

Center for Strategic and International Studies

“CSIS Press Conference Call on G7 Summit”

Featuring:

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**Moderated By:
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H. ANDREW SCHWARTZ: Good morning, everybody, and welcome to the CSIS G-7 press briefing.

Without getting too much into it – because I know you want to hear from our experts – today we've got a great lineup. We've got Bill Reinsch, who is our senior adviser and Scholl Chair in International Business. We have Stephanie Segal, who is our deputy director and senior fellow of the Simon Chair in Political Economy, and we have our senior VP for Europe, Eurasia and the Arctic, and director of the Europe program, Heather Conley.

I know you know everybody here, so I'm going to let them get to it, and we want to have plenty of time to take your questions, so I'm going to turn to Bill Reinsch to lead it off.

WILLIAM ALAN REINSCH: OK. Thank you, Andrew. It's a pleasure to have a chance to talk to all of you.

I'm going to talk a little bit about trade, which clearly is going to be one of the themes of the conference, and then my two colleagues, I think, will get a little bit more deeply into the G-7 itself. If you've seen the finance ministers summary, you can see that it kind of bodes ill for the president coming – when he gets there this week. The other countries are unhappy with U.S. trade actions, and I think they will be ganging up on him. And they will be ganging up on him, I think, for two reasons that are noteworthy. One is the obvious, which is the steel tariffs and the aluminum tariffs, which all of the other G-7 members are now subject to, and they're all unhappy about that for various reasons. I think some of them – the Canadians in particular – are indignant over the use of the national security argument as really are the Europeans.

But I think that in addition to the immediate issue of the tariffs, there is an underlying debate that is going to go on that is going to continue on beyond this particular meeting, and that is a growing concern that the entire rules-based international system and the institutions that underlie it are increasingly at risk. And I think while it's a fair point that it's not a rift solely because of the action of the United States, it's an equally fair point that the actions of the United States are making the situation worse rather than better because basically what the president is doing is taking a series of unilateral actions, both actual – tariffs on steel and aluminum – imminently threatened – tariffs on China – and a little bit more distantly threatened – sort of tariffs on automobiles and who knows what else we will end up declaring to be in our – to be a national security threat as time goes on.

This is profoundly disturbing, not only to the other G-7 members, but I think to most other countries as well because the national security argument that underpins some of these cases is an increasingly difficult one to make. The Canadians and the Europeans in particular have made that point – they are friends and allies – and when you get into automobiles, it's an even more difficult argument to make that the passenger car industry poses a – is, you know – is essential to U.S. security.

But I think it also suggests a willingness to act unilaterally and go outside the existing institutions, meaning not only institutions like the G-7 and the G-20 that meet periodically to try to reach common ground on issues, but also institutions like the WTO that really provide the basis for the rules-based global trading system. The United States has spent 70 years first creating and then building that up. You know, we have been the main government over that entire period supporting it and consistently trying to take actions that reinforced its significance, I think to our economy's benefit, and now we have an administration that I think has not spent a lot of time defending it, and has taken a

number of actions, that I enumerated, that essentially undermine it. And so I think the president's going to be pressed not only on immediate tariffs, but on the long-term implications of the U.S. trade policy that is essentially unilateral and protectionist in ways that I think threatens the foundation of the post-World War II order.

And on that, I'll stop and turn it over to Stephanie and then Heather.

STEPHANIE SEGAL: All right. Thanks, Bill.

Well, I should say, first, the Simon Chair, we focus on political economy. And that relates to issues including trade and investment policy. We also cover issues and mechanisms related to multilateral cooperation. And the G-7 is clearly one of those mechanisms. But as Bill just pointed out, this particular G-7 leaders summit is one which is probably going to be characterized by an environment of a G-6+1 that has been appearing in the press over the last few days and was really underscored by the communique that the finance ministers issued over the weekend. And so I agree entirely with Bill that on the economic issues, trade is going to be kind of first and foremost discussed. And that is going to be a pretty tough environment for the United States, as was clearly signaled in that communique.

Since Bill did address the trading side of it, I will flag – the communique also mentioned discussion of global economic conditions, and in particular vulnerabilities in some of the emerging market economies. Folks will know that Argentina and Turkey are the two emerging market economies that have been attracting a lot of market attention. The third country that's been attracting market attention is actually a G-7 member in Italy. So I'll just go through a couple points in each of those and then leave open for Q&A if there's more information needed.

But on Argentina, that's the one that kind of is taking the shape of a more kind of traditional balance of payments crisis there, where they have launched discussions with the IMF. Those discussions for a program seem to be largely on track. And it's particularly noteworthy because we're talking about Argentina, because Argentina also happens to be the president of the G-20. So we're going to move from G-7 discussions into G-20 discussions. And Argentina is one of the EMs that's currently under some market pressure. So that's an issue worth following.

The other EM is Turkey. And there, folks watching this will know that Turkey was in the market fights because of some of the imbalances that have emerged there, and in particular some of the statements from Erdogan that really rattled markets as far as their commitment to addressing some of the economic vulnerabilities. They appear to have been chastened by the markets and have been saying things that are more consistent with getting the situation away from kind of a crisis situation. So that's another country that I think folks will be watching closely.

Both Argentina and Turkey kind of point to the fact that there are – there are real potential crises out there that deserve the attention of G-7 finance ministers and leaders. And so I think going back to what Bill said, that the manufacturer of tensions in the form of trade tensions is probably viewed as not particularly helpful by the other G-7 countries.

The last country that I'll flag, and then I'll pass to Heather, is on Italy. And Italy really presents a different type of potential problem here. This is not an emerging market crisis situation. This is really a domestic political situation that has the potential for very large spillovers. The euro area crisis is not particularly far in the rearview. And so I think what happens in Italy is certainly going to be

closely watched. And it's just another example of a real potential vulnerability that deserves leaders' attentions right now – you know, independent of anything that might be happening on the trade front.

So I'll pass to Heather from there, and then take any questions if you have them.

HEATHER CONLEY: Well, thanks, Stephanie.

I'm just going to play a little bit of wrap-up and color commentary. In preparing for this, I reflected right before the president went to last year's G-7 in Italy, if you'll recall, Gary Cohn and General McMaster wrote an op-ed in The Wall Street Journal with the title "America First Is Not America Alone." And in that op-ed there were a couple of phrases that caught my attention in preparing for President Trump's second G-7 summit. They noted that America will treat others as they treat us; that the U.S. will stand firm against all unfair trade practices; and that the world is not a global community, it is a – it is a competitive space of nations/non-state actors engaging and competing.

Well, I would certainly suggest that we are seeing the compete dynamic entering the arena, that six out of the seven G-7 nations will certainly feel like they are standing firm against what they perceive as America's unfair trade practices, and that in fact treating others as they treat us is sort of a unique interpretation of the Golden Rule for the Trump administration. But in fairness, America stands very much alone as they enter this G-7.

They're alone in several areas. Obviously, on the tariffs, as Bill had mentioned. Also on the Iran nuclear agreement, the JCPOA, not only is there a difference about the departure of the agreement, but Europe will probably feel the brunt of secondary sanctions here coming on line in the next few months. Obviously, the other – the six, as Stephanie mentioned, do not share the U.S. view about the recognition of Jerusalem and, of course, the U.S. removal from the Paris climate agreement. So, on these fundamental issues, America continues to be isolated on these broader multilateral objectives.

So it'll be very interesting. This is either going to be a very short communique capturing what they all can agree on or it will be – will be – see if there will be a communique. And I think we can't not – there may be a breakdown in not even having a communique.

So let me just very briefly – let's take a quick look at the leadership table as they gather on Friday and Saturday. You have at one end the longest-serving G-7 leader, German Chancellor Angela Merkel. This is her 13th G-7 Summit, her fourth term, 13th year in leadership. She is certainly looking at a more difficult European Union dynamic with the impact of the Italian elections. And on the other side we have the newest arrival, the newest G-7 leader, Giuseppe Conte, who just became prime minister on Friday and he is thrust into the world stage immediately. And so you have these – seasoned leadership and very young leadership grappling with a very demanding series of challenges.

There is going to be extraordinary pressure on Canadian Prime Minister Justin Trudeau. His most recent international visits and forays have not been successful. Certainly, his last visit to India, actually there's been a decrease in his favorability opinions. He has not handled some foibles and some gaffes well. So there is an enormous amount of pressure on him. He has taken the G-7 agenda to make it a progressive agenda, focusing on women's empowerment, gender equality, oceans, health, and prosperity. It just seems so out of sync with a very balance-of-power type of dynamic. So he's going to have to manage those two very different universes simultaneously.

As far as the other leaders, Prime Minister May of the United Kingdom is under growing pressure. The big meeting she's looking at is the upcoming European Council meeting of June 28-29th, where it looks very unlikely that the U.K. and the EU will figure out their future trading relationship. So there may be some interesting meetings on the margins with EU leaders.

French President Emmanuel Macron, he's also under some pressure as well. He has a very strong relationship with President Trump, the strongest of any G-7 leader other than Japanese Prime Minister Shinzo Abe, but that relationship has not translated into really very, if any, policy successes. And he's also under pressure today with reports of his chief of staff potentially facing an inquiry into conflict of interest and graft charges. So he enters this relationship frustrated that he cannot capitalize on his relationship with President Trump to get a better solution coming out of Washington. He's also facing a much more difficult European dynamic, where we hope to see more German and French relationships and partnerships as they work towards a future blueprint for the eurozone. And of course, Italy will present that challenge to them.

Finally, Jean-Claude Juncker, the European Commission president, this will be his last G-7. And Donald Tusk, European Council president, who just said last month, "With friends like the United States, who needs enemies," so he certainly is sending out more quotable quotes for us.

Prime Minister Abe is probably the friendliest face for President Trump, also under political pressure at home, has been hit with tariffs even before the EU, didn't receive the exemption the first round, and will be focusing of course on the upcoming summit of President Trump and Kim Jong-un. So North Korea and China will be on his mind.

If President Trump doesn't get enough of a meeting with his European counterparts, he gets to do it again in another month, in July, where he'll have meetings with Prime Minister May in the U.K. on July the 12th and the NATO Summit July 11th and 12th. So he will get to see them in a month, and we hope things will have improved by that point. But I'm not counting on it.

So with that, we look forward to your questions. Thank you so much.

OPERATOR: (Gives queuing instructions.)

Our first question comes from the line of Ayesha Rascoe from NPR. Your line is open. Please go ahead.

Q: Thank you. Thanks for doing this call.

I wondered if we could kind of step back and just kind of – I mean, we talked about the tensions and the – kind of this idea of the G-6 plus one. But I guess how would you characterize the relations – or relations between the U.S. and its kind of European counterparts and as well as Canada? How would you characterize the relationship and kind of compare it to where it has been in the past? Is this a low mark for kind of U.S.-European relations?

MS. CONLEY: Hi, Ayesha. This is Heather. I'll take that. And then if Bill and Stephanie have other reflections – well, let me just start.

First, with the beginning of the Trump administration, I think there certainly has been an evolution over the last 16 months. I think leaders – European leaders were very quick to come to

Washington. Theresa May was the first leader in the Oval Office. They wanted to try to build a personal relationship with the president. There was uncertainty, but they worked very hard to try to make that relationship work.

Now, in hindsight, after a year and a half, I think most of the major allies have concluded that, to be honest with you, there really isn't a relationship that they can build – or they can build it, like President Macron has, but it does not necessarily mean that there is going to be outcomes that are – that support the national interests of our European and Canadian allies. They have tried. But unfortunately, they now just had a steady stream of policy failures. They too have public opinion to respond to at home, and now everyone is protecting their national interests and doing things to support their trade, their security. So we're starting to see, as Bill was suggesting, that breakdown of the system. Rather than supporting positive outcomes, now everyone is seeking their own outcome.

Is this the lowest point? You know, we often reflect transatlantically that the lowest point really was in 2002-2003 when the Bush administration was embarking on preparations for the Iraq War and you had certainly two European leaders, French President Chirac and then Angela Merkel's predecessor Gerhard Schröder, were in a very strong personal view working against the Bush administration. But as I reflected, all of these leaders around the table wanted to make this relationship work. They didn't come to it with personal animosity. They tried to create a personal relationship where they could get good outcomes. And I think they've just seen the limitations of that strategy. They don't do this out of anger. They do this – in some ways now they're frustrated out of sadness that the U.S. is taking all of these policy decisions, particularly against allies. They're our friends. We may not agree with them, but they come and help us when our country is in need. It is not – our adversaries do not do that. And it feels like we are treating our allies with contempt, while we are feting our adversaries.

OPERATOR: OK. Our next question come from the line of George Condon with National Journal. Your line is open. Please go ahead.

Q: Great. Thanks. I want to follow on that, because if you look at the sweep of these summits, going back to Rambouillet in '75, I mean, yes, there were differences on specific things, whether it's inflation or you mentioned Iraq or positioning of missiles against the Soviet Union. But this seems different. This seems broader, because even on those differences there was agreement on broad international systems. So if you can elaborate on that. And secondly, are these leaders under pressure domestically to stand up to the president?

MS. CONLEY: So, Stephanie go first, and then I'll jump.

MS. SEGAL: OK. I do think, as your question pointed out, that the domestic politics for the folks that are around the table can't be forgotten. And where it feels like initially with the incoming Trump administration there was sincere attempts to try and get on-sides with them, it feels like in the past month-plus there's been a reconsideration and that a policy of appeasement is not one that's proving to be particularly effective. And I believe part of that is a function if a lack of clarity with regard to who in the administration has the final say and is clearest on trade policy that in Secretary Mnuchin you may have a party that actually is trying to protect free trade and protect the trading order, but it's not as clear if other participants in the administration share that objective. And so I think that the default then for the other G-7 countries is to then act in their own national interest. And it doesn't help that a lot of them, to the extent they might be seen as giving into the Trump administration, I think that that's very unpopular at home for many of these leaders.

MS. CONLEY: I would just add very quickly, under pressure, probably Prime Minister May is the most under pressure leader of the European G-7 members. And actually, this continues to raise stakes for the president's visit in mid-July. It's because the U.K. needs the U.S. And hopefully is looking towards a free trade agreement in the future, once the relationship is clarified between the EU and the U.K. But the unpopularity of President Trump is really now making that work so much harder. And any policies to help support the U.S. is very hard. President Macron has a greater latitude, because of the structure of the French presidential system. But he too is even getting some political blowback. Angela Merkel has been the first one, to be honest with you, to distance herself from the president, suggesting that Europe would have – its future was in its own hands.

The problem is, Europe depends so much on the U.S. And to get exactly to the point, what feels different about this time, all of those other issues that the G-7 grappled with were issues. It was either, you know, the INF treaty and the placement of nuclear weapons in Europe, or the Iraq War, or – you know, you name the issue. It was an issue. It was not the fundamental underpinnings of the international system that the U.S. created in the post-World War II environment. That is now what feels at stake. And that's what is different.

And it's not just a question of tearing down the system or not upholding it. Who's going to build the new system? And that's really the fundamental question. The G-7 was really the likeminded Western liberal order that was the guardians of that system. Who were the guardians of the new system if the U.S. decides that it's not going to support the international trading system or the international security system in the future. That's the big question – those are the big structural issues that this group should be leading. And unfortunately, that is the last thing that they will be discussing at the G-7 at the end of the week.

OPERATOR: The next question comes from the line of Greg Robb with MarketWatch. Your line is open. Please go ahead.

(Pause.)

Mr. Robb has dropped out of the talk.

So our next question comes from Howard LaFranchi from Christian Science Monitor. Your line is open. Please go ahead.

Q: Yeah, hi. Thank you all for doing this.

Heather, I'd like to ask you. While you've pretty much answered the question I had, but so I guess I'd like you to elaborate a little bit on what you said earlier about – I think you said, you know, here that we're, you know, causing problems in our relations with our allies, while it looks like we're, I think, cobbling or pursuing relations with adversaries. And if you could fill that out a little bit, are you referring just to North Korea and the, you know, prospect for, right, the next week, the summit with Kim Jong-un, or what are you referring to there?

MS. CONLEY: Hi, Howard. Yes, thanks.

Yes, I mean, it's just – it's sort of this split-screen image where it's growing tensions with our closest partners and allies. Whether that's continuing to berate Europe on its lack of defense spending,

now on tariffs, whether next up is autos, and, you know, continuing the JCPOA issue, it's just we're continuing to focus on all the issues against the allies. I juxtapose that – obviously, I mean, we want the North Korean to be resolved, please don't get me wrong. But you split-screen that with the White House is seeking a summit with President Putin and looking to that and the good meeting with Kim Jong-un. It just is a very stark contrast. I would even say President Trump's visit to Beijing last fall. So you have tensions with the allies. You have these very welcoming, very elaborate summitry meetings with what we would consider adversaries. And it makes it very, very confusing on who's the friend and who's the foe.

Q: And what is that – one of the – if I could just follow up there, I mean, it seems like, I mean, one of the criticisms – and certainly from President Trump, I guess especially as a candidate – but one of his criticisms of President Obama was that, you know, particularly in the case of Iran and pursuing the JCPOA, that he was friendlier with an adversary than – you know, than with some of our allies. So is it kind of a continuation of the same thing, or do you see this as different?

MS. CONLEY: Well, that's a – Howard, that's a great quote to resurface. Here I think it was an example of multilateralism working in this – in the Iran issue, the P5+1 – the one was Germany, plus the permanent five on the Security Council – working together, you know, sanctions, maximum pressure on Iran to get to a deal. Now, you can – the deal is the controversy for sure, but it was working together to reach an outcome, not just taking unilateral action. And I think that is, indeed, the hallmark of the Trump administration. Some have termed it as hyper-bilateralism. You could say that's just unilateralism in a different guise. But it just has a very different feel to it when our allies that are trying to support the United States are feeling the brunt of U.S. action, whereas our adversaries – I think Iran is the exception, obviously, to this – are definitely feeling more of a constructive attempt and approach to deal with them.

Q: Great. Thanks.

OPERATOR: Thank you. Our next question comes from the line of Roberta Rampton with Reuters. Your line is open. Please go ahead.

Q: Hi. I am wondering kind of two questions. First of all, what's your understanding of the administration's goals – like its own goals – for the G-7? What does it hope to accomplish?

And, secondly, the fact that it's going to be followed by the Singapore summit, which is obviously a very high priority for the administration and something that President Trump is very engaged in. Does that help when it comes to sort of dealing with some of the tensions around the table that there's going to be this distraction, or does it – does it hinder, do you think, the discussions that are going to be happening at the G-7?

Thanks.

MS. SEGAL: Yeah, I would say essentially in a way kind of a continuation of the last question because there are issues where there is commonality of view among the G-7 countries, and so Heather had mentioned North Korea certainly being one of them. There are other areas, other hot spots, including Venezuela, where you would have kind of agreement among the G-7 countries, and in particular, then the kind of economic vulnerabilities that are out there in the EMs that I had mentioned, you would have kind of commonality of view among all of these G-7 countries. So the issue then that both Heather and Bill highlighted is that where there is convergence of views, it's likely that that's

going to be hijacked by what we've seen on the trade side. And so that's really the kind of destructive piece of this; that is, that trade tension going to deflate the possibility of making progress on issue where there is agreement.

MS. CONLEY: Yeah, everybody, is I think grappling with this question, what does success look like, other than trying to get out of this with minimal –

MR. REINSCH: Survival.

MS. CONLEY: (Laughs.) Bill said survival – to further those goals

And again, the Singapore Summit is a perfect example where when we will need allied support and help with whatever outcome comes out of that summit. If there is positive responses coming out of that and economic support is needed for North Korea, we will turn to allies to see what they can facilitate. You know, you need those allies to be on board, and when you are combating so many divisive issues, either the political will and support at home isn't there to support it or, quite simply, they do not wish to be seen as supporting this administration, it will reduce even the positive signs of perhaps if good things come out of the Singapore Summit, we know it's going to be a long process.

So this gets back to sort of this age-old debate about allies – can't live with them, can't live without them kind of debate, so we're about to see what it feels like without them and how we can sustain those things that President Trump is trying to accomplish.

OPERTOR: I think the next question comes from the line of Isabelle Hoagland with Inside U.S Trade. Your line is open. Please go ahead.

Q: Hi, everybody. Thank you for taking the call today.

Stephanie, you briefly mentioned the chances that the G-7 would issue a communique. Do you think the U.S. will sign on to such a document this weekend given the fact that they refused to do so last week at the OECD, which is largely dedicated to multilateralism and multilateral efforts? So how would this influence our trading partners' perception of the U.S. commitment to the multilateral trading system?

And, Bill, how do you think the U.S. will respond to tariff criticism this weekend? Do you think more negotiations will be launched, or what's the expectation here?

MR. REINSCH: Do you want me to go first? Hi, Isabelle.

Q: Hi.

MR. REINSCH: I think the – I've been interested lately – the administration has sort of been going – has been going on the offensive. Their response to the criticism is to blame everybody else. If you saw Peter Navarro's comments this morning, he said, you know, the Canadians are bad because of dairy and lumber, and you know – and then other people – you know, the Japanese are bad for various reasons, the Europeans are bad because of the car tariff, the Europeans are bad because agriculture. The United States is really the only free trader, and we're the only people that are doing anything about everybody else's faults.

I think – I’ve seen – to me that’s a sign, A, that we’re a little bit stung by the criticism and feel the need to fight back. It’s not a response that is going to endear the president to anybody. It’s not a response that is believed, you know, really anywhere except in the White House. I mean, every country has its protectionist things. There’s no question about that. And I think the things that they pointed to in the cases of the G-7 members are true. But, you know, the prime mover here has been the United States and the disruptor of the international system has been the United States. And I think that trying to, you know, gloss over that by saying everybody else is as guilty as we are is not going to get very far.

The president’s proclivity, though, you know, when criticized is consistently to hit back. And so I think what you will see – well, I think what you will see is the pursuit of what has already then begun, that is, you know, that the auto 232 will play out and there will be some result there. The department will probably come to the result you expect, which is to find a security problem, and the president will have to decide something. Steel tariffs are in effect. You know, I think we’ll see, you know, more threats about NAFTA, would be my guess, because he’s not very happy with Mexico and Canada. I think you’ll see more threats about Europe and not just about cars going forward.

And I have to say, every time my predictions have been wrong in the last year, it’s been when I’ve assumed that the president would act rationally. (Laughter.) And increasingly, that’s not happening. So I would expect, yeah, more threats, more investigations and, in all likelihood, more tariffs down the road.

MS. SEGAL: I’m just going to inject a ray of sunshine. (Laughter.)

MR. REINSCH: Sorry.

Q: And who is this?

MS. SEGAL: But I do – I wonder if the dynamic changes a little bit when it’s a smallish group and it’s leader to leader. And the comparison in my mind that comes up is in Davos, where there was a deliberate strategy to have the president meet with CEOs. And you might recall coming out of that meeting is when he said that TPP might be back on the table. Not that that has come to pass, but this idea that whomever is speaking with him and has the opportunity to make a personal connection may be able to put things in a more kind of positive direction. So I don’t think – I don’t think that’s the most likely outcome, but I think that is a possibility.

And then as far as – you’d asked about whether or not there would be a communique coming out of the G-7. I don’t think any of us know. And there is a question, is there – what is it that would be sufficient for the U.S. to kind of come on board. And so, you know, there have been statements from the U.S., from Germany, and Japan on the issue of excess capacity, for instance. So, you know, there is a common interest there. If there was a statement that was, you know, forward leaning enough, would that help create the environment where there would be a statement that everybody could sign onto? So I think it’s still a big question mark. But I think that should be a goal, then, to find out where the issues of commonality and where enough progress could be made that some good signs come out of this summit.

OPERATOR: (Gives queuing instructions.)

And the next question is a follow up from George Condon with National Journal. Your line is open. Please go ahead.

Q: Great, thanks.

I just wanted to ask, is it – is it frustrating or challenging for these leaders in trying to deal with a president who clearly does not understand what a trade deficit is, and consistently misstates how they work? And on a non-trade aspect, clearly doesn't understand how NATO funding works, even though it's been explained to him many times. Are they frustrated by that, or do they just ignore it?

MR. REINSCH: Well, they've been polite so far. I mean, who knows what's going on in their minds. But they've – you know, they've got to be thinking this is – this is really ridiculous. You know, it's hard to have a rational fact-based conversation in the face of – or with someone, who, you know, persists in not understanding economic fundamentals and basic facts. fundamentals and basic facts. So I think they must be frustrated.

I've been, frankly, a little surprised over the months that there hasn't been more pushback sooner. And we may be reaching the point now where, you know, time's up and we're going to see more pushback, I think because, you know, last year was really a year of bark and not bite, and we seem now to be transitioning into a year of bite. So things are actually beginning to happen, like the steel and aluminum tariffs, and that creates political problems for the leaders at home. You know, they've got unhappy people that don't like what the United States has done, and they've got to respond in the context of their own domestic politics. So I think you're going to see – I think they've been somewhere between bemused and frustrated for a long time. I think now you're seeing frustration win out and you're probably going to see more pushback going forward.

MS. CONLEY: You know, for me, George, just on the NATO front, sometimes we're – we have our objectives, which have been objectives for U.S. administrations for decades, which is to get Europe to spend more on its own defense. And one can factually see from 2014 that has, in fact, happened on trajectory. Everybody has stopped reducing and has started increasing, some more than others.

But it gets to a point where if we just keep hammering them over and over and over again, we're going to actually push away from our objectives. They may do things to spite what the White House is seeking, or domestic pressure prevents them from doing, or a combination thereof.

I think the leaders have taken painstaking steps to explain in excruciating detail, both on trade and on defense spending – now I'm speaking of our European allies – very carefully. They brought in their CEOs. They have – they have run a charm offensive. They have done everything they know how to do to try to help the president understand things.

But I think the president instinctually has three or four themes that he hits continually. They are themes that resonate deeply with his political supporters here. You keep repeating them enough, over time even facts that get in the way of them just – they can't beat this, you know, the drumming of these key themes over and over and over again.

So, to Bill's point, leaders have tried, leaders have failed, and now they're going to try something else. And the try something else may be a much more confrontational, more a contestation if you will. But again, because the U.S. leads the international security and trading system, these

countries rely on the U.S. to maintain that stance. And if that's not going to happen, where do those allies go? Do those allies go towards those powers that they think are shaping the new system, such as China? Angela Merkel was in Beijing. Do they try to hedge and go in different directions? Do they try to keep working with the United States to help, you know, U-turn where the administration is going? Do they do a combination of all of the above plus autonomous efforts? Yes.

This is a transition system moving away from the 70-year-old system that we've understood to be the case, and we're just moving to a new system. We just haven't defined what that new system and who will lead it and the rules that will be. That's just where we don't have a clear destination of where we're going to go in the future.

OPERATOR: Thank you. And as a reminder, star-1 to ask a question.

And our next question comes from the line of Greg Robb with MarketWatch. Your line is open. Please go ahead.

Q: Yeah. Thanks for this call. I appreciate it.

I wanted to kind of follow up on that last question. You know, is this the beginning of the end of the G-7?

MS. CONLEY: Well, Greg, this is Heather. It's a great question. You know, many have questioned when the G-20 came on – full on strong after the global financial crisis, we didn't need that mechanism. Again, it was designed to be an informal mechanism to deal with crises, both foreign and security policy, economic, and it was also for these countries to help push the agenda, forge the agenda. But, as in all of these institutions, it relied on U.S. leadership to help guide the agenda, push those countries where they didn't want to be pushed, or support where the general direction was going. And, you know, I think that system has been waning for some time.

So, I mean, my argument is we are in the middle of a transitional period. The old has not completely gone away. The new is not clear to us. And this could be a decade-long transition. It's a breakdown of the old system, but we aren't quite sure. That's sort of my present thesis of the international system. But, Stephanie has some, I'm sure, other great news about – (laughter) – how global economic governance is going to survive this particularly tumultuous period.

MS. SEGAL: Yeah, I think Heather was reacting –

MR. REINSCH: First, before you start, I've got to apologize to you guys, because I've got to leave. But Stephanie and Heather will do a great job of answering all the other questions.

MS. CONLEY: Thank you, Bill. (Laughs.)

MS. SEGAL: I think Heather was reacted to the panicked look on my face – (laughter) – talking about the demise of the G-7. I actually think at some point the U.S. will figure out that maintaining a functioning G-7 is going to be in its national interest. And if anything, I think this administration may be inclined to be more critical of the G-20 and viewing that as somewhat ineffective in addressing the issues of global imbalances, for instance, or things that the U.S. is grappling with. And so I think the U.S. should be defending the G-7 as a primary tool to help coordinate policy with like-minded countries. So it should be doing that.

I think Japan definitely has it in its own national interest to maintain a functioning G-7. And, as I mentioned before with the issue of excess capacity, there are issues where I think the advanced economies working together are going to be the most effective forum to reach an agreed view that it can then take into the G-20. So I don't doubt that the prospects don't look good right now, but I wonder if the statement over the weekend is going to be the sort of wake-up call that the administration might need to hear to not take this – the G-7 for granted.

Q: Thank you.

OPERATOR: There are no further questions in queue at this time. Please continue.

SOFIE KODNER: OK, thank you. Thank you all so much for calling in today. We will be sending out a transcript shortly, probably within the hour of this call. Again, thank you and please reach out if you have any additional questions by email.

(END)