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Future of world trade policy – where do we go from here?

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Introduction

It is clear that the global rules based trade system of GATT/WTO that guided much of world trade in goods for the last 80 years is no longer functioning effectively. It is becoming increasingly disrupted, although the precise faultlines have yet to emerge.

Disruption is many-sided. Over the last year the United States has ignored the most-favoured-nation (MFN) principle in its strongly discriminatory trade and tariff policies, and declared in December 2025 that MFN's "era had passed".¹ In January 2026, the EU signalled that WTO members should reconsider the unconditional nature of the MFN principle and move toward a system where low tariffs must be earned through fair-competition commitments, reciprocity, and genuine market openness.² China has threatened disruption of many global manufacturing supply chains through its control over the supply of many rare earths. All such approaches throw in doubt the future of MFN as a global public good. Unsurprisingly, WTO trade remedies are no longer sufficient or effective.

Trade and private sector cross border investment is nonetheless continuing, as business finds ways to manage the current uncertainty caused by US tariff hikes and other disruptions including security-related investment screening. But over time these issues become more challenging to manage with problems over rules of origin, guaranteed access to key supply chain inputs and political risks to cross border investment making it harder for new entrants or smaller firms to grow.

In July 2025, at the time of the EU-US talks at Turnberry, Scotland, Jamieson Greer, the US Trade Representative, went as far as suggesting that the global rules-based system should be replaced by the "Turnberry System" as a new global trade doctrine: in effect a shift from multilateral rules to reciprocal, bilateral, leverage-driven trade, designed to rewrite the world trading system in America's favour. This might-is-right, law-of-the-jungle approach (for that is what it is) has rightly not gained traction. But it is emblematic of the instability of the current system, which is likely to continue to deteriorate, with negative implications for global growth, and ultimately for political stability.

Some analysis

Some emerging trends are clearly relevant:

¹ 'Trump administration hits out at WTO before crunch meeting', Peter Foster, *Financial Times*, 16 December 2025

² 'The WTO needs an overhaul', Maroš Šefčovič, *Financial Times*, 21 January 2026

- Neglect of the global trading system: there has long been under-investment in the preservation of the global trading system by its key members, with a failure to foster progress on the most important issues now facing it, including world health, food security, the digital economy, artificial intelligence, cyclical over-capacity in key sectors, and the overall equity of the way in which the system operates.
- US tariffs: the trend appears to be to move the US, probably permanently, towards being a higher-tariff, more defensive, economy (at least for manufactures). After an unprecedented switchback ride over 2025 the average US tariff is now some 17 per cent, compared with a former average of just under three per cent.³ Higher US tariffs may well remain in place in the future, because, from a revenue perspective, it could be difficult to cut them, given the US tax framework. The US economy would then remain more closed going into the next decade.
- Responses to US tariffs: no other country is – yet – signing up to Trump “might is right” school of global trade policy. Only China has played the retaliation card aggressively. In May 2025 China responded to US “reciprocal” tariffs of some 125-135 per cent with a retaliatory tariff of nearly 150 per cent, quickly leading to balanced mutual tariff reductions. But no other trade partner has yet chosen the retaliation route – although in early 2026 the EU considered using its Anti-Coercion Instrument (ACI) – preferring to see seek various kinds of compromise agreement with the US.
- UK and EU reactions to US tariffs: UK and EU reactions could be said to be tacitly developing in a mutually consistent way. Both the UK and the EU have attempted “making the best of a bad job” deals with the US but have avoided signing up to the full demands of Trump’s tariff policy. And, whatever the possible merits of these deals in avoiding 1930s-style cycles of tit-for-tat retaliation, both have taken some domestic flak for going even as far as they did in meeting US demands. There were however contrasts between the UK and EU deals:
 - The UK managed to sell its deal as a success and a 'Brexit benefit', though it was essentially a capitulation, and arguably not even as good as the EU deal, not least because the resultant average US tariff rate against the EU (15 per cent) includes existing MFN rates, while the rate against the UK (10 per cent) excludes them. Taking cheese as an example, this means that the EU benefits from a 15 per cent overall rate, while the UK suffers a rate of 10 per cent plus 14.9 per cent (MFN), totalling 24.9 per cent for UK.
 - The EU had signalled at an earlier stage that it would retaliate, or use its trade muscle to force the US to negotiate. Instead, in 2025 it gave in without a fight – perhaps because it could not afford a trial of strength with Trump when desperate to keep him engaged in a wider geopolitical context, especially regarding Ukraine. At the time the EU was also nursing the hope of squaring the circle of preserving the EU’s digital sovereignty while depending on irreplaceable US IT services, plus managing the risk of disunity among member-states at a moment when other existential priorities (e.g. implementing the Letta and Draghi Reports) required a united front. Nonetheless, the case of the 2026 Greenland-related tariffs could have been a different story, had President Trump persisted in his threat to impose them.

³ The US Harmonised Tariff Schedule (HTS) has been revised 32 times (a record) over 2025.

- Wider trade policy implications: there is an increasingly chaotic background to trade policymaking. Much of this lies at the door of the US, which is compounding its unreliability as a political and defence ally by proving an increasingly capricious and inconsistent trade partner, both by taking trade measures for non-trade reasons (e.g. ex-President Bolsonaro's conviction by the Brazilian courts, or threatened US moves against Greenland) and by building "poison pills" into such trade "deals" as it makes (i.e. the right to renege on them if, in the US view, the other party develops some unsatisfactory course of conduct, whether a trade agreement with a third country or simply running a trade surplus with the US). This brings institutionalised instability to trade and investment policymaking globally, with long-term effects on trade growth and investor confidence.
- New approaches to protectionism: not surprisingly, there have been moves towards traditional protectionism and mercantilism, characterised by competitive use of the usual instruments – tariffs, quotas, and subsidies. However, behind the chaos, and partly obscured by it, is a novel and systemic development – the move towards new linkages between trade and security policy. It seems no accident that the publication of the US National Security Strategy in late 2025⁴ was followed in December 2025 by the EU Joint Communication on strengthening EU economic security.⁵ Although the US goes far further in equating national security with economic and trade security, both the US and the EU have built on similar ideas and, as the US National Security Strategy's shocking implications sink in, the EU shows some signs of emulating the US (e.g. Commissioner Séjourné's 'Made in Europe' initiative). And both are reactions to developments including China's introduction of two waves of export controls for rare-earth elements (REEs) in response to US tariffs, citing national security interests as a reason. Security, whether national or economic, has for some time been a feature of investment screening. It can be expected to be an increasing element motivating trade policymaking.
- Differential impacts on developed and developing countries: all such new trade policy developments are likely to have a heavier impact on developing countries than on the developed, if only because their choices and flexibilities are fewer. This will be compounded by the ending of US aid programmes and cuts in aid by many countries below the 0.7 per cent of GNI benchmark standard.
- Implications for trade in services: so far, present developments have had relatively little direct effect on trade in services (although there are plentiful indirect effects). But future, more direct, effects cannot be excluded, particularly given current US attacks (backed by US tech giants' market power) on EU digital measures or, more widely, if future US trade measures provoked retaliation by trade partners against US services exports, with counter-retaliation by the US.

Possible outcomes

There is plentiful speculation over probable fracture-lines for the future, with much depending on the metrics that are chosen. In terms of world population, some have suggested, countries are split approximately half-and-half between those leaning towards the US or towards China. But if measured in terms of global GDP, the split has been closer to two-thirds leaning towards

⁴ President of the United States of America, *National Security Strategy of the United States of America*, November 2025

⁵ High Representative of the Union for Foreign Affairs and Security Policy, *Joint Communication to the European Parliament and the Council: Strengthening EU economic security*, JOIN(2025) 977 final, 3 December 2025

the US, and one-third towards China. This reflects the US's greater heft, in terms of alliances and shared interests with the most technically advanced economies. But much could depend on whether the US retains the loyalty of others or continues to squander it.

Some have hazarded that, in terms of adherence to global rules, a way is opening up for a new global trade regime, with the world divided between two groups. One might be the US (with virtually no followers, and accounting for about 13 per cent of global trade by value). The other could then be most of the rest of the world, linked together by a network of FTAs and other agreements and broadly observing global WTO-based rules adjudicated by an interim dispute settlement procedure.

But this "WTO minus One" approach looks on balance unlikely to get broad enough support among the rest of the international community or to offer a viable basis for moving ahead in the face of the strong US opposition which can be assumed from the present US administration. True, such a vision may, at least in theoretical terms, have attractions to commend it. It could be imagined as the outcome closest to the rules-based order which delivered a steady growth in world trade and investment and real benefits to developing countries over many decades. And it is supported by some recent developments, such as the UK and EU free trade agreements negotiated with India, and under negotiation with South Korea, which are clearly based on the traditional "grammar" of the WTO Agreements. But these attractions will not necessarily carry the day. First, there is little or no appetite on the part of other countries to take the lead in pushing the US, whatever its idiosyncrasies, into being an ostracised outsider to the global trade system (although future US conduct, if sufficiently chaotic, protectionist and unpredictable, could itself produce that outcome). Secondly, US official attitudes to the WTO are divided: despite bombastic White House pronouncements against multilateralism, the USTR is engaging with the WTO, exerting quiet but effective and valued influence in the run-up to the next WTO Ministerial Conference (MC14) on selected issues such as the extension of the WTO Moratorium on customs duties on electronic transmissions and WTO reform.⁶ Third, too many other countries, notably among the developing, have their own criticisms of the current rules-based system. Finally, account needs to be taken of security policy considerations, which for many countries (the EU, the UK, Japan, South Korea, Canada) will bulk too large to be ignored.

And the "WTO minus One" concept conjures up roles for the EU and for China that are unlikely to materialise. For the EU, it presupposes greater strength and confidence than the EU has shown so far, given threats to EU manufacturing from Chinese exports (e.g. automotive); EU continuing reliance on the US as its most open market; and the multiplicity of other EU political and security ties with the US – all of which mean that the EU can scarcely be neutral towards China, as regards both US-China trade disputes and China's support for Russia as a matter of geopolitics. Likewise, it presupposes that China would be a more reliable partner in operating the global trade rules than is probable. All in all, "WTO minus One", or the emergence of three balanced trading blocs, both look improbable. The alternative could be a degree of ongoing weakness, inertia, and instability as the major players continue to jostle for position.

⁶ World Trade Organization, *On WTO Reform: Communication from the United States*, WT/GC/W/984, 15 December 2025

Scenario-building also needs to look beyond a world dominated by the US, China, and the EU. For the EU and the UK there is a world beyond the US and China. In recent years China and the US together have taken less than 30 per cent of EU exports (and under 20 per cent of UK exports), meaning that 70-80 per cent go elsewhere, a share that is likely to grow as other markets such as India take on enhanced significance. Relations with China and the US are likely to remain challenging, and managing them will be a key priority for the EU and the UK. But neither the US nor China holds much prospect of closer ties and improved market access, in the near-term. It is the creation of new links with India and other Asia-Pacific markets (plus, for the UK, continuing linkages with the EU internal market) that is likely to be more fruitful, whether through free trade agreements or by other means such as regulatory dialogues for services. In the case of the EU, the prospect of wide-ranging trade agreements with India and Mercosur is an earnest of real progress (even if, in India's case, for merchandise trade rather than services); but, to realise the gains, the EU must show surer political grasp of the long-term opportunities they offer, rather than risking internal divisions by cavilling defensively at minor risks. Capturing the opportunities that lie in such markets should also result in less dependence on the other two economic superpowers, reducing the risks of politicised trade relations with both, while deepening relationships with other partners likely to be more concerned with rules-based trade and enhancing open trading.

Ways ahead

But creating new trading relationships cannot be the whole answer. A new way forward must be found which recognises that the current structures have lost – at least temporarily – the support of one major global trading economy, the US. But loss of support is not only a US phenomenon: others also look increasingly to their own interests, notably to safeguard their own supply chains, even if that means sacrificing or modifying the MFN principle. There are also changes in the nature of trade itself – linkages with investment, or the increasing role of services – which may mean that the previous hierarchy of guiding principles, with MFN at its apex, will itself need adjustment.

So how to encourage trust in shared multilateral or plurilateral arrangements, at least as a starting point? It has to be recognised that the US, China, and the EU have sufficient market power to seek favourable arrangements for their protected sectors. Producers of energy and key raw materials also have some negotiating power. But recognising these realities cannot be an excuse for not seeking a new framework which adds a degree of stability and transparency to commercial arrangements even when global politics remain erratic. Such a framework is also needed by most developing countries, and developed markets, including the UK, which are outside the three main trading blocs and have less economic or political leverage.

One key to any new framework will be a transformation of the WTO. The WTO continues to have an important convening role across all its members, who represent 98 per cent of world trade. Its value is shown in the quiet, unobtrusive, multilateral work that it continues to do. But it has grown too large and varied in its membership (166) to unite round shared interests and so has become a forum where new initiatives can be effectively vetoed by one or two dissenting members. Current plurilateral approaches, whether on digital trade or investment facilitation for development, have fallen victim to this, vital though they are to a majority of WTO members. This existential threat to the WTO's existence is slowly being realised, with MC14 in March 2026 increasingly seen as the opportunity for ministers from

the 166 members to set a forward agenda for reform initiatives to be tackled, centred on three broad areas (WTO decision-making processes; development, graduation, and special and differential treatment (SDT); and “level playing field” questions).

Such an agenda cannot however be just a matter for governments. Global business leaders will have to contribute to any new system and support it. This will no doubt be a test of will and resolve for some of the largest global multinationals, which arguably have the resources and flexibility to exploit a fractured and disrupted trade system in ways not open to smaller concerns, thereby fending off sources of competition. Time will tell which businesses are ready to make the case against autarkic approaches, arguing instead for the importance of global value chains and the contestability of markets if trade is to produce well distributed wealth creation. They will also need to ensure that evolving issues including cyber security, online services, and global tax arrangements are reviewed on a collective basis. And there is a need to protect market access for the benefit of disruptive innovators able to deliver growth. Current global organisations, whether intergovernmental (e.g. OECD) or private sector (e.g. the International Chamber of Commerce) offer a starting point for providing analysis of issues and up-to-date information.

The role of politics

Trade and trade negotiations used to be largely non-political, with countries such as the UK taking a politically bipartisan approach. But that has changed: trade is increasingly a matter of geopolitics. To be effective future trade decisions will need to be made politically, with a structure of facilitators/mediators bringing together the key players on specific issues and providing the means to give effect to international cooperation. Depending on the subject, these facilitators might be based in the WTO, OECD, UN Agencies, IMF/World Bank or regional groupings such as ASEAN or the CPTPP. Many would come from the newly industrialised countries of Asia, with a growing stake in global trade and investment openness.

These mediators would draw on available expertise, offer guidance, and suggest ways forward, but not seek to adjudicate in any binding way. They would therefore be less threatening to established powers, and also open to emerging countries and new business activities. Countries subscribing to this approach would accept explicitly some key principles:

- Support for increased global growth and welfare;
- Respect for each country’s political autonomy;
- Commitment to at least engage in a third-party mediation process in the event of disputes over unilateral actions;
- Acceptance of the importance of proportionality in responding to disputes; and
- The use of most favoured nation non-discriminatory principle as a starting point for trade negotiations which could then nonetheless involve national preferences.

Agreement on basic principles on these lines would allow a floor to be put under current anarchic trade negotiations. Over time – and with a future US leader less convinced of tariffs as an all-purpose economic and political instrument – it could also provide a base for a more ambitious trade framework suitable for the multipolar world of the coming century. But, at this stage, the focus should be on sketching a journey rather than seeking

to define a destination, charting a way forwards, even if that is more likely to lead to a modest structure that adds value, rather than seeking a way back to an idealised past which no longer reflects today's economic or political realities.

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