

# Our View: The G7 Becomes the G1

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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, the “G1” has replaced those organizations.

The G7 came into being after the 1973 oil crisis “to provide a venue for noncommunist powers to address pressing economic concerns” confronted by the major industrialized nations.<sup>1</sup> Its members include the United States, Japan, Canada, Germany, France, Italy, and the United Kingdom. Over the decades, the organization has focused on free trade.<sup>2</sup> The larger G20, created after the 1997 Asian financial crisis to promote international cooperation, includes China, Russia, Brazil, and other nations.<sup>3</sup>

While the G7 members were never tied by a formal agreement or treaty, they are major trading partners today, accounting for half the global economy. The G7 leaders and legislatures have also had consistent opinions regarding trade, security, and human rights. This homogeneity of views gave them considerable influence in the world. Some suggest, for example, that G7 support was critical to the enactment of the 2015 Paris Accords on global warming.<sup>4</sup>

Countless papers note the contributions of the G7 and the G20. Their efforts mattered. Until now.

The G1 has emerged with Donald Trump’s inauguration. The G1, of course, is the United States of America. Lest anyone misunderstand, President 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. *Financial Times* US editor-at-large Gillian Tett summarized the new administration’s views in a November 29 opinion piece, asserting that “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.”<sup>5</sup>

Tett added that “the aim of the Trump policy was to suck economic activity from rivals to America, and to weaken them.” This mercantilistic approach is not new.

The economist Albert Hirschman outlined it in *National Power and the Structure of Foreign Trade*, published in 1946. Hirschman’s book provides a guide for the next four years. In a chapter titled “Foreign Trade as an Instrument of National Power,” he 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.”<sup>6</sup>

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

<sup>2</sup> “Chair’s Statement,” G7 Research Group virtual meeting, March 31, 2021 [<https://tinyurl.com/54xpdm5>].

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

<sup>4</sup> Matthew Mpoke Bigg, “What to Know About the G7 Summit, and Why It Matters,” *The New York Times*, June 13, 2024 [<https://tinyurl.com/ucszwphv>].

<sup>5</sup> Gillian Tett, “Markets will have to get used to Trump’s mercantilist mindset,” *Financial Times*, November 29, 2024 [<https://tinyurl.com/2fp6jukt>].

<sup>6</sup> Albert O. Hirschman (1945), *National Power and the Structure of Foreign Trade* (Berkeley, California: University of California Press, 1980), p. 13.

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.<sup>7</sup>

Robert D. Atkinson, president of the Information Technology and Innovation Foundation, has written an in-depth series of articles on the Hirschman analysis in *The International Economy*. In the first, he quoted from *National Power* on Germany's exercise of that power from 1900 to 1940 to expand its economy:

Hirschman's key insight was that some countries— in this case Germany under three very different government regimes from 1900 to 1945—focus not on maximizing free trade or even on protecting their industries, but on changing the relative power of nations through trade to achieve global power. Germany's policies and programs were designed not only to advance its own economic and military power, but to also degrade its adversaries' economies, even if that imposed costs on their own economy relative to a free trade regime.

Atkinson uses Hirschman's writings to explain actions taken by China to build global trade relationships. After his inauguration, Donald Trump intends to follow the national power path broken by Germany and now being followed by China. There will, however, be one significant difference. Germany was and China is a major manufacturing nation. Both have used their national power to boost exports. The United States, no longer a major manufacturer, has become the world's principal importer of manufactured goods, one of its largest consumers all around, and a center of global finance. The Trump administration will likely attempt to exercise national power by limiting the access of certain nations to its market, expanding the program begun during his first term and continued under President Biden.

The key aspect of the strategy will be higher tariffs on the exports of selected countries to the United States. As noted by Hirschman, a large country enjoys a great advantage if it buys a substantial portion of a smaller country's exports. With that in mind, Hirschman cautioned smaller nations "not to have too large a share of their trade with any great nation."<sup>8</sup>

Neither Canada nor Mexico has heeded Hirschman's advice. Thus, both today find themselves with diminished negotiating power as the second Trump administration takes office. The weakness is particularly acute regarding oil and natural gas.

### Targeting Canada and Mexico

Trump's first targets will be Canada and Mexico. Both countries have been overly dependent on the United States as their export market, a dependency that Hirschman advised smaller nations to avoid. The US accounts for roughly three-quarters of Canadian and Mexican exports.<sup>9</sup> Neither country has significant export alternatives.

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<sup>7</sup> Hirschman, p. 16.

<sup>8</sup> Hirschman, p. 31.

<sup>9</sup> "Canada" and "Mexico," Observatory of Economic Complexity (OEC) country profiles [<https://tinyurl.com/3r772py8>; <https://tinyurl.com/5bwknd2p>].

For President Trump, Mexico is an obvious choice, given his promise to stop illegal immigration and the flow of fentanyl and the decision of many US companies to locate factories in Mexico solely to take advantage of the USMCA (United States-Canada-Mexico Agreement).

Oil and gas exports will be key economic objects of attention for tariffs on Canada because that nation relies heavily on those sales. Oil and gas account for more than a quarter of Canadian exports<sup>10</sup> and, by volume, the United States is the country's largest oil buyer.

Tariffs on oil imports would be particularly devastating to Canada. The nation produces nearly six million barrels per day of crude oil while consuming 2.5 million barrels per day, according to the International Energy Agency. The bulk of its oil exports go to the United States. The data suggest that, due to arbitrage, the tariffs will have a negligible impact on US consumers because marketers in the Midwest, who predominantly buy products refined from Canadian crude, have tapped US Gulf Coast refineries previously for supplies to replace gasoline or diesel fuel produced by Midwestern refineries and can do so again if the latter attempt to pass on the tariff.

The proposed tariffs will also squeeze Mexican oil production. Currently, the United States imports almost five hundred thousand barrels per day of Mexican crude, roughly one-eighth of what we buy from Canada.

Both nations have the type of vulnerability highlighted by Hirschman. Neither has taken the steps required to protect their exports from aggressive US actions.

### **The Broader Plan: The G7 minus 6**

Canada and Mexico will not be the only targets of Trump's actions. As leader of the G1, he will direct his attention to many nations, most of whom have been US allies. Stephen Miran, the new chair of the Council of Economic Advisers, outlined the approach in a report prepared before he was asked to join the Trump administration.<sup>11</sup>

Future historians may view the Miran report, published in November 2024, as Trump's "manifesto." Key to his thinking is the dollar's overvaluation, which occurs, he explains, from its use as the world's reserve currency. Miran asserts that the overvaluation has damaged US manufacturing. He sees tariffs as an important remedy. In his view, the "Trump Administration can attempt to find ways to capture back some of the benefits other nations receive from our reserve provision."<sup>12</sup>

Miran adds that the administration could merge "national security and trade policy explicitly," providing incentives against retaliation. He even suggests that the United States "could declare that it views joint defense obligations and the American defense umbrella as less binding or reliable for nations which implement retaliatory tariffs."<sup>13</sup>

Miran also states that tariffs can be a tool for leverage: "Tariffs will likely precede any shift to soft dollar policy that requires cooperation from trade partners for implementation, since the terms of any agreement will be more beneficial if the United States has more negotiating leverage."<sup>14</sup>

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<sup>10</sup> "Canada," Observatory of Economic Complexity (OEC) country profile [<https://tinyurl.com/3r772py8>].

<sup>11</sup> Stephen Miran, "A User's Guide to Restructuring the Global Trading System," Hudson Bay Capital, November 2024 [<https://tinyurl.com/5t3wvppp>].

<sup>12</sup> Miran, p. 3.

<sup>13</sup> Miran, p. 26.

<sup>14</sup> Miran, p. 35.

In addition, he endorses a scheme of differential tariffs that reward “friends inside the security and economic umbrella that agree to share” and punish those that do not cooperate, limiting their access to US consumers. He calls for a stronger “demarcation” between friends and foes.

He concludes, “There is a path by which the Trump Administration can reconfigure the global trading and financial systems to America’s benefit, but it is narrow, and will require careful planning, precise execution, and attention to steps to minimize adverse consequences.”<sup>15</sup> This view does not reflect thinking ever expressed in G7 statements. It does, though, work for the United States as leader of the G1.

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<sup>15</sup> Miran, p. 38.