

US escalates trade and economic conflicts

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As the COVID-19 pandemic sends the world economy into its deepest downturn since the Great Depression, the United States has signalled there will be no let-up in the trade and economic warfare it is prosecuting against its rivals.

On Wednesday, the contents of a letter sent by US Treasury Secretary Steven Mnuchin last Friday to four European countries were revealed in which he declared that the US was pulling out of negotiations over a global tax system to cover major internet and technology firms.

On the same day, US Trade Representative Robert Lighthizer delivered a broadside against the World Trade Organisation (WTO) in a Congressional hearing and indicated that negotiations with the European Union over a trade deal were going nowhere.

In his letter to counterparts in the UK, France, Italy and Spain, Mnuchin said discussions on the taxation measures covering digital companies, organised through the Organisation for Economic Cooperation and Development (OECD), had reached an “impasse” and the US was not able to agree even to changes in global tax law on an interim basis.

Last week, French Finance Minister Bruno Le Maire said the US was the only holdout against an interim OECD framework for taxing digital companies.

The negotiations were organised earlier this year after moves by France to impose taxes on Google, Facebook and other digital firms, covering the billions of dollars of revenue they raise in the country, were met with a threat by the US to impose tariffs on French goods. The UK has also proposed similar tax measures together with Italy and Spain.

In the letter Mnuchin sought to use the pandemic as the pretext for pulling out of the talks, saying they were a distraction from “far more important matters” and “governments around the world should focus their attention on dealing with the economic issues resulting

from COVID-19.”

The Mnuchin letter came in the wake of a decision at the beginning of this month by the Office of the US Trade Representative to begin an investigation into taxes on internet commerce.

The investigation was launched under Section 301 of the 1974 Trade Act which gives the administration wide powers to impose tariffs as were deployed against China.

Announcing the investigation, Lighthizer said President Trump was concerned that “many of our trading partners are adopting tax schemes to unfairly target our companies” and the US was “prepared to take all appropriate action to defend our businesses and workers against any such discrimination.”

The threat was repeated in Mnuchin’s letter.

“The United States remains opposed to digital services taxes and similar unilateral measures,” he wrote. “As we have repeatedly said, if countries choose to collect or adopt such taxes, the United States will respond with appropriate commensurate measures.”

Lighthizer’s testimony to the House Ways and Means Committee made clear that the escalation of trade war by the Trump administration goes far beyond digital taxation. He said the World Trade Organisation (WTO) was a “mess” that had “failed America and failed the international trading system.”

The WTO is in the process of finding a new director-general after the present head Roberto Azevêdo announced last month that he would step down a year early.

Lighthizer said the new head had to press for “fundamental reform” of the WTO and be ready to take action against China.

“I think we need a director-general that understands the fundamental problem that an extremely large state-run economy cannot be disciplined into the current WTO rules,” he said, adding that if any candidate had

displayed a “whiff of anti-Americanism” in past actions then he would use a veto to block the appointment.

The threat is not an idle one. The WTO’s appellate body, the highest authority in its disputes-settlement procedures, has been rendered inoperable since the end of last year because of the US refusal to back the appointment of new judges to replace those who have retired.

In his remarks on Wednesday, Lighthizer made clear the US had no intention of changing course. “If it never goes back into effect, I think that would be fine,” he said.

Lighthizer also commented on the digital tax issue. “We have a situation where a variety of countries have decided the easiest way to raise revenue is to tax somebody else’s companies, and they happened to be ours,” he said.

Kevin Brady, the top Republican on the House Ways and Means Committee, took the same line during Lighthizer’s testimony, saying the issue was “not simply one of fairness, but of other countries undermining our tax base.”

Lighthizer told the committee that the “phase one” trade deal with China, signed in January under which Beijing agreed to buy an additional \$200 billion worth of American products, was going well and despite COVID-19 it appeared “they are going to do what they say.”

The chief focus of his remarks was relations with Europe and the negotiation of a trade deal under which the US is demanding that the European Union and the UK open their markets to US agricultural products.

The negotiations have been fraught from the outset because EU representatives have insisted that agriculture was not included in the agreement reached between Trump and former European Commission President Jean-Claude Juncker in July 2018. Trump openly boasted that he had secured negotiations after threatening to impose tariffs on European car imports.

Asked to comment on the state of negotiations with the EU and the UK by members of the House Committee, Lighthizer said there were difficulties over agricultural issues.

“There is a sense in Europe, which I think is shared—hopefully not as deeply with the UK as it is with Europe—that American food is unsafe. I think that

it’s thinly veiled protectionism. I often comment that using standards as protectionism has risen to the state of a high art in Europe.”

He said that state of negotiations was “not looking good in the short run” and warned that the US was “not going to compromise” on the issue of “fair access for agriculture,” and the administration was prepared to use the tariff weapon.

“The president will use tariffs if he has to get a fair shake for American businesses,” he said.

Lighthizer also made significant comments in relation to the issue of tariffs on Chinese-made medical equipment and protective gear used in hospitals to treat people with the coronavirus.

He said keeping tariffs on these goods would encourage US manufacturers to begin making them and that he was a “firm believer” that things needed to fight the current pandemic and the next one “should be made in America.”

This is line with the broader agenda of both the Trump administration and the Democrats that there has to be a process of “deglobalisation” in which key areas of manufacturing are brought back to the North American continent so the US can better pursue its deepening conflicts with its global rivals.



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