

G7 ENDURES, WITH FAULT LINES

MATTHEW P. GOODMAN

Chancellor Angela Merkel of Germany will welcome her peers from the world's largest advanced democracies to the Bavarian luxury hotel of Schloss Elmau on June 7 for the annual G7 summit. The event is likely to prompt some useful debate and modest announcements on a lengthy agenda of political and economic challenges. But two major cracks in G7 unity—over how to get growth going, and how to manage China's rise—need to be mended if the group wants to continue playing a central role in global governance.

Against all odds, the G7 enters its fifth decade this year. The leaders of the United States, Japan, Germany, France, the United Kingdom, and Italy first met in 1975 to coordinate their response to the first oil shock. (Canada joined the group the following year.) Since then, the forum has survived dramatic shifts in the global economy, an uncomfortable 15 years with post-Soviet Russia in the group, and upstaging by the G20 as the “premier forum for international economic cooperation.” Yet the G7 still plays a disproportionate role in shaping the international agenda on a number of important economic and political issues.

To be sure, the G7 is not what it used to be. Its members' share of global gross domestic product (GDP) fell from a **peak of 67 percent in 1988** to **below 50 percent by 2012**. Its influence has gradually shrunk as well, in particular as large emerging economies such as China, India, and Brazil began to take a leading role in driving global economic growth from the turn of the millennium. Slow growth across the G7—two of the seven members have yet to see their GDP return to the level before the global financial crisis—has fed a growing preoccupation with domestic challenges that has further undermined the group's collective influence on the world stage.

Yet in a sign of how much its own members value the forum, no G7 leader in 40 years has ever missed an annual summit. The group is still inspired by the forces cited in its **first communiqué at Rambouillet**: “shared beliefs and shared responsibilities.” G7 countries still espouse the virtues of individual liberty, economic openness, and rule of law. As industrialized democracies, all share an interest in upholding sound norms and rules of conduct in economic affairs. All agree that transnational threats such as terrorism and health pandemics require a coordinated international response.

Over time, the G7's agenda has expanded far beyond its original focus on macroeconomic coordination to encompass other areas of global governance where it feels a shared sense of responsibility, including development, climate change, and political crises of the day. These issues now dominate the leaders' discussions and are where the most notable outcomes are likely at Schloss Elmau.

On development, though the G7 represents most of the world's traditional donor nations, fiscal constraints across the group rule out large dollar commitments of the kind that used to appear regularly in summit communiqués. But Chancellor Merkel has made clear she hopes to see significant new announcements this year on global health, including efforts to strengthen resilience against pandemics like Ebola and to invest in basic health systems. In this, she will find widespread support from other G7 members, especially the United States and Japan, which have prioritized these goals as well.

Meanwhile, a surprise victory for Canada's opposition party earlier this month in the energy-rich province of Alberta has opened the door for more ambitious G7 efforts in advance of the upcoming UN Framework Convention on Climate Change (UNFCCC) meeting in Paris in late 2015. The United States and the European Union have already announced ambitious targets for reducing CO2 emissions over the next 10 to 15 years, and Prime Minister Shinzo Abe **is expected to announce Japan's target** at Schloss Elmau.

G7 leaders will also seek to show common resolve on a number of burning global political and security issues. Foremost among these will be Ukraine, where the group is likely to reiterate the importance of all sides' implementing the Minsk agreements and to warn of strengthened sanctions if Russia does not comply. Other political issues likely to feature prominently in the Schloss Elmau communiqué were previewed in a **G7 foreign ministers' statement in mid-April** and range from confronting the Islamic



Upcoming Events

- May 27–29: G7 Finance Ministers' Meeting (Dresden)
- June 3: Tsai Ing-Wen 2016: Taiwan Faces the Future (CSIS)
- June 5: Recent Developments in the U.S.-India Relationship (CSIS)
- June 7–8: G7 Summit (Schloss Elmau)

G7 ENDURES, WITH FAULT LINES *(continued)*

State in Syria and Iraq, to endorsing a comprehensive deal with Iran on nuclear issues, to addressing an array of conflicts in Africa. Maritime security will also likely feature: the G7 foreign ministers unveiled the group's **first-ever standalone statement on the issue** at the April meeting.

But for all the show of unity on these issues, the G7 summit will likely reveal two major fault lines in the group. The first relates to the G7's core economic mission of generating strong, sustainable growth. There will be no disagreement on the objective. Across most of the globe, growth is weak and uncertain; even the G7's star performer, the United States, continues to turn out mixed economic data, including a first-quarter GDP result that could be revised downward into negative territory.

However, the G7 is still divided over whether the answer to the growth challenge lies more on the demand or supply side. Washington has repeatedly criticized Germany for running large and persistent current account surpluses—in 2014, the **largest of any single nation**—at a time when the global economy is facing a scarcity of demand. For its part, Berlin attributes its surpluses to the competitiveness of German enterprise and has argued for prioritizing structural reform measures and balanced budgets. This same divide is evident on the question of Greece, likely a major topic of discussion at a finance ministers' meeting currently underway. Berlin has long taken a more hardline approach to urging austerity on Athens, despite urgings from Washington for greater leniency. While the G7 may endorse less contentious aspects of the economic agenda (such as trade), it is unlikely to bridge this persistent U.S.-German divide at the June summit.

The other area in which significant G7 division remains is China policy. In the face of a more assertive Beijing on nearly all fronts, the G7 is split into two distinct camps: the four European members on one hand; the United States, Canada, and Japan on the other. All have an interest in good economic relations with China, but Europe is almost exclusively preoccupied with this dimension of its ties with Beijing. To the extent Europeans are concerned about emerging powers, it is Russia, not China, that

they see as the proximate threat to the global order. By contrast, the other three G7 members are all Pacific powers more seized with the risks posed by Beijing's new assertiveness in its near abroad, particularly its territorial moves in the South China Sea.

This difference of worldview came into full view in March, when the European members of the G7 agreed to become founding members of China's Asian Infrastructure Investment Bank (AIIB). With support from Tokyo and Ottawa, Washington had had some success in maintaining a G7 consensus to stay out of the AIIB until Beijing provided adequate assurances that the bank would operate in a manner consistent with international best practices. But commercial considerations—notably a desire to secure London's position as an international hub for renminbi transactions—apparently got the better of the British government ahead of its general election earlier this month, and the soft G7 consensus fell apart.

Having badly mishandled the AIIB events, Washington may hesitate even to bring up the subject at Schloss Elmau. But Chancellor Merkel would be wise to include a discussion about perceptions of the China challenge on the leaders' agenda, since the AIIB is unlikely to be the last Chinese initiative to test G7 unity, and the group needs to have a better-calibrated response next time.

In a shifting global order, the G7 can no longer claim to be the steering group for the global economy, but it does still play an important role as a coordinating and agenda-setting body. It would be more effective in this role if it were able to patch up its differences over growth and China. ■

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Simon Says...

German chancellor Angela Merkel has long been a committed and compelling advocate for tackling climate change. Just ask former president George W. Bush, who Merkel **famously helped to persuade** to acknowledge the existence of man-made climate change in 2007, when Germany last hosted the then-G8. So why are some saying that Berlin's onetime "climate chancellor" is **looking more like a "green realist"**?

In short, "it's the economy, stupid." The financial crisis and Germany's swift shift away from nuclear power in the wake of Fukushima have forced Europe's green leader to **rely more on brown coal** to keep the lights on. This has helped to **open up a**

"climate gap" between Germany's 2020 targets for CO2 reduction—down 40 percent from 1990 levels—and its 2014 trajectory. And **concerns over improving energy security** brought on by the Ukraine crisis may exacerbate the issue.

Then again, Simon can't help feeling optimistic for June. In addition to bold statements from Ms. Merkel and French president François Hollande, institutional investors representing roughly \$12 trillion in assets **recently wrote the G7** urging them to support a long-term global emissions reduction goal in Paris. Realist or idealist, it's hard to argue with that kind of green. ■