

The G7 lives, for now

Blog post by Chief Economist Gregor Irwin, 31 May 2016

Seven years ago as it prepared for G20 summit in London the British government debated internally whether the G8 was worth bothering about. The contention then was that a successful G20 would leave no space for the G8, while the G20 might not succeed if groups of countries caucused before G20 summits. Seven years later, and shorn of Russia, the G7 appears to be in good health, with a successful summit hosted by Japan in Ise-Shima just last week. But among the press statements, the 32-page communique and the photo-ops was there really much for anyone else to bother about?

A close reading of the summit conclusions suggests that there are reasons why it should not be ignored by other governments or companies doing business across borders. Three examples stand out. First, although China was not mentioned, it's clear the G7 is ready to pick a fight with Beijing on its market-distorting subsidies, which the G7 believes are contributing to global excess capacity in industrial sectors such as steel. The communique commits the G7 to "coordinate actions" and to "consider the broad range of trade policy instruments and actions" to enforce rights in order to "eliminate such subsidies and support." This means more anti-dumping and anti-subsidy measures are likely on both sides in future.

Second, the communique suggests there is little chance of the G7 backing down on Russia and rolling back sanctions any time soon. It notes "the duration of sanctions is clearly linked to Russia's complete implementation of the Minsk agreements and respect for Ukraine's sovereignty." Moreover, the G7 is "ready to take further restrictive measures in order to increase cost on Russia should its actions so require." If either the Kremlin leadership or businesses affected by sanctions were hoping for signs of a wobble, they will have been disappointed. This unambiguous political statement means the G7 is digging in.

Third, there are clear signs of how the relationship between the G7 and the G20 has matured. It would be wrong to characterise the G7 as a bloc within the G20, but the G7 is clearly willing to use its collective weight to influence and advance the G20 agenda in certain areas. There are plenty of examples to choose from, with two of the most obvious the G20 staple of financial regulation and the current hot button issue of tax and transparency. If anyone wants an indication of what G7 countries will be attempting to do at the G20 summit in Hangzhou in September, this is the place to start.

Is the future of the G7 secure? That depends. A lot can and will change between now and next year when the Italians will host the next G7 summit. The US will have a new president. France might too. The UK could be heading out of the EU. And the Germans will be focused on their impending federal elections. 2017 could turn out to be a bigger test of G7 unity and tell us whether the institution really is worth bothering about in future.