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Introducing *the* New G1

The new global economic order has begun. But will it last?

By Philip K. Verleger, Jr.

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" that confronted the major industrialized nations. Its members comprise the United States, Japan, Canada, Germany, France, Italy, and the United Kingdom. Over the decades, the organization has focused on free trade. The larger G20, created after the 1997 Asian financial crisis to promote international cooperation, added China, Russia, Brazil, and other nations.

While the G7 members were never tied by 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 getting the 2015 Paris Accords on global warming enacted.

Countless papers note the economic, social, and political 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 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.

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The *Financial Times'* U.S. 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 U.S. market dominance in a world where trading 'partners' are anything but equal."

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.

This is not the first time the United States and President Trump have employed a G1 strategy. In March 2020, Trump celebrated a Saudi decision to flood the oil market that he solicited, tweeting on March 9, "Good for the consumer, gasoline prices coming down!" On that day, WTI prices fell by 24 percent. The Saudi action also pleased him because the resulting lower prices would harm Russia. Not surprisingly, oil industry executives were not pleased.

Then, in April of that year, Trump put G1 pressure on Saudi Arabia to do the opposite after oil prices collapsed. At that time, he demanded that Crown Prince Mohammed bin Salman reduce oil production or face the withdrawal of U.S. military forces from his country. Saudi Arabia and Russia immediately agreed to reduce output, for which the president, again not surprisingly, took credit. "They were having a hard time making a deal. And I met telephonically with him, and we were able to reach a deal" for production cuts, Trump said.

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The economist Albert Hirschman provides an excellent description of Trump's G1 strategy in *National Power and the Structure of Foreign Trade,* published in 1945. Hirschman's book offers 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."*

Hirschman also explained 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*

Incoming Council of Economic Advisers Chair
Stephen Miran

Author of the Trump Soft Dollar Policy

Stephen Miran, the incoming chair of the Council of Economic Advisers, outlined the approach in a report prepared before he was asked to join the Trump administration.

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 U.S. 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."

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."

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."

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> *the influence of the stronger country and shape the policy of the weaker.*

Robert D. Atkinson, president of the Information Technology and Innovation Foundation, has written an in-depth series of articles on the Hirschman analysis in *TIE*. In the first, he quoted from *National Power* on Germany's exercise of that power from 1900 to 1945 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. During his second term, 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 apply national power by limiting the access of certain nations to its market, expanding the program begun during his first term and continued under President Joe Biden.

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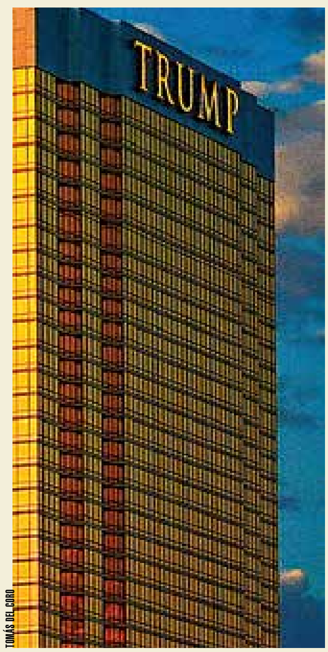
The key aspect of the strategy will be higher tariffs on the exports of selected countries to the United States. As noted by Hirschman, a large country enjoys a great advantage if it buys a substantial portion of a smaller country's exports. With that in mind, Hirschman cautioned smaller nations "not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

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 these two countries. Both have been overly dependent on the United States as their export market, a dependency that Hirschman advised smaller nations to avoid. The United States accounts for roughly three-quarters of Canadian and Mexican exports. Neither country has significant export alternatives.

For President Trump, Mexico is an obvious choice, given his promise to stop illegal immigration and the flow of fentanyl and his ire with many U.S. companies for locating factories in Mexico to take advantage of the United States-Canada-Mexico free trade agreement.



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Trump International Hotel Gaza

After meeting with Israeli Prime Minister Benjamin Netanyahu in early February 2025, Trump announced that the more than two million Palestinians living in Gaza would be relocated to Egypt and Jordan. Trump, ever the real estate mogul known for relying on other people's money, explained that the United States would redevelop Gaza as a resort.

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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 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 U.S. consumers because marketers in the Midwest, who predominantly buy products refined from Canadian crude, have tapped U.S. 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 500,000 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 U.S. actions.

THE BROADER PLAN: THE G7 MINUS SIX

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 U.S. allies. Stephen Miran, the incoming chair of the Council of Economic Advisers, outlined the approach in a report prepared before he was asked to join the Trump administration.

At Davos, Trump stated bluntly that companies selling to American consumers must move their production to the United States or pay punitive tariffs.

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 U.S. 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."

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."

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."

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

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Don't Mess With the G1

President Trump demonstrated the potential cost of crossing the G1 to Colombia's President Gustavo Petro. Petro challenged the president by refusing to accept U.S. military flights carrying undocumented deportees back to Colombia. Within hours, the United States imposed a 25 percent tariff on Colombian exports and threatened to raise it to 50 percent if the country did not reverse its ban.

Facing these threats, President Petro backed down immediately.

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President of Colombia
Gustavo Petro

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not cooperate, limiting their access to U.S. 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." This view does not reflect thinking ever expressed in G7 statements. It does, though, work for the United States as leader of the G1.

President Trump wasted no time in touting his G1 strategy during his first week in office. Speaking remotely to those attending the Davos World Economic Forum, the freshly inaugurated president outlined his aggressive approach to global trade. He stated bluntly that companies selling to American consumers must move their production to the United States or pay punitive tariffs.

In his Davos talk, Trump also repeated his March 2020 call for lower crude oil prices, after first noting that the United States "had been very good to" Saudi Arabia. "I'm also going to ask Saudi Arabia and OPEC to bring down the cost of oil. You got to bring it down," Trump told the audience.

The veiled threat to oil producers was clear. The silence of Saudi Arabia's normally talkative oil minister in the following days made it clear that the warning had been received.

A short time later, President Trump demonstrated the potential cost of crossing the G1 to Colombia's President Gustavo Petro. Petro challenged the president by refusing to accept U.S. military flights carrying undocumented deportees back to Colombia. Within hours, the United States imposed a 25 percent tariff on Colombian exports and

Cooperation is not an objective. Trump's focus is dominance.

threatened to raise it to 50 percent if the country did not reverse its ban.

Facing these threats, President Petro backed down immediately. It was a response that Albert Hirschman would have expected because Colombia's exports comprise almost one-quarter of its GDP, and the United States receives one-quarter of those exports. Colombia had to surrender.

A week later, President Trump announced he would impose new tariffs on Canadian, Mexican, and Chinese imports. He also announced the cancelation of the "de minimis" exemption from tariffs and inspections for imports valued under $800 from these countries. In addition, Trump specified that energy exports from Canada would be taxed at 10 percent, suggesting his goal of bringing oil prices down for consumers remained a primary objective.

The February 1 U.S. announcements were met by retaliation, not surrender, as happened with Colombia one week earlier. Canada immediately announced it would

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impose wide-ranging tariffs on imports from the United States. The premiers of Ontario and British Columbia went further, ordering all U.S.-made liquor removed from provincial stores. Trump's actions also spurred the shunning of U.S. products across Canada.

The proposed tariffs on Canada and Mexico were delayed by thirty days after Mexico's President Claudia Sheinbaum and Canada's Prime Minister Justin Trudeau agreed to send 10,000 solders to their respective borders to block illegal crossings.

The higher tariffs on Chinese imports remained. The greatest impact on China, however, may come from the removal of the de minimis exemption. A Congressional Research Service report found that Chinese exports to the United States rose from $5.3 billion in 2018 to $66 billion in 2023. Its de minimis exports to the United States in 2023 were $18.4 billion, "roughly one-third of the $54.5 billion U.S. de minimis imports from all sources."

While some will note correctly that removing the de minimis exemption is not the type of unilateral action contemplated by Hirschman and others, the U.S. decision to apply this regulatory change only to China fits with the unilateral actions associated with a G1 nation.

While all this was happening, U.S. Secretary of State Marco Rubio visited Panama. When he met with Panama's President José Raúl Mulino, Rubio explained that the United States intended to reassert its control of the Panama Canal.

The onslaught on global trade continued as the third week of the second Trump administration began. Reports indicated that President Trump had turned his attention to Europe. After unilaterally imposing 25 percent tariffs on steel and aluminum, Trump was promising reciprocal tariffs on all nations by Valentine's Day.

However, the most significant and unsettling G1 actions came in the foreign affairs arena. After meeting with Israeli Prime Minister Benjamin Netanyahu, Trump announced that the more than two million Palestinians living in Gaza would be relocated to Egypt and Jordan. Trump, ever the real estate mogul known for relying on other people's money, explained that the United States would redevelop Gaza as a resort. He also told Fox News that he "would work with allies in the region and the 'good people' of the Middle East who would fund the endeavor."

Shortly thereafter, Trump turned to negotiating Ukraine's fate. In a phone call with Russia's President Vladimir Putin, he agreed to talks in Saudi Arabia, where the two nations would apparently begin to settle the dispute. European officials were outraged.

One EU representative said this to *Financial Times:*

> *The Americans don't see a role for Europe in the big geopolitical questions related to the war. It's going to be a real test of unity. Trump sees us as money. And frankly we haven't been clear on what our seat at the table would look like in exchange for that money.*

Germany's defense minister Boris Pistorius warned, "It is unfortunate … that Trump has already made public concessions to Putin before negotiations have even begun."

Pistorius had just discovered what the leaders of Canada, China, Egypt, India, Jordan, and Mexico have learned: the world is temporarily being led by the G1. Whether its control will last is yet to be determined. ◆