

Our View: The G1 Replaces the G7 and G20 – Oil Producers Beware

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The new economic order has begun. Call it the “G1.” Think back with fondness to the G7 and G20. Beginning now, those organizations have been replaced by the G1.

The G7 was formed after the 1973 oil crisis “to provide a venue for noncommunist powers to address pressing economic concerns” confronted by the major industrialized nations.¹ Its members include the United States, Japan, Canada, Germany, France, Italy, and the United Kingdom. Over the decades, the organization has focused on free, open trade.² The larger G20 includes China, Russia, Brazil, and other nations. It was formed after the Asian financial crisis to promote international cooperation.³

The G1, of course, is the United States of America. Lest anyone misunderstand, President-elect Donald Trump intends to “Make America Great Again.” He will do this by diminishing the power of every other country. Cooperation is not an objective. His focus is dominance.

This is not a new strategy. The *Financial Times*’s Gillian Tett neatly summarized the new administration’s views in a November 29 opinion piece:

Trump’s team sees trade through the prism of hierarchies of power—i.e., as a tool to increase US market dominance in a world where trading “partners” are anything but equal. Trade policy is thus not just defensive, or driven only by domestic goals (such as bringing industrial processes onshore to create jobs); it also aims to suck economic activity from rivals to America, and to weaken them, say by forcing the producers of commodities in other countries to slash their export prices.

This mercantilist mindset is not remotely new. The economist Albert Hirschman described it well in his classic 1945 book *National Power and the Structure of Foreign Trade*, which notes that for mercantilists “an increase of wealth through foreign trade leads to an increase in power relative to that of other countries...[and] a conflict between the wealth and power aims of the state is well-nigh unthinkable.”⁴

¹ “What Does the G7 Do?” Council on Foreign Relations Backgrounder, June 24, 2024 [<https://tinyurl.com/2f4hmxv5>].

² “Chair’s Statement,” G7 Research Group virtual meeting, March 31, 2021 [<https://tinyurl.com/54xpdmc5>].

³ “About G20,” G20 [<https://tinyurl.com/5n8tn343>].

⁴ Gillian Tett, “Markets will have to get used to Trump’s mercantilist mindset,” *Financial Times*, November 29, 2024 [<https://tinyurl.com/2fp6jukt>].

In a chapter titled “Foreign Trade as an Instrument of National Power,” Hirschman explains the concept:

In this work the term *national power* is used in the sense of power of coercion which one nation may bring to bear upon other nations, the method of coercion being military or “peaceful.”⁵

Hirschman also described the strategy for exercising national power:

A country trying to make the most out of its strategic position with respect to its own trade will try precisely to create conditions which make the interruption of trade of much graver concern to its trading partners than itself. Tariff wars and interruptions of trade rarely occur, but the awareness of their possibility is sufficient to test the influence of the stronger country and shape the policy of the weaker.⁶

In the Hirschman world, might makes right. The nations targeted with actions by the country wielding national power lose.

The policies announced by President-elect Trump and some of his cabinet nominees indicate that they intend to apply measures similar to those cited by Hirschman. The proposed twenty-five percent tariffs on Canada and Mexico appear to be their opening shots.

They followed up on these shots on November 30 by threatening to impose a one-hundred-percent tariff on nations that abandon the dollar for other currencies in trade.

Many observers have warned that American consumers will pay higher gasoline and diesel prices if Trump follows through with his threats. They are likely wrong. Arbitrage will protect Americans in a Hirschman world where the United States wields national power. Countries that continue to supply the US will have to absorb the tariff cost if they do not seek or find other outlets for their production. Canada is particularly vulnerable because it lacks sufficient alternatives. For this reason, the Canadian prime minister made an unscheduled emergency flight to Florida to meet with Trump days after the President-elect announced the new tariff. Canadian government officials understand the country’s exposure, even if those in its oil industry do not.

Oil-exporting nations need to be aware of the potential impacts of Trump’s policies. Historical market relationships between exporters and buyers could be broken as panicked producers in nations targeted by the incoming Trump administration desperately seek tariff-free markets.

⁵ Albert O. Hirschman (1945), *National Power and the Structure of Foreign Trade* (Berkeley, California: University of California Press, 1980), p. 13.

⁶ Hirschman, p. 16.