G7 conflict set to deepen at leaders' summit

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The division that opened up at last week's G7 finance ministers' meeting, between the United States and the other six major economies, is set to widen at the two-day leaders' summit starting tomorrow in Quebec, Canada.

The European Union (EU) is pushing ahead with retaliatory tariffs following the Trump administration's refusal to grant it a permanent exemption from steel and aluminium tariffs imposed on "national security" grounds.

Following the finance ministers' meeting, French Finance Minister Bruno Le Maire characterised the G7 as the "G6 plus one." This description is becoming more than a rhetorical flourish as Canada, the EU and Japan seek to coordinate their response to the US.

Japanese Trade Minister Hiroshige Seko told reporters on Tuesday: "Japan and the EU will team up on this issue and call on cooperation from other countries."

The European Commission (EC) said yesterday it would proceed with plans to impose tariffs on €2.8 billion worth of goods in accordance with a list drawn up when the US tariffs were first announced in March. The US has warned that European steel and aluminium tariffs would be met by further measures.

Jyrki Katainen, the EC vice-president with responsibility for trade, said Brussels had received "full support" for counter-measures against the US. "We want to defend our industries and our legitimate interests."

Under EU rules, the retaliation plans will go to governments for review. Unless opposed by a weighted majority of members, measures are expected to be in force by next month.

British Trade Minister Liam Fox told parliament earlier this week the EU should have been exempted from the "unjustified measures on steel and aluminium." Britain would continue to make this case at the highest level "in concert with the EU."

Fox said it was "right to seek to defend our domestic industries from both the direct and indirect impact of these US tariffs." The response had to be "measured and proportionate." It was "important that the UK and EU work within the boundaries of the rules-based international trading system."

Canadian Prime Minister Justin Trudeau, who will chair the summit, predicted some "very direct conversations," calling the US tariffs "insulting." Canada and the EU have both announced formal action at the World Trade Organisation (WTO) against the US measures.

Together with Canada, Mexico is involved in talks with the US over the renegotiation of the North America Free Trade Agreement (NAFTA). Mexico has imposed tariffs on US imports, mainly food products, in retaliation against the tariff measures.

This brought a warning from Eswar Prasad, a Cornell University trade expert, who told the *Financial Times* an "open trade war" had erupted in the "backyard of the US" with "potentially dire consequences for the future of NAFTA."

The US is seeking to split Canada and Mexico in the negotiations. Larry Kudlow, one of Trump's economic advisers, said the administration favoured such a "shift." Canada and Mexico were "different countries," needing different deals.

The main EU negotiating ploy over steel has been to pledge common action with the US against over-capacity in China. Last November, ministers at a G20 meeting agreed to implement measures to tackle this question. But according to a *Wall Street Journal* report, the Trump administration has declared that multilateral initiatives will not solve the problem. While the US would remain "fully engaged," it would not pull back from unilateral measures.

The EU's perspective is based on the belief that somehow the US can be pushed back by pointing out that its actions are inimical to the global trade and economic order that it constructed in the post-war period.

Such conceptions, however, ignore the fundamental tendencies of development and the speed with which they are unfolding.

A year ago, at the corresponding meetings of the G7 and other international economic bodies, the conflict was over words: in particular the US refusal to include commitments to "resist protectionism" in official statements.

Twelve months on, the US is engaged in trade conflicts on multiple fronts, both against its post-war "allies" and China, which it considers the major threat to its continued global economic, geo-strategic and military dominance.

There are objection in some US quarters that the steel and aluminium tariffs, imposed on "national security" grounds under section 232 of the 1962 Trade Expansion Act, should not be invoked against American "allies." This has not resulted in any pulling back by the Trump administration. Rather, it has ordered an "investigation" into the auto industry under section 232—a major blow directed against Germany.

Another key issue is the unilateral US withdrawal from the Iran deal, which was brokered with the involvement of the major European powers. The US has threatened that if European companies continue to trade with Iran they will face economic and financial sanctions imposed by Washington.

Any imposition of sanctions threatens to jeopardise billions of dollars' worth of European trade and investment deals, and the operations of the Society for Worldwide International Bank Telecommunication, known as Swift. The company, owned by 2,400 banks and financial institutions, is at the centre of the global network that facilitates cross-border financial transactions.

The US is able to exert tremendous pressure, not only due to the size of the US market but because of the dollar's role as the major global currency.

The action against the European powers has been accompanied by trade war measures against China under section 301 of the 1974 Trade Act. The US is expected to impose tariffs against $50 billion worth of Chinese goods on June 15, followed by a series of restrictions at the end of the month.

China is reported to have offered to lift its imports of US agricultural and energy products by $70 billion a year, in order to partially meet Washington's demand to reduce its trade surplus with the US by $200 billion. But Beijing has made this concession conditional on the lifting of the tariff threat against it, a demand Trump administration sources called as a "non-starter."

For Washington, the essential issue with China is not the trade deficit. The US is demanding that its emerging rival cease fostering high-tech development under the "Made in China 2025" plan, and essentially submit to being an economic semi-colony of the US.

Appeals to the US not to wreck the post-war order are destined to fall on deaf ears. This is not because of the particular proclivities of the Trump administration. There is a growing view in US ruling circles that the very system it created is the chief cause of American capitalism's economic decline vis-a-vis its historic economic rivals in Europe and a new competitor in China.

The shift in US orientation did not begin with Trump. It was initiated under the Obama administration. Obama's trade policies were not based on multilateralism but sought to preserve American dominance by placing the US at the centre of global economic and financial networks.

While it has suffered a major economic decline, the US still has two crucial weapons in its hands: control of the dollar as the foundation of the global financial system and its overwhelming military might. It intends to use both in the coming battles as the splits and divisions, now openly on display in the G7, intensify.