

Trade tensions intensify at G20 meeting

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The G20 finance ministers' meeting in Buenos Aires over the weekend ended with no steps being taken toward resolving the trade war tensions moving through the global economy.

While there was no repeat of the open conflict that marked the meeting of the G7 last month, when US President Donald Trump repudiated the final communiqué, “the schism in global trade relations was laid bare,” in the words of a *Financial Times* report.

The communiqué issued at the end of the talks noted that while global economic growth remained “robust,” it had become “less synchronised recently” and short- and medium-term risks had increased. “These include rising financial vulnerabilities, heightened trade and geopolitical tensions, global imbalances, inequality and structurally weak growth, particularly in some advanced economies.”

This assessment reflected that made by the International Monetary Fund on the eve of the meeting. The IMF warned that the likelihood of “escalating and sustained trade actions” threatened to have a “serious and adverse impact on global growth while leaving unaddressed the underlying causes of global imbalances.”

Rather than confront any of these problems, the main work of the G20 meeting was to try to craft a statement that avoided them.

The commitment to “resist protectionism,” which had formed the centre of G20 statements since the global financial crisis in 2008, but was junked last year as the US stepped up its trade war measures, did not make a reappearance.

The question of competitive currency devaluations, which had been put into the spotlight by statements from Donald Trump on the eve of the meeting that the currencies of the European Union and China were being devalued at the expense of the US, was virtually passed over. The communiqué said only that the G20

reaffirmed “our exchange rate commitments made in March,” which said competitive devaluations should not be undertaken.

German Finance Minister Olaf Scholz rejected Trump's claim that the EU manipulated the value of the euro, saying it carried out “very rational policies that are not geared to artificially creating economic successes through currency levels.”

China also denied it was deliberately pushing down the value of the renminbi, which has dropped by 4 percent against the US dollar in the past month.

Rather than any measures to address the eruption of trade war, the G20 meeting was characterised by the manoeuvres of the various participants, reflecting their different economic and political interests as they seek to obtain the best possible position in the deepening global conflict.

US Treasury Secretary Steven Mnuchin moved to call the EU's free trade bluff. “If Europe believes in free trade, we're ready to sign a free-trade agreement,” he said. But any agreement would have to eliminate tariffs, along with non-tariff barriers and subsidies. “It has to be all three issues,” he said.

As Mnuchin well knows, there is no likelihood of such an agreement because the EU has a complex system of subsidies and other arrangements, particularly covering agriculture.

Mnuchin also made clear that measures directed against China, which have led to the imposition of 25 percent tariffs on \$34 billion of Chinese imports and include a plan to impose a 10 percent tariff on a further \$200 billion worth of products, will be intensified.

Underlining the threat made by Trump to target all Chinese exports to the US, Mnuchin said before the meeting that he “wouldn't minimize” the possibility that tariffs could be imposed on \$500 billion worth of Chinese goods.

Mnuchin held no discussions with Chinese officials at

the G20 gathering, but repeated the claim that the US wanted the Chinese to buy more US products. Earlier, Beijing had offered to increase its exports by \$100 billion, but this was rejected as inadequate, reflecting the fact that the drive of the US against China is aimed not at the trade imbalance per se, but at China's promotion of high-tech industrial development, regarded as a long-term threat to US dominance.

Seeking to portray the US as being in a strong position, Mnuchin said that while some individual sectors of the economy, such as agriculture, had been hurt, the overall US economy had not been impacted adversely by the administration's trade measures.

He added that the US would be looking at specific action to assist those sectors "unfairly targeted," including retaliatory measures—a reference to the imposts on US goods by the EU and China.

French Finance Minister Bruno Le Maire repeated the assertion that the EU would not negotiate "with a gun to our head" and called on the US to "return to reason."

He said the US had to be the first to move in the scrapping of tariffs, as it was the first to implement them. The "law of jungle will only lead to chaos," he added.

But there are differences in the EU. They centre on how to respond to the next threatened move by the Trump administration—the imposition of tariffs on European auto imports under national security provisions of the 1962 Trade Expansion Act.

Germany and the Netherlands would be more adversely affected by auto tariffs than France and Italy and, while the official position is that there will be one EU response and the US should remove its threats before negotiations, other moves are underway.

Pierre Moscovici, the EU commissioner for economic and financial affairs, said trade tensions were high and it was a "very challenging time," with multilateralism "under significant pressure." He said the EU would respond "firmly" to protectionism and take action within the rules of the World Trade Organisation. But, in a reference to the visit by European Commission President Jean-Claude Juncker to Washington this week, he added that "we are always willing to go the extra mile to build bridges."

Reflecting the ever closer alignment of the Turnbull government with the Trump administration over its military and economic push against China, Australian

Treasurer Scott Morrison said in an interview with *Bloomberg* that no country was "pursuing protectionism for protectionism's sake."

"There are some grievances that have been around for a decade," he said. "There is legitimate frustration about the failure of the system to resolve the issues that concern the US and others."

So far, Japan has sought to fly under the radar and avoid a direct conflict with the US, while seeking to advance its own agenda by reviving the Trans Pacific Partnership, minus the US, and by signing a major trade deal with the European Union.

Despite being refused an exemption from the US tariffs imposed on a steel and aluminium, Japan did not follow Canada and the EU and initiate retaliatory action.

However, Japanese Trade Minister Hiroshige Seko said last week the "case of autos is different" and "our response would change."



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