Further Subtle Retreat From Rules: Putting in Perspective the Trade-related Statements of the 2024 G7 Leaders' Communiqué

Simon J. Evenett, 15 June 2024

De facto, the G7 has become the Situation Room in the West's pushback against what it sees as the military aggression and economic coercion of others and the threats to its economic and technological primacy. Yesterday's G7 Leaders Statement bears this out. Here I focus on the implications for trade tensions, highlighting a perceptible hardening in Western position and a regrettable further weakening in the predisposition to follow WTO rules. In turn, this presages further trade disruption and discord.

Key points:

1. Compared to last year's G7 Leaders Communique, the language on China's alleged over-capacity and economic model in general has toughened markedly. In fact, the language in yesterday's statement is even tougher than that agreed just last month by G7 Finance Ministers and Central Bankers. The latter statement included the sentence: "*We will continue to monitor the potential negative impacts of overcapacity and will consider taking steps to ensure a level playing field, in line with World Trade Organization (WTO) principles*."

   Contrast that with the Leaders' Statement yesterday: "*We will continue to take actions, as necessary and appropriate, to protect our workers and businesses from unfair practices, to level the playing field and remedy ongoing harm.*"

   Notice:

   - "Consider taking steps" became "We will continue to take actions" which recognises recent US and EU tariff hikes and contains the promise of more action ("continue"). No respite then for China.
   - No mention yesterday of action being in line with WTO principles. Nebulous formulations—"leveling the playing field" and remedying harm etc—rather than fealty to trade law will guide these Western governments' response going forward. This is a victory for the US and other China hawks over likely German reservations. It represents another blow to the rules-based trading system—further evidence that, regrettably, the parents of the current trade order effectively but certainly not formally disown their offspring.

2. The direct statements on trade pale in comparison to this one: *"We will continue taking measures against actors in China and third countries that materially support Russia's war machine, including financial institutions, consistent with our legal systems, and other entities in China that facilitate Russia's acquisition of items for its defense industrial base."* The naming of China in this statement is further grist for the mill for those that reckon China's growing geopolitical alignment with Russia makes it harder in for trade-friendly officials in Western capitals to successfully resist the imposition of harsher commercial measures against China. Military conflict is casting a darker and darker shadow over trade relations.

3. For some reason G7 Leaders felt compelled to declare the following in the context of their trade measures. "W*e are not trying to harm China or thwart its economic development,*" which is exactly how Beijing will interpret yesterday's statement. There is an old saying--if you're explaining, you're losing. (OK: Maybe it is too much to expect 100% coherence in negotiated texts like this.)

Key facts to bear in mind when interpreting these G7 Leaders' trade-related statements:

1. Using a US Congressional definition of Chinese excess/over-capacity sectors, 79.6% of all Chinese exports were in sectors where there is no over-capacity in 2022 (the last year full trade was available from the UN).
   - No objection raised on over-capacity grounds to $2.8 trillion of Chinese exports, it seems. It is difficult to sustain claims that Chinese over-capacity is a systemic threat to Western jobs and businesses when such small shares of Chinese exports originate in over-capacity sectors. Concerns about over-capacity in specific sectors are another matter.
2. China is not that dependent on EU and G7 markets as destinations for its exports of goods in over-capacity sectors. Shipments of these goods to EU and G7 markets together accounted for less than 7% of Chinese global exports in 2022. Source: UN COMTRADE.
3. In 2022 in the sectors deemed to have over-capacity, for every dollar of goods China exported to the EU and G7 it exported two more to other nations. Source: UN COMTRADE.
   - Decades of anaemic growth in the West—especially in Western Europe—have reduced the relative size of its markets and with it leverage. Difficult as it may be to accept, but do G7 and EU senior officials realise the implications of this fact and the last one?
4. Worldwide, 67% of unfair trade investigations launched this year have been in sectors where China is deemed to have over-capacity. This is the highest percentage since the onset of the Global Financial Crisis. In 2023, only 20% of investigations were in these sectors. Source: Global Trade Alert.
5. Only in 2015 and 2016 did the percentage of unfair trade investigations in over-capacity sectors come anywhere close to this year's level—in those two years, around 60%. Source: Global Trade Alert. Interestingly, in those two years, Chinese economic malaise was also a prominent narrative in the West. As a share of China's total exports, the share originating from "over-capacity" sectors actually fell during 2015 and in 2016 (a finding from our 2018 report on over-capacity in the world trading system). Meanwhile, according to World Trade Monitor data, Chinese export volumes stagnated during 2015 and 2016.
   - In short, in the middle of the last decade China did not turn to over-capacity sectors to export itself out of its then economic malaise.

The remaining pages of this briefing note contain copies of relevant sections from official communiqué texts. This briefing note is one of ten from the Global Trade Alert team relating to the intensifying dispute over alleged cross-border fallout from Chinese over-capacity; find the others here.

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Key texts:

[G7 Leaders Statement 2023. Hiroshima Summit.]

"With a view to enabling sustainable economic relations with China, and strengthening the international trading system, we will push for a level playing field for our workers and companies. We will seek to address the challenges posed by China's non-market policies and practices, which distort the global economy. We will counter malign practices, such as illegitimate technology transfer or data disclosure. We will foster resilience to economic coercion. We also recognize the necessity of protecting certain advanced technologies that could be used to threaten our national security without unduly limiting trade and investment." Paragraph 51.

No mention of over-capacity. Trade section made reference primarily to critical minerals and did not repeat the statement above.

G7 Trade Ministers meeting in February 2024.

No mention of China or over-capacity. One mention of "fair competition."

G7 Finance Ministers & Central Banks meeting in May 2024.

"We also reiterate our strong commitment to a free, fair, and rules-based multilateral system. Building on the legacy of the Japanese G7 Presidency, we will advance our cooperation to enhance global economic resilience and economic security and protect our economies from systemic shocks and vulnerabilities. To this end, we will work to make our supply chains more resilient, reliable, diversified, and sustainable, and to respond to harmful practices, while safeguarding critical and emerging technologies. We will consider, when necessary, appropriate measures to promote de-risking and diversification of supply with partners within and beyond the G7. We will enhance cooperation to address non-market policies and practices and distortive policies including those leading to overcapacity through a wide range of policy tools and rules to ensure a global level playing field. While reaffirming our interest in a balanced and reciprocal collaboration, we express concerns about China's comprehensive use of non-market policies and practices that undermines our workers, industries, and economic resilience. We will continue to monitor the potential negative impacts of overcapacity and will consider taking steps to ensure a level playing field, in line with World Trade Organization (WTO) principles. In addition, we encourage efforts from relevant International Organizations (IOs) to improve the quality and availability of data on industrial policy and non-market practices as well as monitoring tools in this area. We support work, in collaboration with other relevant tracks, to assess the macroeconomic impact of subsidies and other industrial and trade policy measures globally, based on comparable information; and to promote a dialogue with third countries on issues related to industrial policies, economic fragmentation, market concentration risks and overcapacity." Paragraph 3.

G7 Leaders' Statement. June 2024.

"We recognize the importance of China in global trade. We are committed to advancing free and fair trade, a level playing field, and balanced economic relations, while updating and strengthening the multilateral rule-based trading system with the WTO at its core. We are not trying to harm China or thwart its economic development, indeed a growing China that plays by international rules and norms would be of global interest. However, we express our concerns about China's persistent industrial targeting and comprehensive non-market policies and practices that are leading to global spillovers, market distortions and harmful overcapacity in a growing range of sectors, undermining our workers, industries, and economic resilience and security. We are not decoupling or turning inwards. We are de-risking and diversifying supply chains where necessary and appropriate, and fostering resilience to economic coercion. We further call on China to refrain from adopting export control measures, particularly on critical minerals, that could lead to significant global supply chain disruptions."

"With these concerns in mind, together with partners, we will invest in building our and their respective industrial capacities, promote diversified and resilient supply chains, and reduce critical dependencies and vulnerabilities. We will strengthen diplomatic efforts and international cooperation, including in the WTO, to encourage fair practices and build resilience to economic coercion. We will continue to take actions, as necessary and appropriate, to protect our workers and businesses from unfair practices, to level the playing field and remedy ongoing harm." Page 11.