Trade Conflict Heats Up, Towards a Full-scale Global Trade War?

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The Trump administration is expected to announce today how it will apply the tariffs on steel and aluminium outlined last week. While a full-scale global trade war has yet to break out, the major powers are manoeuvring for an impending conflict.

Yesterday, European Union Trade Commissioner Cecilia Malmström said the EU would take the case to the World Trade Organisation and work with others if Trump went ahead. The EU, she confirmed, has drawn up a list of products that would be subject to tariffs to the tune of €2.83 billion if the US proceeds. The targets could include certain types of bourbon, and food products such as peanut butter, cranberries and orange juice, as well as Harley Davidson motorbikes.

Malmström said she was reluctant to use the term "trade war" and the EU did not "want this to go out of proportion." But she added:

> "[W]e need to take certain measures if this [happens]. It risks a serious blow to the European economy and to our workers."

The European powers hope to be excluded on the basis that they are strategic allies of the US, so the "national security" grounds on which Trump announced the measures do not apply to them.

However, this argument, which was advanced by the now former head of Trump's National Economic Council, Gary Cohn, who resigned on Tuesday, is not cutting much ice as the "America First" economic nationalists assume greater control in the White House.

Trump used a press conference with Swedish Prime Minister Stefan Löfven on Tuesday to single out the EU for attack.

> "The European Union has been particularly tough on the United States," he said. "They make it almost impossible for the United States to do business with them. And yet they send their cars and everything else …"

This was a clear threat that if the EU responds to the steel and aluminium tariffs, then the US will hit back with moves against cars.

Canada—the largest exporter of steel to the US—and Mexico have also called for exemptions from the tariff plan. The Trump administration said any such exclusion depended on the two countries bowing to US demands in the ongoing renegotiation of the North America Free Trade Agreement (NAFTA).

Treasury Secretary Steven Mnuchin told CNBC yesterday there was a mechanism for a "carve out" of countries from the tariffs. But that would only apply to the extent that the US was "successful" in renegotiating NAFTA.

In a television interview yesterday, Commerce Secretary Wilbur Ross tried to sound a conciliatory note.

> "We're not trying to blow up the world," he said. "There's no intention of that."

Yet the administration's actions have very definite global consequences, as the US Chamber of Commerce, one of the country's largest business lobby groups, noted.

> "The US Chamber is very concerned about the increasing prospects of trade war, which would put at risk the economic momentum achieved through the administration's tax and regulatory reforms," an official statement declared. "We urge the administration to take this risk seriously and specifically to refrain from imposing new world-wide tariffs on steel and aluminium."

The US actions have caused consternation in ruling political and financial circles around the world. Reserve Bank of Australia governor Philip Lowe attacked the Trump measures and warned that escalation and retaliation would produce a "very big shock for the world economy."

Lowe said the moves were "highly regrettable and bad policy" but were manageable for the world economy, provided they were confined to two industries. He expressed the hope that other countries would "just sit still and do nothing," saying:

> "That's the hardest thing to do in some cases, because there's a political imperative in some countries to kind of respond to what is seen as an unjust action."

An emerging theme from opposition in the United States is not a repudiation of trade war as such, but concerns that the Trump administration has used a blunt instrument that hits US strategic allies rather than the real opponent, China.

In the *Wall Street Journal,* Greg Ip noted that the US was not the only country with a chip on its shoulder about trade. There were "countless others" when it came to China.

> "For President Donald Trump, this could be an opportunity to lead a coalition against China's predatory trade behaviour. Instead, he is threatening trade war with the countries that would make up such a coalition, over commodities that are much less vital to the US economy and national security than the sectors threatened by China's expropriation of intellectual property."

This approach was reflected in a letter from 107 House Republicans sent to Trump yesterday, expressing "deep concern" about the prospect of broad global tariffs on steel and aluminium.

Warning of “unintended negative consequences” for the US economy, the letter said:

> “We support your resolve to address distortions caused by China’s unfair practices, and we are committed to acting with you and our trading partners on meaningful and effective action.”

Last August, the office of the US Trade Representative launched an investigation under Section 301 of the 1974 US Trade Act to determine whether Chinese actions in relation to technology transfer, intellectual property and innovation were unreasonable and detrimental to US interests.

The investigation’s report is expected within weeks. Under the legislation, the president has the power to retaliate for what are deemed to be unfair trade practices. A US investigation conducted last year claimed the annual loss to the US economy from counterfeited goods, pirated software and the theft of trade secrets was at least $225 billion and could go as high as $600 billion. It designated China as the main culprit.

Bloomberg reported that

> “under the most severe scenario being weighed, the US could impose tariffs on a wide range of Chinese imports from shoes and clothing to consumer electronics.”

It cited two people “familiar with the matter” who spoke on condition of anonymity.

China has so far adopted a low-key approach to the steel and aluminium tariffs, largely because it is well down the list of countries that export the metals to the US. But it is almost certain to respond to measures under Section 301.

Signalling that his administration is gearing up for action, Trump declared in a Twitter post yesterday:

> “The US is acting swiftly on intellectual property theft. We cannot allow this to happen as it has for many years!”

Financial Times economics columnist Martin Wolf this week noted that Trump’s action on steel and aluminium was unlikely to be the last.

> It was “more likely to be the beginning of the end of the rules-governed multilateral trading order that the US itself created.”

This assessment is borne out by Cohn’s resignation after he had failed to at least moderate the measures. It is a sure sign that, whatever the final form of the steel and aluminium tariffs, their imposition signifies the start of a descent into global trade war on a scale not seen since the disastrous conflicts of the 1930s, which played a major role in creating the conditions for World War II.

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