Rising global tensions surface at G20 summit

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5 September 2016

In the wake of the global financial crisis of 2008, the G20 group of countries, covering 85 percent of the world economy, became the main international economic forum. It was launched with the stated aim of co-ordinating economic policies to promote global growth and prevent a slide into protectionism in the midst of the worst economic contraction since the Great Depression of the 1930s.

It is symptomatic of the state of the world economy that eight years on, the two-day summit meeting of G20 leaders, which concludes in Hangzhou today, will put forward no coordinated measures to boost the world economy, expected to record one of the lowest growth levels since the official end of the recession, and that protectionist measures are on the rise as tensions between the major powers increase.

One of the main areas of conflict is the question of so-called overcapacity in the steel industry, with the United States, Europe and Japan insisting that excess Chinese steel is flooding world markets, leading to job cuts and closures, and that action must be taken to cut back production.

The position of the Chinese government, on the other hand, is that while agreeing to cuts of between 100 and 150 million tonnes, or around 13 percent of capacity by 2020, the main problem is weak global demand.

The issue of steel was on the agenda at a meeting between Chinese President Xi Jinping and US President Barack Obama on Saturday before the start of official proceedings. According to a Chinese summary of the discussion, China and the US recognised “structural problems,” including “excess capacity in some industries, exacerbated by a weak global economic recovery and depressed market demand.” Both countries also recognised that “excess capacity in steel and other industries is a global issue which requires a global response.” A similar form of words was also used in regard to the electrolytic aluminium industry.

The insistence that China bow to demands that it cut steel production was pushed even more strongly by the European Union. European Commission President Jean-Claude Juncker said the G20 had to “urgently find a solution” and that Beijing had to accept an international monitoring mechanism over its industry. “This is a global problem, but with a specific Chinese dimension we have to address,” he said.

In the discussions over the drafting of the final communiqué, the US, European Union and Japan demanded a reference to steel overproduction, with EU officials warning that unless this were done it could affect China’s efforts to win “market economy status” within the World Trade Organisation (WTO). This status, which will come up for decision towards the end of the year, is being eagerly sought by Beijing because it limits the ability of other countries to take action over its trade policies.

In a manner which recalled nothing so much as the days of imperialist overlordship of colonies, the initial proposal was that monitoring would be conducted by the Organisation for Economic Cooperation and Development. But after India raised a number of objections, pointing that neither it nor China were OECD members, the proposal was modified to call for the establishment of a “global forum on steel excess capacity, to be facilitated by the OECD” and to report in 2017.

It is a sure sign of the deepening malaise of the global profit system that, under conditions where all the steel that can be produced could be utilised for much-needed infrastructure projects world-wide, “overcapacity” was at the very centre of the summit’s economic agenda.

Moreover, the tensions were not confined to steel or to relations between China and other major powers.

Responding to US criticisms of the EU decision to issue a $13 billion tax order against Apple, Juncker rejected suggestions that the company was targeted because it was American, saying previous tax orders had affected European companies. “This is not a decision against the United States of America,” he said.

The Apple tax order came in the midst of statements from both Germany and France that negotiations over the free trade agreement between the EU and the US, the Transatlantic Trade and Investment Partnership (TTIP), have little chance of being concluded. In a major television interview last week, German Economics Minister and Vice Chancellor Sigmar Gabriel said negotiations "de facto failed because we as Europeans naturally cannot submit to American demands."

The Trans Pacific Partnership (TPP), a trade and investment agreement involving 12 countries in the Asia-Pacific region, but which excludes China, has been agreed in principle but faces opposition in the US Congress. This prompted warnings last week from the Singapore Prime Minister Lee Hsien Loong of the consequences of any failure to secure passage of the TPP which the Obama administration has made clear is the economic arm of its anti-China pivot to Asia.

He said the Japanese government had made politically difficult concessions on the TPP and would be impacted by any failure. Directly linking the issue of trade to war, he said: "The Japanese, living in an uncertain world, depending on an American nuclear umbrella, will have to say on trade: 'The Americans could not follow through.'" While it may not be said publicly, he continued, failure of the TPP would mean that Japan began calculations about who it could depend on.

Signs of a more assertive Japanese foreign policy were in evidence on Saturday on the eve of the G20 summit. At an economic conference in Vladivostok, aimed at promoting Russian investment in its under-developed Far East, Prime Minister Shinzo Abe issued a direct appeal to Russian President Vladimir Putin for the two countries to work towards the signing of a peace treaty and end the stand-off that has prevailed since the end of World War II because of disputed territories.

Abe offered to hold annual summits and promote investment in line with Russian needs in an initiative which, as the *Financial Times* noted, "stands out among leaders of G7 nations, the majority of whom have shunned Mr Putin since imposing sanctions on Russia over the Ukraine crisis in 2014."

In conditions of a marked slowing in world trade—the WTO estimates that it will record just 2.8 percent growth this year, the fifth year in a row it has been below 3 percent, and less than half the growth experienced for two decades prior to 2008—the issue of protectionism loomed large over the meeting.

Xi opened the summit with a call for the major powers to resist pressures to raise trade barriers, more innovation to promote economic growth and for increased co-operation to "improve the ability of the world economy to resist risks."

Speaking on the eve of the summit, Canadian Prime Minister Justin Trudeau said world leaders had to push back against a tide of "protectionism running rampant" whether in the form of Brexit or "protectionist rhetoric in election campaigns."

"There is a sense that forward march of progress has stalled," he told a business forum in Hangzhou.

Since the financial meltdown of 2008, all world leaders and global economic organisations have denounced the beggar-thy-neighbour policies of the 1930s that played no small role in creating the conditions for war, insisting that the lessons of that decade have been learned.

But the tide continues. In a report published in June, the WTO noted that trade restrictions imposed by G20 members—mainly the most advanced economies—had reached their highest monthly level since the financial crisis.

At the same time, the dangers of war are becoming ever more apparent. On his final visit to Asia as president, Obama issued one of his most bellicose statements yet against China. Significantly, it included not only a reference to disputes in the South China Sea but extended to the economy.

Insisting that China had to abide by the international order, that is, the interests of the US, he said: "Where we see them violating international rules and norms, as we have seen in some cases in the South China Sea or in some of their behaviour when it comes to economic policy, we've been very firm. And we've indicated to them that there will be consequences."