

G7, wounded in action

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The US' decision, just hours after the G7 summit, not to support its closing joint communiqué reaffirming the need for regulated, open multilateral global trade, may have come as a surprise to many, but it was not really surprising. Admittedly it had never happened before, but given the Trump administration's bilateralist and mercantilist mindset, as evidenced by the exit from the TPP, the stalling of TTIP, the dragging out of negotiations on NAFTA, the calling into question of the WTO, the ups and downs in the negotiations with China and the EU, and, by way of summary, the fact that the US accounts for nearly 40% of the world's measures passed in 2018 limiting trade, investment and migration, why should we be surprised by this latest snub?

Joint communiqués have to accommodate divergent positions, so they are often not very specific in their conclusions or concrete in their commitments and measures. This has certainly been the case with G7 communiqués, particularly in the past two years. In 2018 there were issues, such as climate change, on which two distinct positions were expressed, that of the "G6" and that of the USA.

The text on global trade was not quite so split: it reaffirmed the commitment against protectionism, upholding the multilateral rules-based governance of trade, stressing the importance of trade agreements and of the drive to reduce tariff and non-tariff barriers. Alongside this, pushed insistently by the US, it expressed, with deadlines, the need to reduce excess capacity in steel and aluminium, investigate illegal export subsidies, improve protection of intellectual property and examine the role of public enterprises in global trade.

These are all valid points, as is the need to make the resolution of disputes in the WTO faster and easier, but the way to manage conflicts is not by threatening to raise tariff barriers or to demolish them completely at a stroke, or by being rude to trading partners. This merely increases uncertainty about global trade, which requires confidence in order for investment decisions to be taken, processes organised and global value chains constructed across the institutional environments of different economies.

The model of multilateral governance and falling trade barriers that has been in place since the end of World War II has enabled each particular economy to make the best of its comparative advantages, specialising in what it does best and deriving benefits from the productivity achieved by the others.

It is also true that the benefits of globalisation are unevenly distributed among countries and within them, with activities and jobs burgeoning in one place only to wither away in another. However, the solution to the challenges posed by globalisation is not to try to reverse it; the historical experience of the 1930s shows just how mistaken this would be.

What is more, the US authorities seek to measure this globalisation exclusively through bilateral trade balances, which as a metric is worse than useless because it sends wrong signals. To start with, the balance of trade should be calculated not at the border but taking account of the fact that exports and imports include value added by third parties along the global value chains. The computers that the US imports from China contain American components and design, and also parts from Southeast Asia and Japan. According to

OECD data, 30% of the added value of China's exports comes from the rest of the world, rising in the case of computers to 52%.

There is nothing new under the sun in trade politics: we know what works and what does not. Increases in tariffs are negative for all concerned, and even more so if they lead to reprisals. And experience of trade conflicts between the US and Japan in the 1980s shows that voluntary restrictions on exports did not affect the balance of trade between the two economies, lending precious little support to bilateralism. With every facile and wrong-headed solution to complex issues, trust among members declines further. G7, wounded in action.

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