Istituto Affari Internazionali

G7 Economic Cooperation in the Trump Era

by C. Fred Bergsten, Edwin M. Truman

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ABSTRACT

This paper examines how G7 cooperation can be maintained in the Trump era. Its working assumption is that the US administration will remain open to international cooperation in principle and yet be constrained by Trump's economic nationalism and specific campaign promises, such as reducing trade imbalances. The main finding is that useful areas for G7 macroeconomic, trade and financial cooperation continue to exist even after taking US constraints into account. At the same time, other G7 leaders need to be prepared to proceed on their own if attempts to convince the US administration that G7 economic cooperation is in the interests of all members fail.

G7 | USA | IMF | Economy | Financial stability | Foreign trade | Economic governance

keywords

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Introduction

G7 economic cooperation has pursued three main objectives: macroeconomic policy coordination (either in response to global shocks or to reduce large external imbalances among its members), the promotion of an open, rule-based multilateral trading system, and the promotion of global financial stability through common regulatory standards and common institutions such as the IMF. The views of US President Donald J. Trump appear to conflict with all three objectives. His "America First" philosophy and apparent belief that current account imbalances must be addressed by renegotiating trade agreements rather than through macroeconomic policies appear to leave little room for macroeconomic coordination. His trade views directly contradict the G7 agenda so far, and his intention to roll back financial regulation in the United States seems difficult to reconcile with regulatory cooperation. Furthermore, key congressional Republicans have been highly critical of US participation in the Basel Committee on Banking Supervision and the Financial Stability Board (FSB), and have also opposed "IMF bail-outs" and IMF quota increases.

At the same time, it is not yet clear to what extent – and how – President Trump's views will translate into policies of the new US administration. For example, Treasury Secretary Steven Mnuchin appears to have affirmed the IMF's role in crisis prevention and management and the role of international cooperation in addressing financial stability risks, in separate conversations with IMF Managing Director Christine Lagarde and FSB Chairman Mark Carney almost immediately after his confirmation.[1] President Trump himself, while pursuing an "economic

[1] See US Department of Treasury, *Readout from a Treasury Spokesperson of Secretary Mnuchin's Call with International Monetary Fund Managing Director Christine Lagarde*, 21 February 2017, https://www.treasury.gov/press-center/press-releases/Pages/sm0010.aspx; and *Readout from a*

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nationalist agenda", has recently stated that "global cooperation, dealing with other countries, getting along with other countries is good, it's very important".[2] This posture could give members of his economic team political cover to continue the US postwar tradition of international economic cooperation, particularly with its allies.

This note explores how G7 cooperation could be maintained in the Trump era. It proceeds on the assumption that the US administration will *both* remain open to international cooperation in principle *and* feel constrained by Trump's economic nationalism as well as by specific campaign promises, such as reducing trade imbalances. Furthermore, the US administration has just announced that it will cut spending related to international cooperation – the State Department's budget, and foreign aid – to make room for higher defence spending. The central issue is how, in light of these constraints and potential contradictions, the non-US members of the G7 can best influence the ongoing policy debate in the United States in a constructive direction. Leaders and senior policymakers of other countries should seek to convince the US administration that G7 economic cooperation is in the interests of each member, including and particularly the United States. But they also need to be prepared to proceed on their own if their efforts at persuasion fail.

1. Macroeconomic and tax policy

Three elements of Trump's campaign platform could potentially have a major fiscal impact. By far the most important is a large tax cut encompassing personal income, estate and particularly business income taxes.[3] Second, a plan to stimulate infrastructure investment by offering tax credits of 82 percent of the equity that private investors commit to infrastructure projects.[4] Third, a large increase in defence spending to the extent that it is not fully offset by reductions in other spending items.

The net effect of these policies would be expansionary at least in the short run, but its magnitude and timing is highly uncertain due to uncertainty about both the proposed policies and offsetting revenue and expenditure measures. President Trump has signalled that he intends to balance the budget within the ten-year

Treasury Spokesperson of Secretary Mnuchin's Meeting with Mark Carney, Governor of the Bank of England (BOE) and Chair of the Financial Stability Board (FSB), 23 February 2017, https://www.treasury.gov/press-center/press-releases/Pages/sm0013.aspx.

[2] The first quotation is from Trump's chief strategist, Stephen Bannon. See Benjy Sarlin, "Steve Bannon Touts Trump's 'Economic Nationalist Agenda'", in *NBC News*, 23 February 2017, http://nbcnews.to/2mq8D6L. The second quote is from President Trump's CPAC speech, 24 February 2017, http://time.com/4682023/cpac-donald-trump-speech-transcript.

[3] Alan Cole, "Details and Analysis of the Donald Trump Tax Reform Plan, September 2016", in *Tax Foundation Fiscal Facts*, No. 528 (September 2016), https://taxfoundation.org/?p=43502.

[4] Peter Navarro and Wilbur Ross, *Trump Versus Clinton on Infrastructure*, 27 October 2016, http://peternavarro.com/sitebuildercontent/sitebuilderfiles/infrastructurereport.pdf.

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budget window. This is also a long-standing goal of the Director of his Office of Management and Budget, Mick Mulvaney, a feature of House-passed budget resolutions, and a more moderate goal than Trump's campaign pledge to eliminate the federal debt. Consistent with this goal, on 27 February the administration announced that it will seek both a 54 billion dollars (about 0.3 percent of GDP) increase in defence and security spending in the coming year's federal budget and non-defence cuts of the same magnitude. Furthermore, leading House Republicans have pledged to reduce taxes on business and top individual income tax rates as part of a revenue-neutral tax reform package.[5] Possible offsetting components include limits to individual tax expenditures – for example, the tax deduction for State and local taxes – as well as a "border adjustment tax" (BAT, also referred to as "destination based cash flow tax", DBCFT) which would eliminate both exports and the deductibility of imports from business income taxation. According to Secretary Mnuchin, the administration has not yet decided whether to include this proposal in its tax reform package, which it hopes to get passed by August.

Independent estimates have put the fiscal cost of the Trump tax plan at about 2.6 percent of GDP on average over the next decade, leading to an increase of the US federal debt by about 25 percent of GDP by 2026.[6] However, these estimates assume a reduction of the corporate income tax from 35 to 15 percent, whereas the politically more likely outcome is 20 percent or higher. Furthermore, they do not consider offsetting spending cuts or destination basis border adjustment, which would in effect tax the US trade deficit (currently just under 3 percent of GDP) at a 20 percent rate. The macroeconomic impact of the infrastructure plan is even less clear. Its authors claim that it would be fiscally neutral over time. Even if this is not the case, its fiscal cost would be relatively limited , however,[7] and the same is likely for its overall impact, particularly since it is not clear what portion of the investment projects financed by the tax credit would have happened anyway.[8] Finally, while the intentions of the administration on the spending side have now become clearer, it is not at all clear how this proposal will fare in Congress, where it may well face opposition from members of both parties.

[5] Tax Reform Task Force, *A Better Way. Our Vision for a Confident America*, US House of Representatives, 24 June 2016, http://abetterway.speaker.gov.

[6] Jim Nunns et al., *An Analysis of Donald Trump's Revised Tax Plan*, Washington, Urban-Brookings Tax Policy Center, 18 October 2016, http://tpc.io/2cNp4G7. See also Alan Cole, "Details and Analysis of the Donald Trump Tax Reform Plan, September 2016", cit.

[7] The example given in the proposal is that of a 137 billion dollars tax credit (about 0.75 percent of 2016 GDP) required to finance an infrastructure gap of 1 trillion dollars over several years. See Peter Navarro and Wilbur Ross, *Trump Versus Clinton on Infrastructure*, cit.

[8] Paul Krugman, "Build He Won't", in *The New York Times*, 21 November 2016, https://nyti.ms/2ljLeVf; Alan S. Blinder and Alan B. Krueger, "Trump's Infrastructure Mistake", in *The Wall Street Journal*, 18 December 2016.

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President Trump's fiscal plans could impact the remaining G7 members through three channels:

1) Higher US demand and higher US interest rates (indeed, long-term US interest rates have already risen in reaction to Trump's election). In an environment of low global growth and extremely low interest rates, these effects should be welcome. This said, if there is a quick increase in interest rates that carries over to other currencies, particularly the Euro, this could have adverse effects on G7 members with high debt burdens, such as Italy.

2) Current account balances and President Trump's reactions to trade imbalances. Expansionary fiscal policies and higher interest rates in the US will likely lead to a further widening of the US trade deficit vis-à-vis most G7 members. The Trump administration may react to such a development through protectionist measure such as safeguards. While these measures would be ineffective and surely subject to legal challenge, litigating these challenges could take years.

3) Tax competition and – depending on exchange rate reactions – competitiveness effects. Depending on the magnitude, a move to low corporate tax rates in the United States may tilt the playing field against, or create additional profit-shifting incentives for, companies based in high tax rate countries, such as France. The imposition of border adjustment would further complicate this picture. For given exchange rates, the introduction of a BAT is discriminatory, as it imposes a higher tax burden on imports than on domestically produced goods.[9] While appreciating exchange rates can offset this effect, the extent of exchange rate movements in reaction to the border adjustment is unclear.[10]

1.1 Coordination options

Coordination might help to diffuse the adverse consequences of Trump's plans on current account imbalances and tax competition – and indeed do some good beyond that.

First, the longstanding and so far unsuccessful idea of coordinated increases in public investment could conceivably experience a comeback, as a compromise between Germany – which has taken steps to raise its public investment but not to a degree that would threaten its balance budget – and the United States,

[9] William R. Cline, "The Ryan-Brady Cash Flow Tax: Disguised Protection, Exaggerated Revenue, and Increased Inequality", in *PIIE Policy Briefs*, No. 17-4 (January 2017), https://piie.com/node/12408.

[10] Caroline Freund and Joseph E. Gagnon, "Effects of Consumption Taxes on Real Exchange Rates and Trade Balances", in *PIIE Working Papers*, No. 17-5 (April 2017), https://piie.com/node/12546; Gary Clyde Hufbauer and Zhiyao (Lucy) Lu, "Border Tax Adjustments: Assessing Risks and Rewards", in *PIIE Policy Briefs*, No. 17-3 (January 2017), https://piie.com/node/12374; Willem H. Buiter, "Exchange Rate Implications of Border Tax Adjustment Neutrality", in *CEPR Discussion Papers*, No. 11885 (3 March 2017), http://willembuiter.com/BTAlong.pdf.

which could otherwise react to its widening trade deficit by imposing "safeguards" directed against Germany among others. The remainder of the G7 would have an obvious interest in supporting such an outcome. The main problem is that not all have the fiscal space to make a significant contribution themselves. Partly for this reason and partly to diffuse trade conflicts between the United States and emerging market countries, it would be desirable to extend the initiative to G20 members. This may be feasible if public investment is defined broadly to include social infrastructure and education.

Second, a case for tax policy coordination would arise particularly if the US does decide to impose a border adjustment tax. While a unilateral border adjustment tax may be discriminatory in both intent and impact (depending on exchange rate reactions), a coordinated introduction of a BAT/DBCFT[11] – should have no adverse impact on trade, as the tax burdens of importers and exporters would remain unchanged. This said, such a move would ceteris paribus benefit deficit countries fiscally (the United States) and hurt surplus countries. At the same time, it would also reduce incentives for profit shifting, and certainly be preferable to a trade war. In countries that have a VAT, a US tax reform that reduces or eliminates the corporate income tax and replaces it by a DBCFT could be implemented using existing tax instruments, by lowering the corporate tax rate, increasing the VAT, and lowering payroll taxes.[12]

Even if the DBCFT is not adopted in the United States, greater coordination with respect to business income taxation would limit the negative tax competition impact of unilateral reductions across members. This could aim at establishing common standards or procedures for the tax base and minimum tax rates. Although it should not supplant the G20, the G7 is a good forum for pushing this process forward since it includes only large countries at similar stages of development. As such it is not susceptible either to free riding by small countries or to arguments that countries at earlier stages of development need to use low corporation taxation to as a way of compensating for other weaknesses in the business environment.

[11] Alan Auerbach et al., "Destination-Based Cash Flow Taxation", in *Oxford University Centre for Business Taxation Working Papers*, No. 17/01 (February 2017), http://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Docs/Publications/Working_Papers/Series_17/WP1701c.pdf.

[12] Both the VAT and the DBCFT are destination-based taxes. The main difference is that the latter allows the wage bill to be deducted from the tax base but not the former. Let R denote revenues, W the wage bill and I the cost of intermediate inputs. Then $VAT=\tau_{VAT}(R-I)$ while $DBCFT=\tau_{DBCFT}(R-I-W)$. Hence, an introduction or increase in τ_{DBCFT} is equivalent to a combined increase in VAT and a reduction in payroll taxes.

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2. Trade policy

The backlash against globalization represents the central, perhaps existential, threat facing the G7. It could reverse 70 years of painstaking efforts to create an open and cooperative world economy, with unforeseeable but potentially disastrous consequences. The backlash is partially motivated by identity politics and other non-economic factors but economic, especially trade, issues are among its most important causes and will certainly bear much of its consequences.

To this point, however, the international trading system has been performing remarkably well. Four major plurilateral negotiations, covering the bulk of world trade in key sectors, have either been concluded successfully (Information Technology Agreement II, revised Agreement on Government Procurement) or are nearing completion (Trade in Services Agreement, Environmental Goods Agreement). The dispute settlement mechanism at the WTO is held in high regard everywhere and is threatened only by excessive demand for its services (though Trump staff are reportedly looking for alternatives). There was no major outbreak of protectionism during the Great Recession, or thereafter despite the tepid recovery. Several new megaregional agreements were concluded in 2016, such as the Trans-Pacific Partnership (TPP) or the EU-Canada Comprehensive Economic and Trade Agreement (CETA), or advanced a considerable distance, such as Asia's Regional Comprehensive Partnership Agreement (RCEP), and the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the United States. The slowdown in trade growth since the Great Recession mainly reflects changes in the pace and composition of GDP growth and the slowing growth of global value chains rather than protectionism.[13]

This picture is threatened by the advent of the Trump administration in the United States, against the backdrop of antiglobalization sentiment in the Democratic Party and much of the Congress, and coupled with the Brexit vote in the United Kingdom and similar views elsewhere in Europe. The risk of an outbreak of protectionism has already created international tensions, which may hurt investment. The broader implication, of a possible breakdown in cooperation among the major (mainly G7) countries and even a breakup of the European Union and multilateral trading system, adds considerably to the negative impact of such fears.

The G7, and perhaps subsequently the G20, can play a major role in countering these threats. Possible avenues include new initiatives in trade policy, within the new political constraints, and mounting a backlash against the backlash. Their implementation can revive the momentum toward trade liberalization, which is essential to resisting the spread of protectionism.

[13] International Monetary Fund (IMF), "Global Trade: What's Behind the Slowdown?", in *World Economic Outlook, October 2016*, p. 63-119, http://www.imf.org/external/pubs/ft/weo/2016/02.

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2.1 A "better trade agenda"

The advent of the Trump administration in the United States may alter the course of global trade policy but need not derail it. We do not yet know the contours, let alone the details, of Trump's trade policy. Sharp differences have already surfaced within the administration on trade (as on many other issues). As of late February, Trump's only specific step has been to withdraw the United States from the Trans-Pacific Partnership. Throughout his campaign and the transition period, however, Trump has said that he wants "better deals" for the United States, loosely defined as reducing bilateral trade deficits (creating jobs and avoiding excessive shocks to incomes). He favours bilateral over multilateral or regional approaches. He sees currency issues as an integral part of trade policy (as do many members of Congress). He does not oppose trade or trade agreements, however, so the task before the international community is to modify its traditional strategies to accommodate these proposed amendments – if they actually begin to eventuate – without compromising their basic principles.

The G7 should thus advocate, and actively promote, a "better trade agenda" among its member countries (for which Trump could claim at least partial credit). This could encompass plurilateral agreements that include the United States and that the new US administration might be willing to support, multilateral and bilateral agreements that do not include the United States, and new bilateral agreements involving the United States. Such an initiative would enable the G7 to take the offensive against the backlash against globalization by restarting the momentum toward liberalization and rule-making, suitably amended to incorporate the several legitimate complaints that have been revised. The main components could be:

- Reaffirmation of the traditional standstill on WTO – inconsistent measures, extension of that standstill to rule out *all* new trade barriers, and addition of a commitment to roll back at least the G7 portion of the 1,500 or so new impediments imposed by G20 countries since they pledged to avoid such actions in 2009 (all G7).
- Full implementation of the Trade Facilitation Agreement already negotiated in the WTO (all G7).
- Completion of the two major plurilateral agreements, the Trade in Services Agreement (TISA) and the Environmental Goods Agreement (EGA), being negotiated around the WTO (all G7, hopefully with G20 support).
- Implementation of CETA (EU-Canada).
- Completion of the pending EU-Japan agreement (EU-Japan).
- Completion of the pending Canada-Japan agreement (Canada-Japan).
- Institution of a US-Japan bilateral agreement to replace the TPP, most of whose economic impact in any event came from creating free trade between those two countries (US-Japan).[14]

[14] Japan is also participating in negotiations for a Regional Comprehensive Partnership Agreement (RCEP) with eleven other Asian countries. Also, some TPP member countries would like

- A revived and re-named TTIP, (European Union-United States) framed as a "bilateral" (since the EU is a single trading entity), – probably shorn of its ISDS chapter and perhaps with other modest revisions (President Trump has *not* criticized TTIP).
- After Brexit, FTAs between the United Kingdom and other G7 members: EU, US, Japan, Canada (EU-UK, US-UK, Japan-UK, Canada-UK).

This is a potentially very rich trade liberalization agenda, some of which is already ongoing, that could be reinforced, and indeed extended even further, by a reaffirmation at the May meeting. Such a reaffirmation (especially by the new US administration) would have a very positive effect on confidence around the world, and thus global economic prosperity, by countering fears of an outbreak of protectionism and disruption of the international trading system. The G20, some of whose members would of course be involved in important parts of this agenda, could amplify these effects by adding its endorsement in July.

2.2 Direct responses to the anti-trade backlash

Some of the needed responses to the backlash are idiosyncratic to individual countries. For example, the United States has failed to provide adequate safety nets to enable workers to absorb trade-induced (and other) shocks, and effective training programmes to foster real adjustment for them. And there is a major domestic political barrier to overcoming this problem: the most active supporters of globalization (traditional Republicans) oppose such programmes almost as much as they support free trade. An especially peculiar US policy is *trade* adjustment assistance, with expanded unemployment insurance and other benefits made available only to workers adversely impacted by trade, which does not exist in any other G7 country.

The G7 should nonetheless make an effort to establish consensus around a cooperative (and possibly coordinated) programme of "Supporting the [American/British/Canadian/French, etc.] Worker" that responds to concerns raised about globalization. This could include three components: measures to improve disposable incomes specifically in the lower-middle income brackets in which wage growth has slowed over the past two decades, strengthened safety nets (such as wage insurance) to address the costs of unemployment and wage reductions, and better education and working training initiatives to foster real adjustment. These measures would preferably apply across-the-board, rather than only to trade-related developments, both because causality is so hard to identify and because globalization tends to be blamed for problems whose sources lie elsewhere. There should also be joint efforts to address major issues that have been identified as contributing to an unequal international playing field, such as currency manipulation (currently in remission in China and almost everywhere else) and China's desire to be accorded market economy status.

to go ahead and implement the TPP without the United States.

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The international cooperation could come through the creation of G7 task forces or working groups, preferably to include representatives from the private sector as well as governments, in each of these areas to share information, national experiences and new ideas (whether or not previously adopted) among the member countries. The goal would be the development of international best practices with respect to all these issues. It would not be necessary, or even desirable, for all countries to adopt the same measures but each should become aware of the full spectrum of possibilities and reinforce each other's efforts wherever possible.

Whatever the G7 countries do on these specific issues, they should agree to launch a major concerted effort to educate their publics (and the world more broadly) on the benefits of globalization. They should of course acknowledge that there are costs and losers, and point to their new efforts (as needed) to address them. But the focus should be on the huge net economic gains to each country from the process along with the unquantifiable, but probably even greater, gains for international security and world peace. The G7 governments can no longer assume that open trade and globalization will command support from their electorates and should make it a top-priority to recover this support.[15]

3. Global financial stability[16]

A central lesson from the global financial crisis of 2007-2009 is that crises of a significant scale in one economy and financial system affect many countries' economies and financial systems. If such financial crises are to be contained and global financial stability enhanced, international financial cooperation on both crisis prevention and crisis management is essential and benefits all countries.

The Trump administration's policies in these areas are unclear and may not yet be determined. If the new administration pulls back from proactive involvement with the institutions of international cooperation crisis prevention and crisis management, global financial stability would be weakened. If the United States were to pull out of these organizations entirely, it would be a disaster.

[15] A new study by the Peterson Institute for International Economic, to be published shortly, shows that the US economy is about 2 trillion dollars richer per year as a result of the globalization of the past 70 years. This equates to more than 10 percent of total national income and almost 18,000 dollars per household. The new study updates a well-known analysis by the Institute published in 2005 that showed net US gains of almost 1 trillion dollars annually. Similar studies should be conducted (for example, by the OECD) for all G7 and other countries.

[16] This section is based in part on Edwin M. Truman, "International Financial Cooperation Benefits the United States", in *PIIE Policy Briefs*, No. 17-10 (March 2017), https://piie.com/node/12488.

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3.1 Crisis prevention

Reforming and replacing the Dodd-Frank Act is likely to weaken the US financial system. The new US financial regulatory framework could conflict with some of the provisions of international standards that have been agreed since the global financial crisis of 2007-2009, as well as some still under discussion.

The implications of a breakdown of negotiations over the final chapter in Basel III and a halt to cooperation on other aspects of the international financial regulatory regime that has been substantially strengthened in the 10 years would endanger global financial stability. If the United States were to scale back its participation in FSB and related activities, the post-crisis regime would be incomplete. If the United States were to discontinue playing a proactive role in international standard-setting bodies and the FSB, international financial reform could start to unravel. At worst, there would be a race to the bottom; at best, other countries would struggle on with a more fragmented system, with unnecessary opportunities for regulatory arbitrage, and hope that the United States comes to its senses.

The first best option for the responsible authorities in other countries is that they should impress upon the Trump administration the importance of continuing the process of global financial reform. Based on reports of Treasury Secretary Mnuchin's conversation with FSB chair Mark Carney, this effort seems to be underway. As a second-best option, they should try to convince the new US administration not to abandon the existing institutions and agreements of crisis prevention in support of global financial stability. If they fail, other countries should carry on without the United States and resist a race to the bottom. However, they can be expected to protect their financial systems against US financial institutions that they conclude are under-regulated and under-supervised. The United States itself has an established precedent for keeping foreign institutions from operating in the United States, via the legal requirement enforced by the Federal Reserve that such institutions be subject to comprehensive consolidated supervision. In the future, the shoe may be on the other foot. Either way, the mechanisms of crisis prevention in support of global financial stability could be weakened.

3.2 Crisis management

The IMF, the institution at the centre of managing international financial crises, has been weakened relative to the plans laid down in the wake of the crisis. Initial agreements to enhance the resources of the IMF were successfully implemented, but subsequent initiatives were delayed and finally ground to a halt.

Although the IMF does not face an immediate need for additional financial resources, the Trump administration will soon have to decide its posture with respect to the review of IMF quotas to be completed by 2019. If this review is to produce a further step forward on reform of IMF governance, total quotas must be increased substantially. The Trump administration must decide whether to agree to an increase in the US quota to maintain its capacity to block or veto major decisions in the IMF, or to step aside and allow the US veto to disappear.

What the administration decides on IMF quotas will have implications for US participation in the new arrangements to borrow (NAB) after 2022. Continued participation after that date will require Congressional authorization, and a decision on whether to seek such an authorization will need to be made early in the next administration, either a second Trump administration or another president's administration. The groundwork will have been laid before the 2020 presidential election. If the United States does not renew its 38.5 billion dollars commitment to the NAB, it would be a severe blow to international monetary cooperation and the capacity of countries to manage crises that threaten global financial stability.

It is also reasonable to expect the Trump administration, following Republican views in the Congress, to be reluctant to support large IMF lending programmes. In the past, the United States has strongly supported most of these so-called bail-out programmes, finding their contribution to the stability of the countries involved in the interest of the United States. Going forward, we may see fewer such large programmes. Regional financial arrangements may have to step into the void. But in many regions, these do not exist or are underequipped financially. And even where large arrangements exist, such as the European Stability Mechanism and the Chiang Mai Initiative Multilateralization, their governance mechanisms are underdeveloped or untested, and they would be more exposed financially because of the preferred creditor status enjoyed by the Fund itself.[17]

A useful way to strengthen the global financial safety net could be (i) to expand the existing, unlimited bilateral swap arrangements among the central banks issuing reserve currencies[18] to include other countries such as large emerging market economies and (ii) to tie the qualification of these other participating countries to their having received a commitment from the IMF for a flexible credit line as a back-up arrangement.[19] It would be in the US interest, as well as in the interest of

[17] See International Monetary Fund (IMF), "Adequacy of the Global Financial Safety Net", in *IMF Policy Papers*, 10 March 2016, https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Adequacy-of-the-Global-Financial-Safety-Net-PP5025; Beatrice Weder di Mauro and Jeromin Zettelmeyer, "The New Global Financial Safety Net: Struggling for Coherent Governance in a Multipolar System", in *CIGI Essays on International Finance*, No. 4 (January 2017), https://www.cigionline.org/node/12335.

[18] In post-crisis period, the central banks of Canada, euro zone, Japan, Switzerland, United Kingdom, and United States established swap lines the size of which is unlimited, but the central bank wanting to draw must receive the permission of the central bank making its currency available.

[19] Beatrice Weder di Mauro and Jeromin Zettelmeyer, "The New Global Financial Safety Net", cit., building on Truman. See Edwin M. Truman, *Three Evolutionary Proposals for Reform of the International Monetary System*, Extension of prepared remarks delivered at the Bank of Italy's Conference in Memory of Tommaso Padoa-Schioppa, Rome, 16 December 2011, http://www.bancaditalia.it/pubblicazioni/altri-atti-convegni/2011-conf-memoria-padoa-schioppa/Truman.pdf; Edwin M. Truman, "Enhancing the Global Financial Safety Net through Central-bank Cooperation", in *VoxEU.org*, 10 September 2013, http://voxeu.org/node/9708.

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the other countries whose central banks now participate in the unlimited swap network, to pursue this proposal, for example at upcoming G7 and G20 meetings, with or without the support of the Trump administration.

In summary, if future US support for the institutions of international monetary cooperation that are central to crisis management – the IMF in particular – is minimal at best and negative at worst, the inevitable financial crises will be more challenging to handle. Other countries must either strengthen those institutions without the United States or persuade the United States to step aside from its dominant role in the IMF. They could also seek to strengthen regional institutions in which the United States is not a member.

Conclusions

This paper has analyzed how the G7 can make the best of the new US administration policies.

Regarding *macroeconomic policies*, the likelihood of fiscal stimulus out of the US and a recent uptick in global growth make coordination for the purposes of overcoming weak growth in the short run somewhat less urgent than it has been in the past. At the same time, international coordination has a role to play to diffuse the adverse consequences of Trump's plans on current account imbalances and tax competition. This could include coordinated increases in public investment and common or minimum standards for the corporate tax base and corporate tax rate. While it should not supplant the G20, the G7 is a good forum for pushing this process forward since it includes only large countries at similar stages of development.

With regard to *international trade*, the G7 should attempt to coalesce around a "better trade agenda" to counter the risk of an outbreak of protectionism while taking the backlash against trade and the constraints of the Trump administration into account. This could encompass plurilateral agreements that include the United States and that the new US administration might be willing to support, multilateral and bilateral agreements that do not include the United States and new bilateral agreements involving the United States, including a refocused and reframed free trade agreement between the US and the EU. They should also begin a cooperative (and possibly coordinated) programme that responds to concerns raised about globalization, including measures to improve disposable incomes specifically in the lower-middle income brackets, strengthened safety nets (such as wage insurance) and better education and working training initiatives to foster real adjustment.

Finally, on *global financial stability*, G7 leaders should impress upon the Trump administration the importance of continuing the process of global financial reform, since a breakdown of negotiations over the final chapter in Basel III and a halt

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to cooperation on other aspects of the international financial regulatory regime would undermine progress on crisis prevention and endanger global financial stability. International cooperation should concentrate its efforts not only on crisis prevention but also on crisis management. The IMF, the central institution managing global financial crises, has been weakened after the global financial crisis and US support for the Fund is in doubt. G7 leaders should emphasize to the Trump administration the importance they attach to the IMF and ask the administration to step out the way if it is not prepared to join them.

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