Europe’s role in the new global trade landscape

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Abstract

This contribution argues that Europe’s central task in the new global trade landscape is to prevent a damaged rules-based system from becoming a power-based one. The surge in US tariffs is a historically large shock, made especially serious by the United States’ role in creating and stewarding the post-war trade order. Yet the shock has not produced a collapse of world trade. Most merchandise trade still takes place under cooperative disciplines — 72 percent on WTO most-favoured-nation terms and another 16 percent receiving additional tariff reductions under WTO-consistent preferential agreements — and most major players have so far avoided broad retaliation. This resilience is fragile because narratives of collapse can become self-fulfilling. Europe should therefore use its weight to renew the WTO, strengthen competitiveness through integration rather than protectionism, engage China within common rules, and rebuild trust with the Global South.

1 A historic stress test

World trade is facing its most serious institutional test in decades. The increase in US tariffs shown in Chart 1 is not a routine change in trade policy. At the start of 2025, the trade-weighted average US tariff rate was about 2.4 percent. By early May, it had peaked above 21 percent. After subsequent adjustments, it stood at around 10 percent by June 2026 — lower than at the peak, but still more than four times its level at the start of 2025. This is a shock of historical scale. To find US tariffs of comparable magnitude, one has to go back to the 1930s — the period of the last major trade war, and the period from which the post-war trading system drew its most important lesson: that cooperation is better than escalation, predictability better than discretion, and rules better than power.

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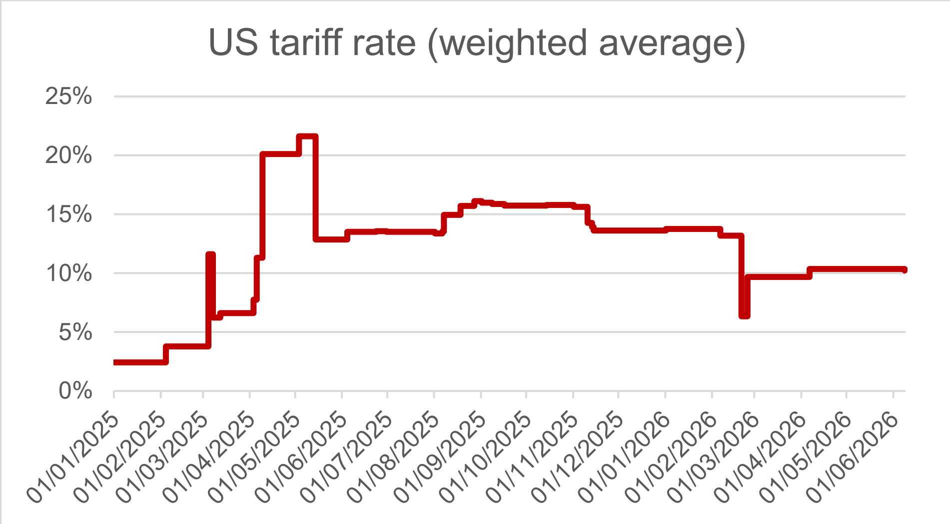
Chart 1



That lesson led first to the General Agreement on Tariffs and Trade (GATT) and later to the World Trade Organization (WTO). The United States was not simply one participant in that system. It was the country that did more than any other to build it and, for decades, to steward it. This is what makes the current moment so serious. When the country most closely associated with the rules-based trading system turns toward broad-based protectionism, the shock is not only economic. It is institutional.

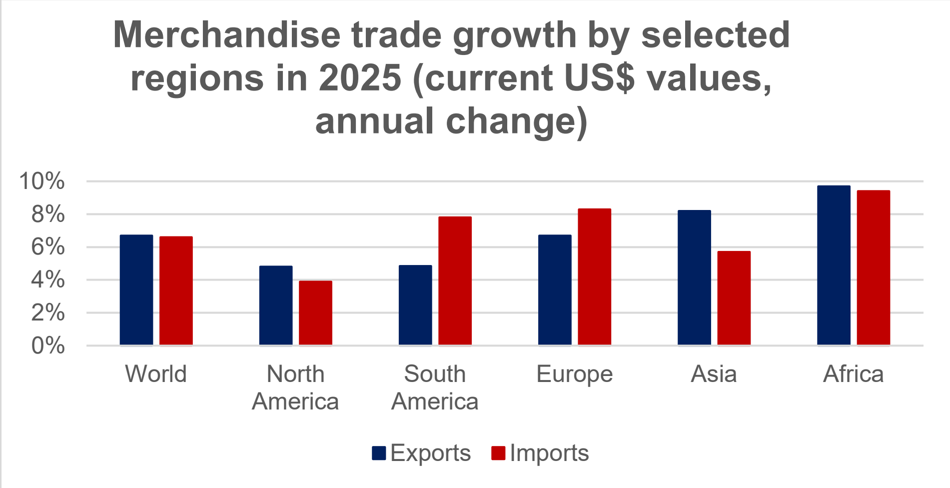
A tariff increase of this scale, from this source, created a genuine risk of a broader breakdown. It raised the possibility of retaliation, collapsing confidence, falling trade flows, and an accelerating movement toward blocs. In short, it raised the question whether the tariff shock would mark the beginning of de-globalization.

2 Resilience, not robustness

The striking fact is that this broader breakdown has not occurred. World trade has proved more resilient than one might have expected.

Chart 2 illustrates this resilience. In current US dollar values, world merchandise exports rose by 6.7 percent in 2025. The tariff shock is visible in the regional pattern: North America — including Canada and Mexico as well as the United States — recorded export growth of only 4.8 percent, below the world average and well below the strongest-performing regions. But the broader picture is not one of collapse: every region shown still recorded positive export growth in value terms. This is not a picture of de-globalization.

Chart 2



Resilience, however, should not be confused with robustness. Chart 2 is expressed in current US dollar values. The volume picture is weaker, especially for Europe, where export volumes contracted even as export values increased. Product composition, exchange rates and prices matter. So does timing. Part of the 2025 strength reflected frontloading ahead of tariffs, and part reflected the exceptional strength of AI-related goods, which are highly trade-intensive and grew very strongly during the year. Some effects of the tariff shock were therefore delayed, while others were masked by unusually strong sectors. The evidence points to containment rather than resolution: the shock has not disappeared, and its full effects are still unfolding.

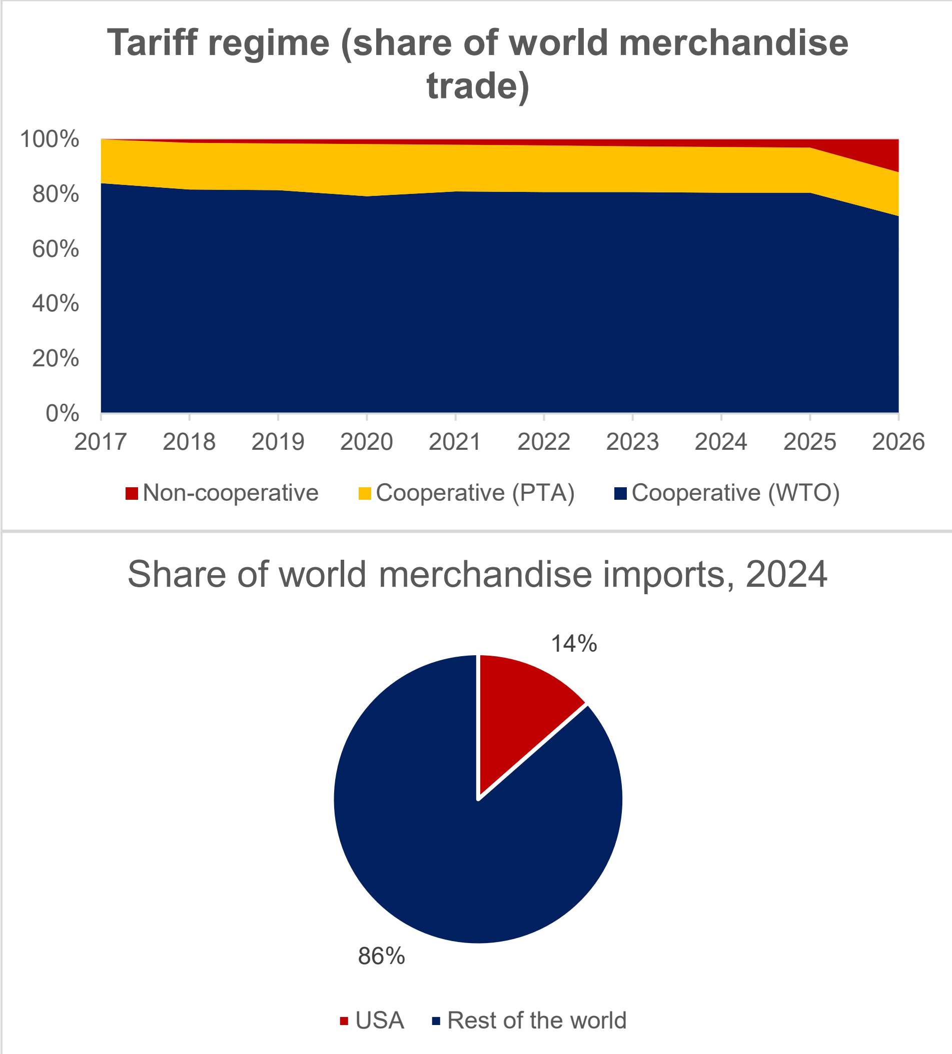
The appropriate conclusion is therefore a careful one. The evidence does not show that tariffs are harmless. It does not show that the system is healthy. And it certainly does not show that the current direction of policy is sustainable. It shows something more specific: the shock has so far been contained.

3 Rules and restraint

The containment of the shock rests on two mechanisms: rules and restraint.

The institutional mechanism is captured in Chart 3. Roughly 72 percent of world merchandise trade is still conducted directly under WTO most-favoured-nation terms. Another 16 percent receives additional tariff reductions under preferential trade agreements that are themselves part of the WTO framework. In other words, 88 percent of world merchandise trade still takes place within a cooperative trade regime. Only around 12 percent can reasonably be described as non-cooperative or power-based in this tariff sense.

Chart 3



That 12 percent is worrying. It is roughly four times the 2025 level, when only about 3 percent of world merchandise trade was classified as non-cooperative in this tariff sense. But it is not the whole system. The correct conclusion is not that rules no longer matter. The correct conclusion is that rules still govern the vast majority of world trade — and that the system will survive only if this remains true.

The second mechanism is restraint. The other panel of Chart 3 helps explain why the non-cooperative share remains limited despite the scale of the US tariff increase. The United States is enormously important, but it accounts for about 14 percent of world merchandise imports. Even a very large US tariff shock therefore does not automatically transform the whole trading system into a power-based system. It does so only if others follow.

So far, most major trading partners have not responded by imitating broad-based US tariff escalation. The system has held not because rules mechanically prevented every breach, but because rules have been reinforced by restraint. That restraint is valuable, but fragile. It is a choice, and choices can change.

This is why perceptions matter. In trade policy, as in macroeconomics, expectations can be self-fulfilling. If governments conclude that nobody plays by the rules anymore, they will stop playing by the rules themselves. If firms conclude that the world economy is inevitably breaking into blocs, they will reorganize supply chains accordingly. And if public debate moves too quickly from “the system is under attack” to “the system is dead,” then policy will help make that pessimism true.

The rules-based trading system has therefore been damaged, but it has not collapsed. Its resilience so far comes from two sources: rules that still organize most world trade, and restraint by governments that have not yet allowed one breach to become a general shift in behaviour.

4 Europe’s task

The implication for Europe is direct. Europe has a special stake in the rules-based trading system. It is too open to prosper in a world governed only by power, but too large to be a bystander. The relevant choice is not between naive free trade and hard-headed realism. Europe has legitimate concerns about security, resilience, subsidies, overcapacity, climate and competitiveness. The question is whether it responds by adding to fragmentation, or by using its weight to preserve and update the cooperative system on which it depends.

This choice is visible across four areas.

First, WTO reform. Europe is right that the WTO needs reform. The negotiating function is too weak, dispute settlement remains impaired, and the rulebook has not kept pace with subsidies, security-related trade measures, digital trade, artificial intelligence and sustainability-related regulatory spillovers. But reform should strengthen the system, not weaken its core principles. Most-favoured-nation treatment is not a technical detail. It is what prevents trade policy from becoming a hierarchy of political favour and disfavour.

The WTO’s recent 14th Ministerial Conference (MC14) in Yaoundé showed both sides of the problem. Members failed to agree on a broader package, and the long-standing moratorium on customs duties on electronic transmissions lapsed. That is a serious setback, especially for digital trade. But MC14 also showed a possible way forward: coalitions of willing members moved ahead on e-commerce rules, and the interim appeal arrangement continued to provide a dispute-settlement workaround for a large share of world trade. Europe should therefore push for selective WTO renewal: preserve the multilateral core, defend MFN and binding commitments, and create workable paths for open plurilateral cooperation anchored in the WTO where universal agreement is no longer available.

Second, competitiveness. Europe is right to worry about its economic base. But it should not confuse competitiveness with protection. A European response built around “Buy European” rules, local-content requirements, discriminatory procurement or subsidy races would shrink the market Europe needs to scale. The better strategy starts from a simple diagnosis: Europe is often less constrained by excessive openness to the world than by fragmentation at home. Its first industrial policy should therefore be a deeper single market: not only for goods, but especially for services, capital, energy and digital markets. This should go hand in hand with simpler regulation, faster permitting, affordable energy, and cross-border infrastructure that allows firms to scale across Europe. Targeted industrial policy may be necessary in some areas. But its purpose should be to build European capacity at scale, not to close European markets.

Third, China. Europe's concerns are real: subsidies, overcapacity, market access, economic coercion and security risks. A rules-based approach does not mean ignoring these problems. But a stable world trading system will have to include China, not organize itself around China's exclusion. China is central to global trade, and its importance is likely to grow. The task is therefore to define the terms of interdependence more clearly: where openness remains mutually beneficial, where safeguards are necessary, and where stronger common rules are needed. In the short run, that may require pragmatic negotiated guardrails in sensitive areas, so that overcapacity, subsidies and security concerns do not spill into uncontrolled escalation. In the long run, the better answer is stronger WTO disciplines on subsidies and state-driven competition. Europe should be firm where it must be firm, but its strategic objective should be to keep China engaged in a rules-based order rather than accelerate the drift toward rival blocs.

Fourth, the Global South. Europe often sees itself as defending global public goods, especially on climate and the environment. But many developing countries increasingly experience some European trade-related environmental measures as unilateral and costly. The deforestation legislation is a case in point. Its environmental objective is legitimate, but implementation must be built around partnership: realistic timelines, technical support, help with compliance costs and enough flexibility to make the rules workable for producers in developing countries. The recent postponement and simplification of the deforestation regulation's implementation show that the EU itself recognizes the need for adjustment. That is the right instinct: not to abandon environmental ambition, but to make it compatible with trust.

This is also why the EU-Mercosur agreement matters so much. Its provisional application is not just another trade-policy step. It is a major strategic breakthrough after decades of negotiation: a way to diversify Europe's economic relationships, engage the Global South through partnership, and show that Europe can still act strategically through openness. At a time when the world trading system is under pressure, Europe should not define itself only by restrictions, conditions and defensive instruments. It also has to show that rules-based openness can still deliver.

5 Conclusion

The new global trade landscape is more dangerous than the old one. The US tariff shock is historically large. The fact that it comes from the country that built and stewarded the post-war trading system makes it especially concerning. But the evidence so far does not show that world trade has collapsed. It shows that the rules-based system has absorbed more of the shock than many expected.

That resilience is valuable. It is also fragile. It depends on what others do next. If Europe treats the current moment as proof that rules no longer matter, it will contribute to the very outcome it fears. But if Europe treats the current moment as proof that rules still matter — even under extreme stress — then it can help preserve the system on which its prosperity depends.

Europe should therefore choose stewardship over proliferation: WTO renewal rather than attacks on MFN; competitiveness through a deeper single market rather than protectionist industrial policy; disciplined cooperation with China rather than escalating rhetoric; and partnership with the Global South rather than avoidable loss of goodwill.

The world trading system is not yet a power-based system. But it could become one. Europe's role is to make sure it does not.

6 References

Gonciarz, T. and Verbeet, T. (2025), "Significance of most-favoured-nation terms in global trade: A comprehensive analysis", Staff Working Paper: Research ERSD-2025-02, World Trade Organization.