

US blocks statement opposing protectionism in G20 communiqué

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20 March 2017

The decision by the world's major economic powers, covering 85 percent of the global economy, to drop their previous commitment to oppose trade protectionism is a major turning point in international economic and political relations with far-reaching implications.

Meeting over the weekend in Baden-Baden, Germany, the G20 finance ministers removed from their communiqué a call to “resist all forms of protectionism.”

The decision came after intransigent opposition to its inclusion from the US representative, Treasury Secretary Steven Mnuchin, with the overwhelming majority of other finance ministers opposing him. The only exception appears to be Japan, which is reported to have given some support to the US.

Mnuchin's opposition is in line with the “America First” stance of the Trump administration and its threats to impose taxes on imports, raise tariffs against China, and seek to bypass decisions of the World Trade Organisation (WTO) if they are seen to be at variance with US laws and interests.

Because G20 decisions are based on consensus, the majority was faced with the alternative of an open breach with the US, and possibly the break-up of the entire organisation, or agreeing to a compromise formula to try to cover over the differences.

They chose the latter course, stating in the communiqué only that they would work to “strengthen the contribution of trade to our economies.” In deference to the US position that the present system is detrimental to America's interests, the statement added that the G20 member states would “strive to reduce excessive global imbalances.”

The communiqué also dropped, at the insistence of the US, any commitment to combat climate change,

which Trump has previously denounced as a “hoax.”

Mnuchin said he “could not be happier with the outcome” and that there was “consensus.” The US was focused on the fact that it had trade deficits it wanted to reduce and there was a “new administration and a different view on trade.”

After the meeting, there were concerted efforts by other participants to cover over the implications of what had taken place, while holding out the prospect that the US would come around.

Germany's finance minister, Wolfgang Schäuble, acting in his capacity of chairman of the meeting, said it would take some time for “the US finance ministry to come forward.” The meeting had reached an impasse. “That's why at the end we said nothing on [avoiding protectionism], because it meant different things when we said we did not want protectionism.”

However, in the lead-up to the meeting, Germany had been among the most vociferous opponents of the US position. As the summit was about to open on Friday, German Economics Minister Brigitte Zypries declared that if Trump went ahead with a proposal to impose a border tax on German car imports of as much as 35 percent, Germany would file a suit against him with the WTO. Alluding to rulings in the US courts blocking bans on Muslim immigration, she provocatively added, “This would not be the first time that Mr. Trump failed in the courts.”

On the eve of the summit, Schäuble and the finance ministry were pushing for a commitment to a “multilateral” global trading system that was “rules-based, transparent non-discriminatory, open and inclusive”—another thrust directed against the Trump administration, particularly its hostility to WTO decisions.

However, the ministry agreed to requests from

Chancellor Merkel's office that references to "multilateral" and "rules-based" be dropped. The attempt at conciliation failed nevertheless.

International Monetary Fund Managing Director Christine Lagarde also attempted to cover over the breach, saying that the new White House simply needed time "to adapt and learn."

While Schäuble said the decision was "something we can live with," others are not so sure. European Economy Commissioner Pierre Moscovici said that since the Baden-Baden gathering was the "first contact" with the new US administration, it "would have made no sense to enter into a fight." But he expressed the hope that at the summit meeting of G20 leaders in Hamburg in July, the wording would be different.

"We need it," he said. "It is the *raison d'être* for the G20." In other words, if agreement cannot be reached, the organisation could break apart.

His words were not a rhetorical exaggeration. In the aftermath of the global financial crisis of 2008, the G20 became the world's leading international forum, replacing the G7 group of capitalist economies in 2009.

Recognising that the most severe global economic and financial crisis since the 1930s contained the danger of trade war, it made the decision to insist on opposition to protectionism and currency devaluations, lest individual countries adopt beggar-thy-neighbour policies in which each of the major powers would seek to offload the effects of the crisis onto its rivals.

Government leaders emerged from the 2009 meeting backslapping each other over how they had learned the lessons of the past, and the commitment to oppose protectionism was included in all subsequent G20 statements. It now stands as a dead letter.

The axis of the Trump administration's policies, based on "America First," is aimed not at some "tweaking" of the present system, but its overturn. The US government maintains that trade deficits with both China and Germany are responsible for America's relative economic decline, especially following the admission of China into the WTO in 2001, something the Trump administration is determined to correct. This policy goes hand in hand with the decision to build up the US military.

While opposition to China has attracted most attention, Germany is no less of a target, with Trump's

economic adviser Peter Navarro declaring that Germany has been a major beneficiary of the low value of the euro relative to the dollar, and that the German trade surplus with the US is a "serious matter" and "one of the most difficult problems" for the US on trade policy.

While the G20 finance ministers sought to downplay the significance of the dispute, holding out the prospect that the Trump administration would "learn," words cannot cover up what was done.

In June 1930, the US Congress passed the Smoot-Hawley Act, which imposed major tariff hikes. In the decades since then, this law has been almost universally acknowledged to have been a significant contributor to the downward spiral in world trade in the early 1930s, exacerbating the effects of the Great Depression and contributing to the rise of trade and currency blocs, which played a major part in the build-up to World War II.

The decision of the G20, dictated by Washington, to scrap a commitment introduced in recognition of what it saw as the lessons of that experience may have no less far-reaching implications today.



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