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PREVIEWING THE G7 SUMMIT

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The G7 summit, being held today and tomorrow in the splendid setting of Taormina, Sicily, boasts particular significance amidst the growing fragility in global governance.

This is the first G7 summit for most of the leaders who are attending. This holds true for newly elected French President Emmanuel Macron, but also for British Prime Minister Theresa May, as well as Italian Prime Minister Paolo Gentiloni, the summit's host. The Taormina summit is also the first at the G7 level that US President Donald Trump will attend.

It is obvious, therefore, that many of the expectations are about how President Trump will articulate the Group's international agenda vis-à-vis the positions of his fellow leaders, and the political space that they will manage to manoeuvre and carve out to preserve the status quo in global governance and block further hindrances.

In principle, the G7 embodies a potentially very useful platform for engaging President Trump internationally. Compared to the G20, which Trump's predecessor in the White House, Barack Obama, greeted as the "pre-

ier forum for international economic cooperation," there is only a handful of participants, and the protocol is reduced to a minimum. Leaders can afford to hold intimate conversations, through which they, over time, typically build close personal relationships.

The more fluid agenda at G7 summits enables leaders to modulate the topics of conversation based on their own preferences and needs, and to conduct the summit in a more relaxed, informal setting. Compared to G20 summits, where the formalities of the protocol are sanctioned by the reading of speeches previously written in their respective capital cities, the G7 still provides rare moments of spontaneity for its participants.

For the Trump presidency, which exudes an unusually personalistic style, the G7 setting may thus help to build a greater shared understanding with the world's most important country, notwithstanding the Group's evident limitations in terms of composition and representativeness across countries.

Preparatory work in the lead-up to the Taormina summit has focused on enhancing the agenda items of common interest that will emphasize security aspects,

such as those related to North Korea, Iran and Syria, and the fight against terrorism after the tragic events of, among others, Nice, Berlin and, just the other day, Manchester.

On the economic front, the Italian presidency has identified a common agenda of commitments to foster growth and investment; the fight against tax evasion of multinationals, as well as the financing of terrorism; and, finally, the customary commitment against competitive devaluation of currencies. Exchange rate depreciation to obtain undue advantages for exports is a domain in which the United States wants to reiterate its warning to some of its G7 partners, such as Japan, but especially Germany – whose record current account surplus, partly reflecting an implicit subsidy provided by the single European currency, is followed with concern in Washington.

That said, tensions with respect to the exchange rate are not likely to abate following the Taormina summit. The current environment is not conducive to pursuing the sort of cooperation that we witnessed in the Plaza Agreement of September 1985 and the Louvre Accord of February 1987. Simply put, the euro area and Japan would be hesitant to agree to a meaningful appreciation of their currencies vis-à-vis the US dollar, given their already modest growth outlook.

Further hindering the prospects for cooperation on the exchange rate is the fact that the European Central Bank (ECB) is responsible for the conduct of monetary policy in the euro zone. The ECB's clear but narrow mandate

of price stability – attaining an inflation rate close to but below two percent – places a ceiling on its willingness to join any currency plan agreed upon by G7 governments, especially if it would place its mandate and independence at risk.

Relatedly, reaching consensus on trade becomes unimaginable up to the point that the recent communiqué issued after the financial ministerial in Bari a few days ago almost avoids any reference to it. Negotiations between the United States and the European Union on the Transatlantic Trade and Investment Partnership have stalled. Germany continues to be included in a special monitoring list drawn up by the US Treasury in its semi-annual report to Congress of countries that are close to meeting all the criteria for being labelled an exchange rate manipulator. Indeed, a country running a current account surplus with the rest of the world in the order of eight to nine percent of GDP is not a particularly enticing trading partner for the United States.

Among the agenda items the Italian presidency has had to capitulate on is a substantial reference to tackling climate change. At least, the presidency succeeded in obtaining assurance that Trump would not use the summit platform to renege on the important commitments Obama signed at the Paris Climate Conference last year.

To sum up, the Taormina summit will be remembered not so much for the novel commitments the United States will make, but, above all, for testing the political ability of other G7 leaders to contain the country's disengagement from global governance, if at all.