

Bolstering Resilience: Plurilateral Agreements and Rules-based Trade

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Context

- US: No longer willing to play the role of hegemon in multilateral trade regime
 - Demands for rebalancing trade and investment relationships
- China: Doubling down on investment-led, export-focused growth model
 - Industrial policy-supported intense competition driving large trade surpluses
- EU: Focus on competitiveness and economic security/supply chain resilience
 - Regulatory simplification; deepen single market; relax state aid/competition rules
- New sources of regulatory heterogeneity increasing trade costs/segmenting markets
 - Resurgence of industrial policy
 - Digitalization/servicification/AI
 - Disparities in climate change-related policies
- WTO adversely impacted by business-as-usual mindset, reducing its salience to international business and eroding political support
 - Veto-playing; linkage games; appeals into the void; non-transparency (e.g., export restrictions)
 - Lack of focus on critical cyclical and structural challenges to rules-based trade

Four ways to sustain trade cooperation

- Countries committed to rules-based trade can adopt a multi-pronged strategy:
 1. Maintain trade openness when pursuing industrial policies to bolster competitiveness, economic security and nontrade objectives
 2. Pursue more/deeper preferential trade agreements
 3. Negotiate Issue-specific open plurilateral agreements (OPAs)
 4. Engage in active WTO custodianship:
 - Use WTO infrastructure to provide policy transparency and apply its basic principles
 - Use the organization as a platform for policy dialogue and negotiation
- Cooperation: Focus on issues of first order economic importance
 - Renewed US proclivity for tariffs is not
 - Economic security, level playing field, digital economy regulation and climate change are
- Plurilateral initiatives as the most likely feasible approach
 - Open to participation by any country willing to accept mutually agreed policy disciplines

Pathways as complements

- Much depends on domestic policy choices and political economy
 1. Manage resurgence in national/regional protectionist pressures/rent seeking
 2. Manage extent of discriminatory arrangements with trade partners
 - Economic security bilateralism (export restrictions, critical materials, fertilizers, food, etc.)
- PTAs can help lock in market access/national treatment commitments
 - Challenge: “connecting” multi-country PTAs: EU, CPTPP, ASEAN+, Mercosur, AfCFTA, GCC...
 - Plurilateral agreements as bridges between regional PTAs
 - Trade facilitation (origin rules), sectoral agreements, data flows, FDI, competition policy
- OPAs as mechanisms to reduce regulation-related trade costs independent of PTAs
 - Digital economy, supply chain resilience, economic security (minerals, food/fertilizers, etc.), trade for climate change (environmental goods and services; carbon clubs; equivalence arrangements; MRAs)

Key question: Can a plurality (166-x) use plurilateral levers?

- Plurilateral agreements must be economically meaningful to mobilize business support
 - Prospects in part depend on opportunity costs created for US/China and possible retaliatory action
 - Subject matter dependent
- PTAs?
 - US no longer in the market for PTAs; China raises economic concerns for partner countries
 - US and China together account for only 25% of world trade → expanding PTA coverage may incentivize US/China
 - “Low hanging fruit”: Coordination among members of deep PTAs: EU, CPTPP, other Asia-Pacific and ASEAN countries
 - Not a panacea: politically contested (EU Mercosur; CETA)
- OPAs?
 - Focal points for good regulatory practices or critical mass sectoral agreements
 - Some recent initiatives (e.g., IPEF supply chain agreement; MSP/FORGE on critical minerals) are not open (i.e., exclude China); others are (DEPA, ACCTS)
 - Feasibility of OPAs may be affected by retaliatory threats/actions

Use OPAs to tackle major policy spillovers

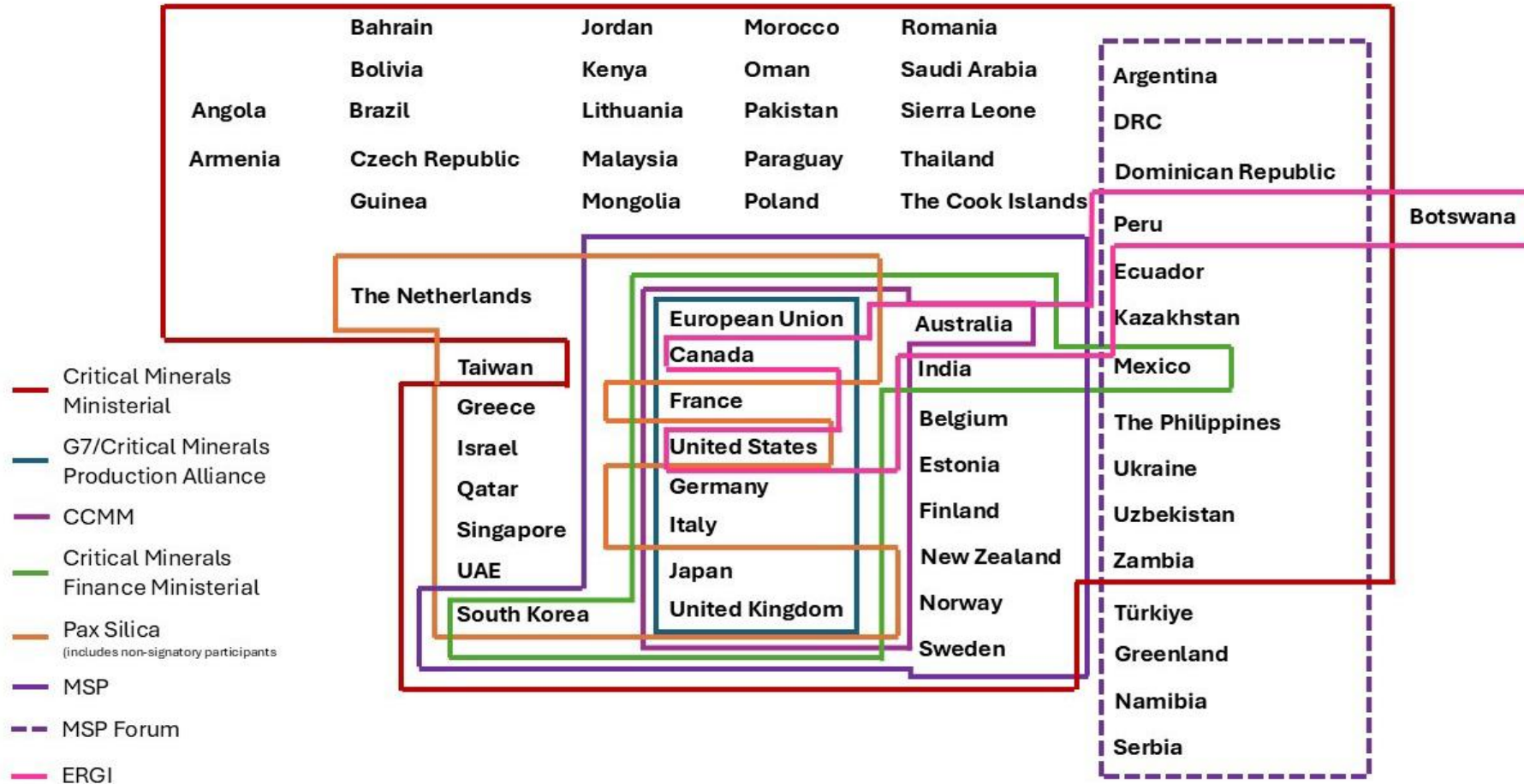
- Example: ‘level playing field’: Industrial policy, export restrictions and system differences
 - Not only a ‘China problem’, but China is central
- Differences in growth models in US, EU, China reflected in current account imbalances
 - Call for coordinated macro reforms that will benefit all three
- Macro rebalancing necessary, not sufficient
 - China’s trade surplus creates long term adverse economic consequences (Sebastien Jean, 4th Bruegel/CEPR Paris Report, 2026)
- A “competitive neutrality” OPA driven by middle powers – CPTPP, EU etc. – as a path to manage spillover effects of market distortions
 - Mechanism to agree on the problem and objective criteria for investigations to guide (voluntary) coordinated action to address serious injury-cum-economic security concerns
 - Opportunity to re-visit WTO safeguards/subsidies rules and case law and to consider alternative remedies – e.g., competition policy to address involution spillovers
 - Transparent and inclusive deliberative process, open to China and US.
- Goal: move towards a mutually agreed framework to manage systemic differences
 - Again, not a panacea: may generate retaliation and OPA design should consider cooperation to attenuate associated costs on members

Active custodianship: use of the WTO as a platform

- WTO provides a mix of public goods and club services needed for OPAs:
 - Transparency
 - Platform for engagement and negotiation among interested countries (FITP, TESSD, etc.)
 - Dispute settlement services – as defined and embodied in negotiated agreements
 - Need **not** be based on MPIA as a model ; must avoid “appeal into the void” possibility
- Use the WTO as a “platform” to provide unilateral transparency of national policies
- And to negotiate and implement OPAs
- OPAs need not be part of the WTO, but it is desirable they are for systemic reasons
 - Requires overcoming veto playing/consensus constraint (viz. IFD and E-commerce at MC14)
- In the interim, emulate E-commerce agreement (‘just do it’ unilaterally: concerted action)
 - Incorporate basic “multilateral” principles: openness, transparency, necessity, international standards, TRTA/CB to address development/capacity differentials
- As part of WTO reform, develop code of conduct for design of OPAs
 - Including guardrails for agreements that condition benefits on regulatory regimes
- Plurilaterals as stepping-stone to deal with fragmentation – e.g., critical materials

Spaghetti (noodle) bowl dynamics redux

International Critical Minerals Partnerships



<https://thefuse.org/forge-trumpadministrationsevolvingapproach-criticalmineralspartnerships/>