

Clinton's tour overshadowed by US-European tensions

Chris Marsden**2 June 2000**

President Clinton's diplomatic visit to Portugal, Germany, Russia and the Ukraine, possibly the last to mainland Europe before his term of office ends in January 2001, takes place against a backdrop of growing tensions between the US and the European Union (EU).

Long-running trade disputes show no signs of being resolved. On America's part, hormone-treated beef, bananas and genetically modified crops continue to be a source of contention, as well as a new EU aircraft noise law said to discriminate against US manufacturers.

Europe has ignored a World Trade Organisation (WTO) ruling favourable to the US and continues to bar or restrict US hormone-treated beef and banana imports. EU officials are angry over American plans to pick new, unrelated targets for the \$300 million of sanctions it imposed on European firms last year after winning the favourable WTO ruling. The French newspaper *Libération* denounced the US for holding a "revolver to Europe's temple".

The US has since threatened to table another WTO complaint over EU investments in the European Airbus consortium's new A3XX super-jumbo, calling such investments an unfair subsidy.

Europe has successfully protested as a breach of WTO anti-subsidies policy a US law giving American exporters such as Microsoft, Ford and Exxon Mobil, who create "foreign sales corporations"—paper companies located offshore—\$4 billion in tax breaks last year. The US has flouted this WTO ruling and proposed to keep its tax-break system intact, with some cosmetic changes.

On May 29 Washington threatened retaliatory measures against EU export programs if the EU applied sanctions, as it could under WTO rules.

The only official discussion of these issues took place May 31 at the US-European Union summit—a twice-yearly meeting of American and European heads of state—held at Queluz Palace in Lisbon. But even before the meeting, US National Security Adviser Sandy Berger said, "I do not expect any agreements to be reached on these issues."

In fact, Clinton and the EU leaders failed to reach any

accord either on trade matters or issues relating to security. The president of the European Commission, Romano Prodi, attempted to put a brave face on the summit, stating that although no progress had been made, both sides were committed to settling disputes via the WTO.

The seemingly irreconcilable character of the trade disputes has raised serious concerns in the world's financial media. The *Financial Times* of London commented, "The birth of the WTO was supposed to herald a new era where legal decisions replaced power politics in resolving trade disputes. Instead, the two biggest trading countries seem to be using the system to escalate their disputes—and neither side shows any sign of yielding."

BBC Online noted, "Despite the rhetoric of global cooperation, the reality is that the economic relationship between the EU and the US is looking increasingly rocky ... a failure to resolve a raft of trade disputes has led to a climate of pessimism in which the expansion of free trade itself has come under threat."

Given the massive and growing body of trade between the US and the EU—worth \$450 billion a year—the significance attached to various economic disputes can only be understood when placed in a broader political context.

While in Portugal, Clinton described the European continent as "more united, more free, more peaceful than any time in history" and went on to stress the need to strengthen "our transatlantic partnership". In Germany, he is to receive the Charlemagne prize for contributions to world peace and European unity.

But European capitalism's strivings for unity are inevitably directed towards strengthening the continental powers against their American rival, and not only in terms of trade.

On the monetary front, the creation of the euro last January was the first serious challenge to dollar hegemony within the world economy. Since its creation, the world's two major economies—the US and the EU—have not only been in competition, but in danger of pulling apart.

The euro has so far fared badly against the dollar, losing some 30 percent of its value, as capital has sought out the

higher revenues provided by the boom on Wall Street, higher American interest rates and marginally higher US growth rates. US analysts have declared this a vote of no confidence in European governments for their failure to sufficiently restructure their economies. Fears have been raised that the euro could collapse.

In response, Germany's Chancellor Gerhard Schroeder said Europe's economy was strong and, "The external value of the currency will align itself with this strength.... Until then, let's take a little pleasure from the fact that our exports are doing so well." Some 17 percent of gross domestic product in the euro-zone is export-driven, and nearly half of German exports go outside the euro zone. The value of German exports to the US jumped 40 percent in February, with prices for German cars sold there dropping by 25 percent.

The EU has also pointed to America's massive \$350 billion external accounts deficit (1999), compared with Europe's \$60 billion trade surplus. The US finds a strong dollar helpful in keeping inflation in check, and is reluctant to take any action that might precipitate a run on its currency. But its external deficit means that, should investors lose confidence, a drying up of capital inflows could lead to a large fall in the dollar. Commenting on the dollar/euro conflict, the international financier George Soros warned that the world's next financial crisis was likely to originate in the relationships among the world's biggest countries, not in the "periphery", as in the Asian crisis of 1997.

Sharp foreign policy conflicts have also emerged between Europe and America, particularly since the end of NATO's war in Kosovo, where the US was able once again to dictate the political agenda to Europe, thanks mainly to its overwhelming military superiority. In the aftermath of the war, the European powers have taken initial steps to develop a regional military and security apparatus, so as to lessen their dependence on Washington.

On the day Clinton's visit began, French President Jacques Chirac called for an escalated drive to establish a European defence structure independent of NATO, agreed in principle at the EU Helsinki Summit. Addressing the parliamentary assembly of the EU defence body, the Western European Union (WEU), he also called for the creation of an EU rapid reaction force to police the northern Mediterranean.

Chirac urged Europe to press forward on plans to create a European corps of up to 60,000 men by the year 2003. He also called for stepped-up cooperation to "set up a European system" of satellite and other intelligence networks, independently of America.

Chirac used his WEU speech, his major platform before France assumes the rotating presidency of the EU this summer, to criticise American plans for a new National Missile Defence system (NMD). Clinton is seeking to amend

the 1972 Anti-Ballistic Missile treaty with Russia to allow for deployment of the system, nicknamed Star Wars II, which will not cover Europe. France, Germany and other European powers have warned that this could lead to a renewal of the arms race and threaten the integrity of NATO.

Many of Europe's major newspapers emphasised the need to challenge the US and assert the independent economic and military interests of the continental powers. France's *Le Monde* wrote, "To assert [Europe's] authority is also to dispute the American anti-missile defence project, about which Jacques Chirac repeated that it doesn't only concern Washington and Moscow, it breaks 'strategic balances acquired with difficulty' and would renew the world's arms race."

Germany's Conservative newspaper *Die Welt* was no less forthright. In an article headlined "Europe Will No Longer Be the Junior Partner" it boasted, "The Europeans are coming to the EU-USA summit in Lisbon with extreme self-assurance. Above all economically, the old continent is able to take on the new."

The newspaper continued, "The time of the US diktat is over, is the dominant opinion of the heads of government of the 15 EU states, and the EU Commission is blowing the same tune.... As France's President Jaques Chirac put it: 'We are economically as strong as the USA'.

"The German-US relationship was for decades the anchor and cornerstone of German policy. This changed with the end of the Cold War. The external pressure to keep the Western bloc together at all costs is gone. At the same time, since the beginning of the 1990s, the process of European integration has accelerated to such an extent that a great part of the bilateral questions in dispute have long acquired a European-American dimension."

Everything points to a continuing escalation of economic, political and, eventually, military conflicts between America and Europe, whatever formal statements of unity and friendship come out of Clinton's visit. Already there are open disputes over foreign policy objectives in Africa, as well as mutual recriminations over who should bear the burden of funding and manning the NATO force in Kosovo. Other areas of contention between Europe and the US include America's imposition of sanctions against companies breaking the US trade embargo on Cuba, Libya and Iraq.



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