

International Trade Governance and the G7 in the Trump and post-Brexit Era

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Executive Summary

This policy brief explores debates over trade politics at the 2017 G7 Leaders' Summit. In Taormina, "fairness" was a key term used in discussions between world leaders. Yet, there were a variety of perspectives on how to define the term, and the remaining ambiguities meant a consensus could not be reached. In the face of on-going global uncertainties, it is crucial that the G7 can responsibly address trade issues. Thus, this policy brief examines three basic points about the G7 and trade: 1) the concerns over anti-globalisation; 2) the need to secure multilateral frameworks and implement appropriate domestic measures; and 3) that understanding the role of protectionism is tricky, since it is tied to different understandings of what is meant by "fair trade".

Background

While the global economy is a regular agenda item at G7 summits, issues around trade continued to be some of the thorniest issues on this year's summit agenda. Trade has had a long history at the G7 and has been a key agenda topic since the very first Rambouillet Summit in 1975. Unlike the World Trade Organization (WTO), the G7 summit is not a formal institution. However, it has played an important role in global governance generally, and as regards trade issues specifically, the primary purpose of the early summits was to assist the multilateral negotiations known as the General Agreements on Trade and Tariffs, the predecessor of the WTO.

In terms of economic relevance, given the rise of emerging economies such as the BRICS, many observers have started to

question the legitimacy of the G7. Some argue that [the G20 is a more appropriate framework than G7](#) to discuss economic issues. This argument rests on the fact that the G20 accounts for approximately 85% of the world's GDP and accounts for 80% of world trade. For example, the absence of China at the G7, now the world's second largest economy, may also give the forum less institutional punch, particularly in respect to economic governance.

The G7 Taormina Summit could be described as at a significant juncture, with several key issues to address. First, world trade, which has been a primary driver of economic growth, is now encountering a challenging time of slowdown. Since the financial crisis, world trade has grown at a slow pace, below 3 percent. According to Roberto Azevêdo, WTO Director General, this is [“a situation seen only once before in the 70-year history of the multilateral trading system”](#). Second, a variety of accounts suggest that globalisation is becoming more and more problematic. The political spill-over of anti-globalisation is particularly salient in light of the British

people's decision to leave the European Union (EU), and an increasingly-inward looking US. Also, backed by protests of being “left behind” by globalisation, the US, the traditional standard-bearer for free trade, has recently hardened its stance, becoming more self-interested with the election of Donald J. Trump.

Yet, in the literature on trade politics, foreign policy and industrial development policy are often linked. Thus, prioritising a state's interest is a natural part of the process of trade because trade policy is fundamentally a domestic developmental policy. As a result, the negative assertion of anti-globalisation being simply a rise in nationalism is too simplistic, and likely to cause a backlash against international cooperative actions.

So, what is the point? From the viewpoint of international trade governance, the recent anti-globalisation sentiment can be characterised by two features: first, a questioning of the international economic order that has deepened discrepancies between developed and developing countries; and second, inevitable

domestic social inequalities, tainted by economic nationalism, under which states seek direct material benefit for themselves. Most of these national concerns, of which the loss of jobs is the most prominent, are recognised to be partly linked to disruptions caused by trade. As [the WTO's Preamble](#) clearly states in its aims: "trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services". Related to this, the post-war trade regime has been promoted on the promise of concrete benefits that will come from a liberal economic order. However, recent global uncertainties serve to highlight that there are multi-layered cleavages in which benefits and burdens are not equitably distributed, thus calling for a debate on the fairness of trade.

According to [Gary Cohn](#), the director of the White House National Economic Council, what 'fair trade' means is that the

US will 'treat our trade partners the way they treat us'. In his thinking, it is "unfair" when countries put tariffs on US auto exports, while the US has only small tariffs on imported vehicles. This notion of fairness is justified as being more representative of a "reciprocal" condition by the Trump administration. However, the notion of "reciprocal" is challenged by additional claims of "America First". The majority of responses to Trump's rhetoric, and anti-globalisation in general, have taken economism (economy + nationalism) at face value, seeking to defend liberal international rules by highlighting their rationality in advancing a narrowly defined set of national interests. If other nations were to follow the US stance, a 'trade war' would clearly ensue.

Within this context, it should be stressed that anti-trade sentiment is not an unprecedented issue; for example, it could be seen in [Britain in the early 20th century](#). One of the main arguments in favour of contemporary anti-globalisation is that economic gains from trade are not equally shared, a notion most notably

embodied in Donald Trump's "America First" campaign, and his complaints about "unfair" trading by his counterparts.

However, if there is agreement that those who have been left behind should be compensated, who is responsible for taking the actions required? It is national governments who can and should support domestic losers from international competition by redistributing economic gains domestically. Therefore, while trade *per se* is an international activity between two or more parties, in terms of "fairness", it is also a domestic problem of redistribution of benefits and burdens, and measures should be inwardly directed toward domestic markets, not just internationally. In other words, growing anti-globalisation is as much a domestic distributional problem as it is a result of international forces. In the case of G7 countries, there could be arguments made that it is in fact more to do with domestic policy than the "fairness" of international trade.

Expectations at the G7 Taormina Summit

Given the uncertainties of trade negotiations within this context, what can be expected from the 2017 G7 Taormina Summit as regards re-stabilising the international economic order? In response to this question there are three basic roles that can be highlighted. The first of these is determining the direction of trade. The [communiqué](#) resulting from the recent G20 Finance Ministers and Central Bank Governors' meeting in Baden-Baden made no mention of "protectionism", whereas the G7 have reiterated their stance of resisting it over the years. As such, many are [worried](#) that failing to mention the shift towards protectionism would be problematic. In other words, what is needed is a strong continued statement by the G7 against protectionism.

While President Trump has done little to ease these fears, the G7 Taormina Summit provides an important opportunity as it is the very first time for the world leaders to discuss trade issues since his election. Confirming the meaning of "fair trade" with President Trump should be a priority issue at the Taormina Summit, as it is a

prelude for the upcoming G20 Hamburg. If agreement is not reached between the G7, then it will no doubt signal that the G20 will also struggle to find common ground.

Secondly, the G7 summit can be a site for each member to confirm its commitments. While trade is clearly a domestic issue as much as an international concern, as described above, the G7 summit has been an important venue for world leaders to uphold their commitments in a multilateral framework. However, it is currently difficult for European countries to confirm their position as a hub of liberalisation and free trade within the G7 because of the challenge of Brexit and electoral uncertainties. While French President Emmanuel Macron's recent victory was a good sign for sustaining the existing international economic order, a series of European elections later this year may make things more complicated.

Lastly, Taormina could provide an opportunity to seek high-standard, rule-based trade channels among like-minded

countries, since the G7 summit is now a rare example of a multilateral framework that does not include China as a core member. In other words, the exclusiveness of the G7 is also its strength in terms of finding common ground, since all members share a general understanding of the importance of high-standard, rule-based trade relations as well as their connection to democratic processes. As [Susan Strange](#) argued, structural power, in this case the capacity to set the rules of the game, matters and by not downgrading the trade rules, G7 members could follow a similar path and show their desire to set high standards for trade.

Is the G7 a Sounding Board for "Fairness"?

Adam Smith once famously defined human nature as "the propensity to truck, barter and exchange one thing for another" and this tendency can clearly be seen at the G7 summit. [The Leader's Communiqué](#) did include the term "protectionism", and stated that "we reiterate our commitment to keep our

markets open and to fight protectionism”. This represents a great step forward compared with [what had been discussed](#) just before the leaders’ summit. In addition, the US incorporated in the first sentence of the trade section the claim of “free, fair and mutually beneficial trade and investment, while creating reciprocal benefits, are key engines for growth and job creation”. Furthermore, it was critical for the G7 to demonstrate its solidarity by mentioning “global excess capacity in the steel, aluminium and other key industrial sectors and to avoid its emergence in other areas” with reference to China, although it is not explicitly mentioned.

However, inserting the ‘P-word’ alone will not be sufficient to re-stabilise the international economic order. Rather, continuing to use the term might even be misleading. During his foreign diplomatic visits, there were media reports that Trump described German trade as “bad, very bad”. Germany is the third largest exporting country to the US, creating a trade deficit from the American point of view. However, just like China and Japan have a similar relationship with the US,

there is an obvious question. As [Paul Krugman](#) asks, “why shouldn’t a country export goods in which it has a comparative advantage?”

In this sense, there is a clear challenge to David Ricardo’s Principle of Comparative Advantage. Written in 1817, this basic macroeconomic principle is not an antidote to international trade governance, but rather a simple pattern showing how international trade works. This 200-year-old principle has been the premise that provides a strong backbone for the international economic order.

Historically, the liberal order has depended on mutual recognition among participating countries, and defusing anti-globalisation requires collective engagements even more directly, with selfish economism at its core. Otherwise, the resilience of the global economic system could be undermined. In this way, the G7 must come to terms with common understandings of fairness, in which trading surpluses and deficits can still be seen to be of long-term mutual benefit.

Another highlight in the Taormina Leader's Summit in the context of trade politics is Japan's role in the G7. Prior to the summit, the head of the WTO visited Japan and released a [joint statement](#), stressing the importance of global trade to promote economic growth, prosperity and development. It was quite unusual to see a document produced in collaboration with a state government. At present, Japan is leading the TPP 11 framework in the Asia-Pacific region after the US withdrawal. Also, Japan is vigorously, but not urgently, negotiating an Economic Partnership Agreement with the EU (Japan-EU EPA), and [showed its intention](#) to commence bilateral EPA/FTA talks with the UK, after its withdrawal from the EU. Furthermore, just before the G7 Leader's Summit, Abe reconfirmed a willingness to emphasise Trump's line on trade – “free, open and fair trade” – in their bilateral talk on the first day of the summit. A Japanese official reported at the G7 that during the leader's multilateral discussion, Abe clearly mentioned the importance of multilateral trading systems, in this case the WTO, which was also again reiterated

in the G7 Communiqué. While this may be Prime Minister Abe's tactic to begin a debate against protectionism, Japan's stance is [too reliant on the US](#), especially in the context of “free and fair trade” becoming unpopular among European leaders.

What lessons can we draw from this summit? The sudden reticence on trade may be a signal of what Dani Rodrik called the [“Globalisation Paradox”](#). However, the G7 Taormina Summit was indeed a crucial start in slowing down recent anti-globalisation sentiment as it demonstrated that world leaders can address trade issues responsibly, despite the global uncertainties. It also confirmed that it is important to look at the economic fundamentals involved with global trade, while simultaneously emphasising that trade liberalisation is a means to an end, not an end in itself. In this way, any attempt to sustain the multilateral order more concretely must tackle both international and domestic inequalities. Also, market-based free competition should be restored, and national governments should be

responsible for compensating their citizens who feel the negative effects of globalisation. In this sense, the “invisible hand” should act on an international level, with the “visible hand” acting domestically. It is here, where a better balance toward “fairness” could be located, while not destroying longstanding global trade mechanisms.

An international summit such as the G7 provides a good context in which to formulate these policies. Yet, doing so

properly will take leadership as well as a desire to move beyond recent anti-globalisation and protectionist grandstanding. In many ways this summit indicated a start but it will still need a proper push in Canada in 2018.

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