

## Trade Conflicts Hang Over G20 Summit

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*As the Trump administration seeks to place its offensive against North Korea and China at the centre of the two-day G20 summit of world leaders that begins in Hamburg, Germany, today, trade conflicts will be very much present.*

*The most explosive issue is whether the US takes action under 1962 legislation that allows the president to limit steel imports on “national security” grounds. This has been described as the “nuclear option” on trade.*

The US administration has been considering a report ordered by Trump in April on the impact of steel imports. It was initially thought the president would make an announcement on whether to invoke the legislation before the G20 met, but a decision has been delayed until after the summit.

While Chinese imports are the main target, any measures will also hit European steel producers, amid warnings such action would provoke retaliatory action by the European Union. Speaking on conditions of anonymity, a French official told reporters in a briefing on the summit that if measures were directed against European exports,

“we would obviously react very quickly, and we are getting prepared.”

The Trump administration’s threatened measures on steel, part of its “America First” agenda, are being driven by major US steel corporations, with the support of the steel industry trade union bureaucracy.

Speaking to Bloomberg, John Ferriola, the chief executive officer of Nucor, the largest US steel producer, said that for US steel firms to make the necessary return on capital they needed to operate at 85–87 percent capacity. This meant that imports should occupy 10–15 percent of the market. At present, imports make up about 26 percent of the US market.



Source: osha.gov

Apart from China, the countries most affected would be Brazil, Canada, South Korea and members of the European Union. China maintains that its exports to the US are largely lower-grade steel, which US firms do not want to produce.

The steel issue is only the sharpest expression, to this point, of a much wider conflict that goes to the very nature of trade relations among the major powers.

This underlying conflict broke into the open at the G20 finance ministers' meeting in March when US Treasury Secretary Steven Mnuchin vetoed communiqué wording that spoke of the need to "resist protectionism."

Since then, a form of words has been used at other high-level economic meetings, including the G7 summit in late May, to cover up the breach by referring to free trade that is "fair and mutually beneficial." Some variation of this wording is likely to be adopted at Hamburg.

While the drafters of the G20 communiqué haggle over the wording, however, the differences are widening as evidenced by the US withdrawal from the Paris climate change accord. Following the G7 summit in May, German Chancellor Angela Merkel declared that the days when Europe could rely on "others" were "over to some extent" and "we Europeans must really take our destiny into our own hands."

The differences with the US have become even more explicit since then.

Last week, Merkel predicted "very difficult" talks over trade and climate change at the G20 meeting and spoke of "obvious" disagreements with the US.

"Whoever believes the problems of this world can be solved by isolationism and protectionism is making a tremendous error," she told the German parliament.

In an interview with *Die Zeit*, published on Wednesday, Merkel elaborated further.

"While we are looking at the possibilities of co-operation to benefit everyone, globalisation is seen by the American administration more as a process that is not about a win-win situation but about winners and losers," she said.

The Trump administration is particularly targeting Germany, China and, to some extent, Japan—the countries with the largest trade surpluses with the US—insisting that the present global trade order is working to their benefit at the expense of the US.

On the European side, in the lead up to the German elections in September, Merkel is under pressure from the opposition social democrats, who are calling for a more aggressive stance against the US. On Wednesday, SPD parliamentary leader Thomas Oppermann urged Merkel to isolate Trump at Hamburg, saying "appeasement" would lead "to the erosion of Western values."

The growing tensions between the US and Europe were underscored on Wednesday when the European Union and Japan announced overall agreement on a trade deal. Both sides have agreed to the broad framework of a pact, with many details still to be worked out.

The timing of the announcement, on the eve of the summit, was highly significant. Negotiations have been underway for more than four years and many issues have still to be ironed out. The announcement was made in order to send a clear message to the US.

Claudia Schmucker, head of the globalisation program at the German Council on Foreign Relations said:

“In my view it will be 19 against one at the G20, and the European Union will try to take over the role of the US in respect to trade. It’s a direct answer to what Trump stands for.”

The EU-Japan talks were effectively put on hold while Japan negotiated with the Obama administration over the Trans-Pacific Partnership. But Trump’s scuttling of the TPP, in one of his first presidential acts, and the breakdown of negotiations between the EU and the US over a trade and investment agreement, clearly led to decisions in Tokyo and Brussels to push ahead.

The International Monetary Fund (IMF), has tried to tread a fine line between the conflicting interests of the US, Europe and other major powers. In a briefing note to the summit, IMF head Christine Lagarde said that while growth prospects for the world economy were strengthening, they could be jeopardised without greater co-operation.

In remarks directed to the US, she said “no country is an island” and called on the G20 “to strengthen the global trading system and reaffirm our commitment to well enforced rules.”

On the other hand, reflecting the Trump administration’s criticism of Germany’s persistent trade surpluses, she called for Germany to undertake greater public spending. A “more expansionary fiscal stance in Germany” would raise potential output and have “positive spillover effects to other euro area economies where there is still cyclical slack.”

Such calls for a greater balancing of the world economy will fall on deaf ears. The Trump administration will take no notice of pleas to reverse its “America First” agenda, any more than Germany will ease its constrictions on government spending and the maintenance of budget surpluses, which it regards as the foundation of its economic and financial strength.

The G20 became the premier global economic forum following the 2008 financial crisis, with pledges to promote greater collaboration. Almost a decade on, it has become a battleground for the assertion of the economic interests of each against all.

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