Economic conflicts threaten global trade war

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The ongoing stagnation in the global economy, marked by falling investment and the emergence of overproduction in key basic industries, is fuelling the rise of trade war protectionist measures by the major powers, above all the United States.

Last week, the US International Trade Commission (ITC) launched an investigation into Chinese steel mills which have been accused by the United States Steel Corp of stealing secrets and conspiring to fix prices.

Chinese industrial overcapacity, especially in steel, will be on the agenda of the "strategic and economic" dialogue to be held between the US and China in Beijing next week. The US treasury undersecretary for international affairs, Nathan Sheets, recently called for China to allow its industries to "better reflect capacity and global demand conditions." In other words, China should cut back production.

Overproduction in the Chinese steel industry has been blamed for an increase in cheap exports and the loss of jobs and plant closures in both Europe and the US.

Recent tariffs on imports of steel have boosted American prices, but authorities are looking for further measures. Industrial overcapacity was important "for the global economy and we hope to make some progress on it" in Beijing, Sheets told a meeting at the Brookings Institution in Washington.

The issue is fraught, however, with contradictions because many industrial companies in the US are dependent on cheap steel imports for their business models. Stuart Barnett, the head of the Chicago-based Barsteel Corp which supplies a range of manufacturers said the government had done a "pretty good job" of keeping out the cheapest steel imports. "But now the greatest fear we have is that China keeps cheap steel for itself and makes products that undercut other industries," he said.

In other words, suppression of the increasingly ferocious struggle for markets and profits in one area of the industrial economy will see it resurface in another.

Pressure from the US for China to cut back production and exports were met with a sharp response from the Chinese government.

Speaking at a briefing in Beijing on Thursday, Zhu Guangyao, China's vice-finance minister, said: "Trade disputes between China and the US should be addressed in accordance with World Trade Organisation (WTO) principles. We are opposed to abusive trade remedy measures."

There was an even stronger reaction from China's Hebei Iron and Steel Group, the country's largest steel producer. In a statement posted on its website on Thursday, it denounced the investigation by the US ITC.

"The protectionist behaviour taken by the US on purely groundless accusations by US Steel has seriously broken WTO rules, distorted the normal world steel trade and damaged the essential interests of Chinese steel mills and US steel users," it said.

US Steel filed the complaint a month ago, claiming it was the victim of a Chinese computer hacking incident in 2011. The ITC has now taken up the case, identifying 40 Chinese steelmakers and distributors as being the subject of investigation.

Baosteel, China's second-largest steelmaker, the world's fourth-largest and a target for the ITC probe, said the US was in breach of WTO rules and urged the Chinese government to take all necessary measures to ensure the country's steel industry received fair treatment.

The ITC case has raised concerns it could be the start of far broader measures, possibly including a wholesale ban on Chinese steel imports, according to Simon Evenett, a professor of international trade at University of St Gallen in Switzerland, who is engaged in monitoring protectionist measures.

"The big thing is really the potential scale of this case versus the pinpricks that we have seen unleashed over the past nine months," he told the *Financial Times*. "This should be setting off alarms bells. It is really a nuclear option."

The conflicts go beyond steel and extend to the entire functioning of the WTO, the international body in charge of regulating the global trading system. They are being fuelled by an aggressive push by the United States on two fronts.

Last week, the US told other WTO members it was vetoing the reappointment of Seung Wha Chang, a respected South Korean expert on international trade law, to a second term on the organisation's appellate body which adjudicates on international trade disputes. Reappointment for a second term has been standard procedure in the past.

Washington cited several decisions that have gone against the US as a pattern of what it called "overreaching" and arriving at "abstract" decisions.

"The appellate body is not an academic body that may pursue issue simply because they are of interest to them or may be to certain members in the abstract," the US declared. "It is not the role of the appellate body to engage in abstract discussions."

Other members of the WTO, including Brazil, Japan and the EU say the US veto risks undermining the independence of the appellate body and the entire system. The EU said the US actions are unprecedented and pose "a very serious risk to the independence and impartiality of current and future appellate body members."

The US move prompted a highly critical editorial in Wednesday's edition of the *Financial Times*. The newspaper noted that in the wake of the collapse of the Doha round of multilateral trade negotiations last year—largely as a result of the US decision to walk away from further discussions—the last thing the WTO needed was another blow to its authority. With the end of the WTO's role in negotiating global trade deals, its only real remaining function was to adjudicate between governments over existing trade rules and order "miscreants to bring policies into compliance."

"The fact that the US is now trying to subvert it by removing a judge who happens to disagree with the American viewpoint is seriously disturbing," it said.

The episode, it continued, also vindicated, at least in this instance, "those critics of the US who say Washington favours global cooperation only insofar as it controls the international institutions that run it. This is a serious charge to which the US remains exposed."

The issue of the appellate body is linked to another brewing conflict within the WTO. Following its ascension to WTO membership in 2001, China is this year seeking to be accorded "market economy status," which would make it more difficult to prosecute Chinese companies for alleged dumping, i.e. selling goods at artificially low prices.

The US is reported to have been lobbying hard for the upgraded status not to be granted, against opposition from at least some European powers, as well as Britain. The British government has portrayed itself as China's "best friend" in the West, as financial interests in the City of London seek to profit from expanded Chinese investment and financial activity. Britain has said that if China is accorded full market status, dumping charges could still be dealt with under WTO rules. But this does not appear to have had any impact on the push by the US to prevent its status being raised.

Under conditions of global overcapacity, persistently suppressed demand, and warnings of a productivity slowdown in major developed economies, global conflicts over trade are deepening, and, together with the endless promotion of economic nationalism, threaten a global trade war similar to that which emerged in the 1930s. In that period, the growth of protectionism served as the antechamber to world war.

Today, the growth of economic nationalism under conditions of another persistent world slump is likewise fuelling conflicts that threaten to erupt into another global conflagration.