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Reconfirming the Very Basis of G7 Cooperation

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ABSTRACT

With its special responsibility to lead in global economic governance, the G7 should reconfirm its commitment to the market economy. Not only stability, but also the enhancement of growth potentials should be pursued. The focus should be on trade and investment: (a) the fight against protectionism, a central role for the WTO in the multilateral trading system and the contribution of the G7 to the success of the eleventh Ministerial Conference (MC 11) should be highlighted; (b) infrastructure investment in terms of quantity and quality should be promoted. With regards to cooperation in economic policy, a greater emphasis on monitoring and a peer review process should be pursued, as should increased efforts to promote structural reform.

G7 | WTO | Economy | Finance | Foreign trade | Foreign investments |
Economic governance

keywords

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1. Overview of general perspective

In view of increased uncertainties caused by the political events taking place in the G7 member countries since the Ise-Shima Summit, "stability" has become even more important.

At the same time, in order to solve the existing socio-economic issues, in particular unemployment as well as distribution of incomes and wealth, enhancement of growth potential should continue to be pursued.

The G7 have a special responsibility to lead international efforts to tackle major global economic and political challenges. Therefore, in the realm of "global economic governance," issues relating to sustainable growth and development will have to be addressed by the leaders of the G7 countries.

In particular, climate change (the implementation of the Paris Agreement) and global health require priority attention. (However, these issues are not covered in the present contribution).

2. Focus for the G7 Summit discussions

Since the first Summit at Rambouillet in 1975, the G7 have taken various initiatives to coordinate economic policy tailored to the then prevailing economic situation, although not all of the outcomes of their efforts have lived up to their original intentions. However the G7 have demonstrated their potential leadership in this field based on their strong commitment to the market economy as well as an open and free trade system.

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At present the fundamental value of the market economy system itself seems to be challenged, especially in the field of trade and investment.

There is no need to dwell upon the theory of “comparative advantage” nor to draw attention to the irreversible development of global and regional value chains. However, with a view to demonstrating the potential for the G7 to lead on global economic governance, the upcoming G7 Summit should send a strong message reaffirming the G7 countries’ firm commitment to the value of the market economy.

Given the points above, special attention should be paid to the field of trade and investment.

3. Trade and investment

Value of free trade

Although the importance of trade for global growth is evident and was confirmed by the previous G7 and G20 summits, some worrisome statements were made recently.

Obviously, free trade alone will not result in increased employment or better income distribution, appropriate domestic policy measures including tax policies are needed.

Fight against protectionism

In the midst of the economic crisis, we have so often witnessed the introduction of measures restrictive of trade and investment. Therefore, at the first G20 summit, Japan and the US proposed the “standstill” commitment which further evolved to the “roll back” commitment, which sought to remove such restrictions. The effects of the commitments are far from satisfactory, but they have been useful to some extent.

Measures to be avoided are not only those that are inconsistent with the WTO legal commitments, but also other measures aimed at increasing barriers for the cross border flows of goods and services.

Despite this, many restrictive measures were introduced by G20 members. Against this background, the G7 should show leadership in this regard.

WTO

Within the role of the WTO, the importance of its dispute settlement and regular work including trade policy monitoring should be highlighted, given the current concerns about negative developments in the trade field.

On the negotiating role of the Organization, little can be expected in the near future after the failure of the Doha Development Agenda (DDA). In the meantime, new approaches for trade liberalization (e.g. the "Trade Facilitation Agreement" approach, the soft law approach) will have to be sought.

The members of the G7 have to contribute in a realistic and pragmatic way to the eleventh Ministerial Conference (MC 11) this December to ensure its success.

Regional and plurilateral trade agreements

In the absence of "low hanging fruits" for the WTO negotiations, regional trade agreements and plurilaterals are expected to play a precursor role in multilateral trade liberalization.

However, apart from the Japan and EU Economic Partnership Agreement (EPA), there seems to be little expectation that other mega free trade agreements will be concluded / implemented in the near future.

The risks and costs of increasingly complex trade rules, including rules of origin, must once again be addressed in order to avoid unduly burdening the business sector, especially small and medium sized enterprises.

Exchange rate

Among the members of the G7 and of the G20, there already exist some agreed guiding principles on exchange rates, which bear in mind various perspectives, not only the trade policy point of view. To avoid sending the wrong signals to the market, the G7 leaders should instruct their Finance Ministers and Central Bank Governors to reconfirm these principles.

Investment

With the rapid development of global and regional value chains, the role of the government in the investment decision making processes of the private sector should be kept to the minimum, except when national security is at stake.

In line with the previous G7 and G20 discussions and commitments, infrastructure investment by Governments in terms of both quantity and quality should however be further encouraged and promoted.

4. Economic policy coordination

In light of the increased uncertainty of the prospects for global growth, confirmation of the policy framework for strong sustainable and balanced growth is essential.

To prepare for market turbulence, more emphasis should be put on the monitoring and peer review processes (e.g. G20's Mutual Assessment Process).

With the inherent and realistic limits of the effects of fiscal and monetary policies, further efforts must be made on the structural reform front. OECD efforts (e.g. "Going for Growth") can certainly make a useful contribution in this area.

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