germany was exploiting a weak euro to gain a trade advantage, an accusation Berlin rejected since the euro exchange rate is set by markets, mainly in reaction to the monetary policy of the independent European Central Bank.

Trump has threatened German car companies with a border tax of 35 percent on vehicles imported to the United States, arguing that would make them create more jobs on American soil.

His protectionist views have alarmed German politicians and managers because Europe's biggest economy gets nearly half its economic output from exports. The United States is Germany's single most important trading partner, taking nearly 10 percent of its exports.

(Reporting by Jan Strupczewski in Brussels and David Lawder in Washington; Editing by Hugh Lawson and James Dalgleish)



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