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# The Transatlantic Relationship and the Future Global Trading System

Peter S. Rashish

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**About the Author**

Peter S. Rashish is Vice President and Director of the Geoeconomics Program at AGI. He also writes The Wider Atlantic blog.

He has previously served as Vice President for Europe and Eurasia at the U.S. Chamber of Commerce and Senior Advisor for Europe at McLarty Associates. He is a member of the Board of Directors of the Jean Monnet Institute in Paris and a Senior Advisor to the European Policy Centre in Brussels and has testified before the House Financial Services Subcommittee on International Monetary Policy and Trade and the House Foreign Affairs Subcommittee on Europe and Eurasia. His commentaries have been published in *The New York Times*, the *Financial Times*, *The Wall Street Journal*, *Foreign Policy*, and *The National Interest*, and he has appeared on PBS, CNBC, CNN, NPR, and the BBC. He holds a BA from Harvard College and an MPhil in International Relations from Oxford University.

# Executive Summary

Today's challenges to the global trading system are exacerbating a dynamic that is at least a decade old. Since the failure of the Doha Round of multilateral trade negotiations to make progress at the World Trade Organization's biennial meeting in December 2015 in Nairobi, Kenya, the balance of economic power in the world has continued to shift. China, no longer the developing country it was when it joined the WTO in 2001, is now a large and globally competitive manufacturing economy while countries like India and Brazil have also gained in relative influence.

The period of globalization (or hyperglobalization) that defined the roughly twenty-five years between the fall of the Berlin Wall and the Doha Round's failure in 2015 has given way to a new "post-idealist" era that is characterized by a weaker multilateral system, greater skepticism among voters toward trade liberalization, and an increasing use of trade policy tools to achieve not only economic integration but also economic security. A central question is whether current institutions like the World Trade Organization can adapt to this shift or rather new institutions and rules will be needed to shape the global trading system of the future.

There are important ramifications for the transatlantic relationship of this shift. Traditionally, it has been the close cooperation between the United States and the European Union that has been the key driver of innovation in the trading system. But given the more nationalist and unilateral international economic policies of the second Trump administration, it is unclear if the United States and the European Union can continue build cooperation to jointly drive reform. Yet there has been some rapprochement between U.S. and EU trade policies, especially relating to China's manufacturing overcapacity. More recently, the two sides appear to share overlapping concerns about how to reform the WTO, including the role of the "Most-Favored Nation" (non-discrimination) principle and the contribution of plurilateral agreements (coalitions of the willing). Of the two, the latter may prove to be a more promising avenue for advancing transatlantic interests in the trading system. An outstanding question is whether these clubs will need a common tariff or standard (along with financial commitments) to incentivize new countries to join.

Looking ahead, it is unclear how the emerging post-idealist global economic order will be constituted: what the rules will be, which countries will be its drivers, what issues will take priority, and what role the WTO will play within it. How can the United States, Germany, and the European Union take into account increased diversity and competition in the global trading system as they craft updated rules and institutions that maintain order and improve fairness? In short—to paraphrase U.S. President John F. Kennedy—how to make the trading system "safe for diversity."

Whether during the next five to ten years the global trading system will ultimately undergo a transition, a mutation, or a rupture is something historians will reveal. All three futures remain possible. The capacity of the transatlantic relationship to exert joint agency will continue to be a determining factor, even—or perhaps especially—in a more diverse and competitive world.

# The Post-Idealist Global Economy

## DIVERGENCE, DISCONTENT, AND DISRUPTION

For the last ten years, the global trading system has been under strain. At the December 2015 World Trade Organization (WTO) ministerial meeting in Nairobi, Kenya, the Doha Development Round of multilateral trade negotiations launched in 2001 was effectively ended when member countries failed to achieve agreement. A trade-off between richer and poorer countries—greater access for the former's manufactured goods in return for more flexible terms for the latter's agricultural products—could not be reached in part because of the domestic political difficulties of doing so. It is also true, however, that by the time the Doha Round was unofficially set aside, the balance of economic power in the world had evolved. China, essentially a developing country when it joined the WTO in 2001, had grown to become an important and globally competitive manufacturing economy. Other countries, for example, India and Brazil, were also gaining in relative strength and the ability to influence the outcomes of trade negotiations. Michael Froman, the United States Trade Representative at the time, put it aptly when, shortly before the start of the meeting in the Kenyan capital, he foresaw that "One way or the other, this week's WTO ministerial conference in Nairobi will mark the end of an era."[1]

If the roughly twenty-five-year era between the fall of the Berlin Wall and the Doha Round's failure in 2015 was one of globalization or even hyperglobalization,[2] there is not yet a consensus about what to call the new era that began ten years ago. The elements of the current period are clear enough: in addition to a weaker multilateral system under the aegis of the Geneva-based World Trade Organization, there is greater skepticism among voters—in both the United States and the European Union—toward trade liberalization and an increasing use of trade policy tools to achieve not only the traditional goal of *economic integration* (for example, through bilateral market-opening agreements) but more recently the objective of *economic security* (via supply chain restrictions, export controls, or investment screening) as well.

Considering that the global trading system is increasingly obliged to function within a broader environment where national interests are diverging and heightened geopolitical conflict is framing strategic choices, the current period could be characterized as "post-idealist."[3] Why? The era of globalization was not only facilitated by the political and economic changes in Central and Eastern Europe, China, and elsewhere that widened the number of countries potentially participating in international trade. A key enabling role was also played by the international economic system established by the United States, Europe, and its allies in the aftermath of World War II based on a confidence in cooperative international institutions to advance their interests: the GATT and later the WTO, the World Bank and the International Monetary Fund, as well as the G20 in response to the 2008 global financial crisis. In the 2020s, international dynamics will require this cooperative (idealist) conception of international dynamics to be tempered by a more balance-of-power (realist) approach to the global economy. A central question for the future is whether current institutions—in particular, the World Trade Organization—can adapt or rather new institutions and rules will need to be built by smaller groups of countries that can coexist with those already shaping the global trading system.

There are important ramifications for the transatlantic relationship of this shift to a post-idealist global economy. Traditionally, it has been the close cooperation between the United States and the European Union (often together with like-minded partners) that has been the key driver of innovation in the trading system. That is true for the conclusion of the Uruguay Round and the signing of the Marrakesh Declaration establishing the World Trade Organization in 1995 that notably created a binding dispute settlement system, the launch of the Transatlantic Trade and Investment Partnership in 2013 that aimed to forge an avant-garde for multilateral trade reform, the Trilateral Initiative (United States, EU, Japan) on WTO reform begun in December 2017, or even the more bilaterally focused U.S.-EU Trade and Technology Council created in 2021 that started to lay the groundwork for a "coalition of the willing" push for global trade reform.

Since the beginning of the second Trump administration in 2025, however, the United States has taken a strongly unilateralist and nationalist turn in its trade policy. It announced reciprocal tariffs[4] on its trading partners in April 2025 that, while modified since, raised the average U.S. tariff rate to 14.1 percent by September 2025[5] from 2.3 percent at the end of 2024.[6] More broadly, the U.S. administration asserts that its trade policy actions and positions are part of an effort to update the international economic system established after World War II and replace it with a "Turnberry system"[7] (named after the Scottish resort where the United States and the European Union signed a trade deal in July 2025) based on a series of bilateral trade arrangements rather than multilateral rules. While the EU, for its part, has not stood still in the face of changing dynamics in the trading system—the creation of its Anti-Coercion Instrument[8] as a geoeconomic tool is a major example—it nonetheless remains committed to rules-based, multilateral trade. Given this turn in U.S. international economic policy, considerable uncertainty hovers over where and how the United States and the European Union can cooperate to jointly drive reform of the global economic order that is consonant with both sides' interests.

# The World Trade Organization

## A HISTORICAL ACHIEVEMENT WITH A FUTURE?

The World Trade Organization was certainly a product of the optimistic 1990s, but it was nonetheless a historic achievement. Unlike the GATT before it, the WTO's rules were now binding on its members through a new dispute settlement system. But it has labored to make progress multilaterally beyond smaller-scale agreements in areas like fisheries and investment facilitation, its dispute settlement system has remained blocked since the first Trump administration refused to allow the nomination of new judges to its Appellate Body (a stance that continued under the Biden administration), and it has been unable to discipline China's mercantilist manufacturing overproduction even when the dispute settlement regime was fully functioning. There is a growing recognition of the imperative to reform the WTO's rules for the world of the 2020s, one where the aspiration toward free trade needs to be better balanced with its members' national interests when these conflict with more open markets. Whether it is the impacts of China's manufacturing overcapacity, globe-spanning supply chains that elevate risk and the importance of resilience and security, or increased flexibility for groups of like-minded countries to pursue agreements among themselves (plurilateralism), the WTO's rules have not kept pace with change.

The issue of reform became a focus of WTO deliberations after its 2022 Ministerial Conference.[9] Since that decision to pursue a comprehensive review of the institution's functions, the reform process has had a three-pronged focus on decision-making (the need for consensus), special and differential treatment (privileges for poorer member countries), and the level playing field (reporting transparency and compliance). At the end of 2025 and the beginning of 2026, the issue of WTO reform received greater attention from both the United States and the European Union, perhaps tied to the March 2026 Ministerial Conference in Cameroon.

The U.S. Mission to the WTO distributed a communication on reform in December 2025[10] that addressed the three areas of ongoing discussions, as well as an additional three where it believes the WTO needs to make changes: the Most-Favored Nation principle or MFN (non-discrimination) enshrined in WTO Article I, the role of the WTO secretariat, and essential security. What the U.S. paper says about decision-making is likely to gain attention among a meaningful number of WTO members given how hard it has been for groups of like-minded countries to move forward on matters where multilateral consensus has been elusive. The U.S. communication makes a convincing argument that "Reaching consensus among 166 Members on new, substantive agreements of any significance is very unlikely, given the wide differences in Members' economic systems and levels of ambition. Members may have wrung all they can from multilateral negotiations." In the future, there will likely be increasing interest from varying coalitions to forge ahead on plurilateral agreements—either within the WTO or in an emerging "G7+"[11]—on a range of issues including subsidies and manufacturing overcapacity, energy and climate, artificial intelligence, critical minerals, or supply chain security.

Looked at through a strategic prism, plurilaterals and clubs of like-minded economies may yield the greatest progress: a hypothetical agreement among sixty WTO members on critical minerals trade, for example, would advance U.S. and EU objectives in the trading system in a way that the freedom to set bilateral tariff rates in a post-MFN environment would not.

The U.S. paper also makes the argument that the Most-Favored Nation principle is no longer effective for steering world trade because of the increasing diversity of the WTO's membership. Instead of adopting "open, market-oriented trade policies," some countries have maintained "economic systems that are fundamentally incompatible with WTO principles." The paper also criticizes "many countries' pursuit of chronic trade surpluses that have adverse economic and political consequences in deficit countries." The conclusion is that "to face these challenges, trading nations must be able to treat different trading partners differently."

Systemic divergences among WTO members and the unfairness that has arisen in the global trading system make WTO reform imperative. The question is whether eliminating MFN is the best or only way to do that, particularly as doing so could be a two-edged sword. On the one hand, it would offer more freedom of action for countries to raise or lower tariffs on individual trading partners. On the other hand, however, it would introduce a considerable degree of unpredictability that would complicate business investment decisions.

Given the centrality of the Most-Favored National principle to the functioning of the trading system, it is noteworthy that in January 2026, Maroš Šefčovič, the European Union's Commissioner for Trade and Economic Security, also took issue with MFN, arguing that "We must also rethink how the 'most favored nation' principle functions and whether the current balance of rights and obligations remains fit for purpose."[12] While granting that "the certainty provided by MFN remains indispensable," he asks if MFN has "genuinely fostered openness and a level playing field among WTO members, or has it become a straitjacket that cements the status quo and enables free riding?" The solution is "exploring options to allow for more agile and targeted adjustments of tariff treatment in response to changing realities and threats to our economies."

If the World Trade Organization is to have a future, it will need reform to account for the unexpected and accelerating divergences among its members in terms of both their domestic and international economic policies. That process could include introducing more flexibility into the operation of the MFN principle. Alongside that, it should also allow for more room for coalitions of the willing to strike out on their own where issues of economic security are concerned. Looked at through a strategic prism, plurilaterals and clubs of like-minded economies may yield the greatest progress: a hypothetical agreement among sixty WTO members on critical minerals trade, for example, would advance U.S. and EU objectives in the trading system in a way that the freedom to set bilateral tariff rates in a post-MFN environment would not.

# Projecting and Protecting

## TRANSATLANTIC INTERESTS IN THE GLOBAL ECONOMY

While there has been some convergence in U.S. and EU trade policies in recent years—especially as regards the need for new responses to China's manufacturing overcapacity and technology competition—their differences during the era of hyperglobalization were notable. Despite being exposed to the same economic conditions abroad, the United States and the European Union often took distinct approaches to trade policy.

Broadly speaking, Washington increasingly emphasized the need to protect its markets from what it saw as unfair foreign competition. This dynamic can be seen in the evolution from the Obama administration's pursuit of the TPP and TTIP—free trade agreements with the strategic purpose of balancing and countering Chinese trade and economic practices—to the first Trump administration's use of Section 301 tariffs against China, to the Biden administration's focus on industrial policy and informal agreements without opening its own markets, to the second Trump administration's disruption to the international economic system. Brussels, by contrast, continued to place stock in projecting its liberal economic values through free trade agreements, of which the EU now maintains over forty with seventy countries compared to fourteen with twenty countries for the United States. Several of these agreements are with large trading economies like Japan, Canada, Mexico, the four countries of Mercosur, and in January 2026 with India.

To understand these differing reactions to a global economy that was becoming increasingly diverse and competitive, it is useful to look at the domestic policies of the United States and the European Union. While both economies developed what in hindsight were overly optimistic expectations about the geopolitical benefits of globalization (which Germany and other countries in the EU were, in fact, later to shed[13]), only the United States thought it meant the country could deemphasize domestic policy. Unlike the European Union, many of whose member states continue to balance international economic openness with tools like apprenticeships (Germany, Austria) and active labor market policies (Sweden, Denmark) to help workers prepare for and adapt to changing domestic and international conditions, the United States never invested adequately in the Trade Adjustment Assistance measures established in the 1962 Trade Expansion Act.[14] It placed undue faith in globalization not only to stimulate economic growth but also to maintain social cohesion and promote economic fairness. That is one major reason the "China Shock" of the 2000s led to so much dislocation in traditional U.S. manufacturing communities but not in Germany and other European Union economies.[15]

More recently, Germany in particular is finding that even strong and effective labor market policies may not be enough to respond to the "China Shock 2.0" that is presenting a challenge to more advanced manufacturing sectors like electric vehicles, machinery, and renewable energy.[16] Although the EU remains committed to projecting market economy principles and advancing economic integration through free trade agreements, this new reality is leading it to strengthen efforts to protect its economy from unfair competition. These include the September 2024 tariffs imposed on subsidized Chinese battery EVs (the first time the European Commission took such a step on its own initiative rather than in response to an industry complaint); the 2023 Anti-Coercion Instrument to use trade, investment, financial, procurement, intellectual property, and export control tools to deter or respond to attempts by another country to impose restrictions on its policy autonomy; and the Foreign Subsidies Regulation[17] (also from 2023) to address the lack of a level playing field caused by subsidies granted by foreign governments to firms operating in the European Union.

Given the Trump administration's preference to act alone, the current circumstances are far from ideal for the transatlantic economic relationship to serve as a testing ground for a joint approach that balances strategic trade policy openness with greater use of restrictions, coercion, and anti-coercion to advance their collective interests. Such a strategy would be aimed not just at promoting U.S. and EU objectives but could also serve as an exemplar for the broader global trading system. For the moment, it is an open question whether the experiment in U.S. unilateralism since early 2025 will lead to the desired results of greater prosperity at home and more fairness abroad. If it does not, the United States may find that the European Union will once again become an indispensable partner, although one whose inclination toward transatlantic cooperation may have become less automatic and more nuanced.

# Making Global Trade Safe for Diversity

Looking back, it is understandable how the global trading system has arrived at its current disruption. The 1990s were a period of considerable optimism about the possibility for convergence through globalization among economies that had either been governed by different political systems or had disparate levels of development. Most Central and Eastern European countries did become democracies and capitalist economies, experienced economic growth, and joined the European Union. But China's impressive economic take-off over the last thirty years (and especially since joining the WTO in 2001) has mostly come from a stronger role for the state rather than a wholesale adoption of market economy policies.

Looking ahead, however, it remains unclear how the emerging post-idealist global economic order will be constituted: what the rules will be, which countries will be its drivers, what issues will take priority, and what role the World Trade Organization will play within it. What is certain is that the balance of economic power has shifted. Neither the United States alone nor even the wider transatlantic relationship will be sufficient to forge a system that creates greater fairness for market economies vis-à-vis state capitalist ones like China, is robust in maintaining the orderly and predictable economic relations that businesses need to invest, and is durable in the face of shocks—whether they stem from geopolitics, climate events, economic policies, or disruptive technologies.

Given these realities, it is worth recalling President John F. Kennedy's June 1963 American University commencement speech, where he said:

"So, let us not be blind to our differences—but let us also direct attention to our common interests and to the means by which those differences can be resolved. And if we cannot end now our differences, at least we can help make the world safe for diversity."[18]

Although Kennedy was referring to the Soviet Union, the need to make the world—or in the present case, its subset known as the global trading system—safe for diversity remains a crucial guidepost. How can the United States, Germany, the European Union, and other market economies take account of increased diversity and competition as they craft an updated global trading system that still maintains a modicum of order and fairness?

The answer will almost certainly lie in reforming the World Trade Organization in certain areas of trade policy while at the same time creating new institutions and agreements for other areas where consensus will be difficult to reach. In this new era, the same or even greater creativity will be required from political officeholders, negotiators, and thought leaders that characterized the post-World War II period in the United States and Europe, when as yet unparalleled innovation in economic statecraft produced the GATT, the Marshall Plan, and the Common Market.

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While there are a large number of moving parts at the moment, squaring the circle of inclusivity within the WTO for the less controversial areas of international trade (for example, how to treat poorer countries, what policies and actions members need to report to improve transparency, or liberalization of sectors where consensus may be achievable) with selectivity for issues of high strategic importance (critical minerals, semiconductor supply chains, or renewable energy) will be of central importance.

Another way of stating this conundrum is to ask how (even with a reform of the application of the Most-Favored Nation principle) equal treatment in some areas can coexist with discrimination in others. Lying at the intersection of these two elements are plurilateral agreements, or coalitions of the willing. Currently, plurilaterals are achievable in principle, but they cannot contain discriminatory or coercive provisions toward non-members. But because of differing economic security interests, there may need to be room to impose, if not a tariff on outsiders, then perhaps a common *standard* that non-members need to meet to join a like-minded coalition—combined with financial commitments to help them do so. The Global Agreement on Sustainable Steel and Aluminum (GASSA),[19] which was launched by the United States and the European Union (and that was open to other economies) in October 2021 but never concluded, is one example of this approach.

Whether during the next five to ten years the global trading system will ultimately undergo a transition, mutation, or rupture is something only historians will be able to reveal. While all three futures remain possible, the capacity of the transatlantic relationship to exert joint agency will continue to be a determining factor even—or perhaps especially—in a more diverse and competitive world.

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