

Snap | 11 June 2018

G7 summit: a step closer towards a real trade war

Last minute emotions prevent reconciliation and there's little time left to get trade negotiations back on track



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President Trump continued to blow hot and cold on free trade at the G7 summit, making hostile comments about US trade partners in the run-up to the summit but being constructive in discussions. Then, an utterance of Canada's Prime Minister Justin Trudeau at the closing press conference angered the president so much that he decided to withdraw his signature from the G7 communique that endorsed trade liberalisation.

The text of the communique, which stated that the G7 countries will continue to fight protectionism and strive to lower tariff barriers, non-tariff barriers and subsidies, suggested that Trump's allies had been successful in convincing him that creating more opportunities for exports by negotiating lower trade barriers is the right way to fight a trade deficit instead of impeding imports with higher tariffs. During the summit, Trump said that the G7 should be a free trade area with zero tariffs.

He also said that he had 'very constructive' talks with Trudeau about finalising the renegotiations of Nafta and that he was very optimistic about a positive outcome of the talks with the EU as well. However, a remark by Trudeau that the American tariffs on Canadian steel and aluminium are 'insulting' and that Canada would retaliate, left this in pieces.

Even without the spat with Trudeau, an about-turn by Trump, complete with threats of further tariff increases, should have been expected. After all, he has done that before (after the deal with China, and in the run-up to the summit with North Korea). However, the emotional character of his back-tracking on the common stance that had been reached, is nevertheless surprising and damaging.

The American withdrawal from the G7 communique has increased the risk of a real trade war in which the US would respond to the retaliation by the EU, Canada and Mexico by further tariff increases for imports, with cars seeming the most likely target. Compared to the tariffs on steel and aluminium this would bring more serious damage to the EU economy.

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