

MAINTAINING A RULES-BASED MULTILATERAL TRADE ORDER: CONSTRUCTIVE INCREMENTALIS M AND THE BUILDING BLOCKS FOR REFORM

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Maintaining a Rules-Based Multilateral Trade Order: Constructive Incrementalism and the Building Blocks for Reform

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Abstract

The rules-based multilateral trading system faces a structural rupture, driven by rising unilateral tariff escalation, paralysis in WTO dispute settlement, the proliferation of industrial subsidies, and the deepening fusion of trade, security, and technology policy. Trade, geopolitical, climate, and technology shocks now interact and amplify one another. For developing countries and middle powers, this is not an abstract institutional challenge: it is an existential question about whether the open, trade-dependent development model that lifted hundreds of millions out of poverty can survive in a world where the conditions that sustained it are no longer guaranteed.

Yet, the system is not beyond repair, despite the lack of progress in the multilateral and G20 fora. The entry into force of the WTO Agreement on Fisheries Subsidies, the expanding Multi-Party Interim Appeal Arbitration Arrangement, and coordinated responses by middle powers and regional groupings—including ASEAN’s collective stance following the April 2025 tariff shock—demonstrate that coalition-based action can sustain and advance cooperation even in a fractured environment. The U.S. has particular interest in its G20 trade agenda. This note argues that G20 members—within the G20 trade framework and in other fora—should adopt a strategy of constructive incrementalism—preserving multilateral principles while enabling coalitions of willing members to build rules through open plurilateral agreements, regional platforms, and institutional coordination. It sets out two priority recommendations: first, establish principles for open plurilateral agreements; and second, leverage regional architectural building blocks for multilateral convergence, while strengthening developing-country voice within the G20 process.

The Challenge and Analysis

A structural rupture, not a cyclical downturn

The challenges confronting the multilateral trading system did not begin with any single crisis. They have been accumulating: trade tensions since 2018, the pandemic’s exposure of supply chain fragility, technology competition forcing economies to navigate between competing standards and platforms, and a climate trajectory reshaping the terms of trade. Each pressure was individually manageable. Taken together, they have steadily eroded the external conditions on which open, trade-dependent development was built: predictable rules, stable great-power relations, and reliable supply routes.

The shift has occurred in three phases. First, the post-Global Financial Crisis backlash produced the “China shock” narrative, Brexit, and the first round of U.S. tariff escalation. Second, the COVID-19 pandemic and the Russia-Ukraine war revealed the fragility of concentrated supply chains and accelerated de-risking agendas. The third and current phase, beginning with the “Liberation Day” reciprocal tariffs in April 2025, represents the most explicit departure from multilateral rules: tariff coverage extending beyond China to a broad range of trading partners under emergency economic powers. By 2025, U.S. tariffs covered 66.4% of Chinese exports at an average rate of 19.3%, while China retaliated against 58.3% of U.S. exports, jointly taxing around \$450 billion in two-way trade.¹ What makes this moment structurally different is the convergence of three forces—economic security, the climate imperative, and geopolitical realignment—in a way that forecloses the possibility of returning to the status quo ante. The retreat from multilateral rules is not a pendulum that will swing back when conditions stabilize; it reflects a structural shift in how major powers conceive of the relationship between economics and security.

The G20 Trade Agenda

The G20 has in the past helped steer the direction of trade policy, with developing-country members playing a notable role. In 2019, Indonesia submitted a non-paper on WTO reform that was subsequently adopted in G20 meetings. Under Brazil’s 2024 G20 Presidency, the G20 Voluntary Principles on Trade and Sustainable Development were adopted, and in 2025 South Africa advanced flagship outcomes on trade and inclusivity, green industrialization, and an Africa Cooperation Agenda.

In 2026, under the U.S. G20 Presidency, trade is one of the four working groups. The U.S. focus is on addressing the distorted global system and building “fair, reciprocal, and balanced” trade. The four topics selected for the trade working group follow USTR’s 2026 Trade Policy Agenda: ending forced labor, reassessing the most-favored-nation (MFN) principle, countering the weaponization of food trade, and addressing structural excess capacity and production.

These are not new issues. For instance, the U.S., with some support from Europe, attempted to introduce the MFN issue at the WTO Ministerial Conference earlier in the year. It met pushback at the time and remains a significant concern for other G20 members, given that it would affect the core non-discrimination principle of the multilateral trading system. USTR’s broader 2026 agenda also seeks to move the WTO toward plurilateral agreements—as the U.S. attempted with the e-commerce Joint Statement Initiative (JSI)—but it was blocked by Brazil, India, Turkey, and other dissenting developing countries.²

¹ Bown (2025).

² USTR (2026); the US withdrew support for data flow provisions in 2023, and Annex 4 incorporation was blocked in Feb 2025 by India, Brazil, Indonesia, South Africa, Pakistan, Bangladesh, and Turkey.

Developing countries are expected to push back on updating the MFN principle and on overcapacity language, which is widely read as aimed at China.³ Furthermore, in September 2025, China announced it would stop seeking special and differential treatment (S&DT), which weakens the U.S. claim that China exploits developing-country status.

The forced labor and excess capacity issues are part of current unilateral U.S. trade policy, which uses Section 301 of the Trade Act to investigate unfair practices and to provide the legal basis for a new global tariff after the Supreme Court ruled that the global tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were invalid. In 2026, the administration investigated 60 economies, found all 60 at fault, and imposed tariffs of 10% or 12.5% from July 24. Following the forced labor investigations, countries were “required” to pass regulations prohibiting imports made with forced labor; this is likely to be on the G20 trade agenda as well. Countries that did so and that also had an Agreement on Reciprocal Trade (ART) with the U.S. faced a 10% tariff, while others faced 12.5%. The overcapacity item also ties into domestic enforcement: the U.S. is running trade investigations into 16 economies, including Korea, China, and Japan, over practices linked to excess manufacturing capacity.

Trade and security issues have also emerged with regard to export restrictions and the “weaponization” of food trade. The use of security arguments to restrict trade and investment is of broad concern and should not be interpreted as targeting any one country. The question is how to avoid over-securitization and agree on principles or guardrails for invoking legitimate national security concerns. The G20 remains a challenging forum in which to sustain momentum across successive presidencies, particularly for the cumulative, institution-building work that the trading system requires.

The strategic stakes for developing countries and middle powers

A fragmented trading system is not neutral—it favors those with the resources to navigate it. Larger economies can negotiate dozens of bilateral agreements, impose standards, absorb regulatory divergence, and deploy industrial policy at scale. Smaller and developing economies cannot. They need an open, predictable multilateral floor—and they have the most to lose from its erosion. Oxford Economics modeling for the International Chamber of Commerce estimates that a WTO breakdown would impose permanent GDP losses exceeding 5% for developing countries, with export losses reaching 43% for low-income economies and 32% for middle-income countries.⁴ South-South trade, now accounting for more than a quarter of global merchandise trade,⁵ is equally at risk as geopolitical blocs harden and the space for non-aligned economic engagement narrows.

³ See Romero and Patrick (2025); Tran (2025).

⁴ ICC (2024); see also Góes and Bekkers (2022).

⁵ WTO, *Global Trade Outlook and Statistics* (2025).

The institutional erosion compounds the economic risk. The WTO dispute settlement system has been unable to function since December 2019, when the Appellate Body lost its quorum. MC14 in Yaoundé in March 2026 produced limited progress ⁶—continued support for fisheries subsidy negotiations but no resolution on dispute settlement, the e-commerce moratorium (which has now expired), or the status of plurilateral agreements. The result is a rules-based system in which some of the rules are increasingly difficult to enforce, at precisely the moment when enforcement matters most.

Resilience and agency: evidence that purposeful action works

Yet the system retains significant resilience—and the evidence suggests that purposeful, coalition-based action by middle powers and regional groupings can sustain and advance it. The WTO Agreement on Fisheries Subsidies—the first multilateral agreement with a direct environmental focus—entered into force in September 2025 when the required threshold number of members, 111 of WTO’s 166 members, ratified the agreement.⁷ The Multi-Party Interim Appeal Arbitration Arrangement (MPIA) now has 59 participants, including all 27 EU countries, China, Brazil, and others, with successful dispute resolution—including between Australia and China— demonstrating that binding adjudication can function in the absence of a fully operational Appellate Body.⁸

Beyond the WTO, regional groupings across the Global South have demonstrated similar agency. The African Continental Free Trade Area, operational since 2021 and now covering 54 countries, is constructing a continental rules framework spanning goods, services, investment, and digital trade—a scope and ambition comparable to ASEAN’s own integration agenda. Developing-country coalitions have also shaped outcomes at COP summits and in pandemic-response negotiations, confirming that the capacity for rule-making leadership extends well beyond the traditional powers.

In ASEAN, the response to the April 2025 tariff shock showed a degree of restraint and collective action. ASEAN Economic Ministers agreed not to retaliate, to negotiate with the U.S. while avoiding measures that would harm other trading partners, to strengthen domestic and regional resilience, and to reaffirm their commitment to the WTO.⁹ This was not simply a matter of absorbing the shock. It reflected ASEAN’s established approach of working with different partners on different issues while keeping the region open to all.

ASEAN’s layered regional architecture gives this agency practical depth. RCEP is one example of ASEAN’s ability to bring its major trading partners together under an ASEAN-led framework,

⁶ WTO (2026).

⁷ WTO, “WTO Agreement on Fisheries Subsidies Enters into Force” (2025).

⁸ WTO Plurilaterals (2026). For the Australia-China dispute, see WTO, *WT/DS603/R* (2024).

⁹ ASEAN Secretariat, “Joint Statement of the ASEAN Economic Ministers on the Introduction of Unilateral Tariffs of the United States” (2025).

rather than leaving the region to a set of separate bilateral relationships. It has brought ASEAN and its major partners together around a common set of trade rules, including common rules of origin that allow firms to source inputs across participating economies.

Four ASEAN members—Brunei, Malaysia, Singapore, and Vietnam—are also parties to CPTPP, while Indonesia, the Philippines, and Thailand have expressed interest in accession. These dual memberships support the implementation of overlapping agreements and the regional supply chains built around them.

Overlapping frameworks are not redundant: they represent a deliberate strategy of constructive engagement across multiple tracks, keeping the region connected to all major trading partners regardless of great-power alignment. These are not minor accomplishments. They demonstrate that diverse developing and middle-income economies can negotiate common ground, sustain cooperation, and shape the agenda when the political will exists. The question is how to scale this agency—and the norms it produces—to the multilateral level.

Recommendations and Next Steps

The task is not to restore the trading system of the 1990s but to re-anchor it around a strategy of constructive incrementalism¹⁰: preserving core multilateral principles while enabling progress through flexible, layered cooperation led by those with the most at stake. Open multilateral trade can no longer rely on superpower sponsorship for its survival. The initiative must come from middle powers and regional groupings—ASEAN, the African Union, and others—which have both the incentive and the growing capacity to lead. This note proposes two priority recommendations.

Recommendation 1: Establish principles for open plurilateral agreements

Plurilateral agreements offer the most pragmatic path forward, allowing coalitions of willing members to advance rules in specific areas while remaining open to broader participation. The logic is well established: the European Union started with six countries, the GATT began with 23 nations before becoming the 166-member WTO, and the Information Technology Agreement expanded from 29 to 82 members covering 97% of global IT trade.¹¹

While views differ on open versus closed plurilateral agreements, in the spirit of constructive incrementalism, the G20 should endorse a framework of principles to govern them:

1. Openness and inclusivity. Agreements should be open to all WTO members to join when conditions permit, with technical assistance and capacity-building provisions to support developing-country accession. For example, the current WTO Joint Statement Initiatives on e-commerce, investment facilitation for development, and domestic services regulation are open to all members to participate in, contribute to, and access all documents. However, members are not obliged to sign on until they are ready.

¹⁰ Pangestu and Teguh (forthcoming 2026).

¹¹ International Trade Administration (2024).

2. Transparency and non-discrimination. Participating members should commit to full transparency of commitments, preserving MFN treatment where appropriate to prevent the formation of exclusive clubs.
3. Development flexibilities. Special and differential treatment should evolve toward targeted, functional approaches linked to capacity and need, rather than blanket exemptions that dilute participation.
4. Multilateral convergence. Plurilateral arrangements must be designed as stepping stones toward broader multilateral integration—through amendments to the WTO Agreement, Annex 4 plurilateral agreements, or Joint Statement Initiatives on a critical-mass basis—not permanent alternatives.

Priority areas for immediate plurilateral action include stronger disciplines on industrial subsidies and state-owned enterprises, as a way to address the excess capacity issue; greater guardrails around national-security exceptions, including transparency, notification, and peer review; closer alignment between climate and trade rules, including on carbon border measures and green subsidies; and cooperation on digital trade and AI governance.

Several practical mechanisms could help move this agenda forward. These include Singapore's proposal for "responsible consensus" in WTO decision-making on plurilaterals within the WTO. Plurilateral approaches outside the WTO are also possible, such as broader participation in the MPIA and more targeted subsidy disciplines that distinguish support for sustainable development from measures that create significant trade distortions.

Recommendation 2: Leverage regional architectures as building blocks for multilateral convergence, and strengthen developing-country voice in the G20

Regional platforms are no longer secondary to multilateralism—they are the primary venues through which cooperation is maintained, tested, and advanced. They perform three strategic functions: acting as building blocks where smaller groups forge rules in specific areas; generating a demonstration effect that sustains confidence in cooperative approaches; and—critically—creating space for agency, enabling middle powers and regional groupings to shape agendas rather than acting solely as rule-takers in a great-power contest.

ASEAN's layered architecture is the most developed example of this approach, but the region's 680 million people and combined GDP of over \$3.8 trillion¹² are underrepresented relative to their stake in the global trading system. The African Continental Free Trade Area, Mercosur, and the Pacific Alliance perform analogous functions in their respective regions. Yet developing and middle-income economies remain underrepresented in G20 trade deliberations. Indonesia is the sole ASEAN member at the table, the African Union gained G20 membership only in 2023, and Latin American middle-income economies carry limited weight. Strengthening coordinated input from these economies—through the T20 and B20 engagement groups, the Sherpa track, and direct engagement with the Presidency—is essential if the G20 is to produce trade outcomes that

¹²ASEAN Secretariat, *ASEAN Statistical Highlights* (2025).

reflect the interests of the majority of the world's population, not only those of the largest economies.

The G20 should draw lessons from regional initiatives that support multilateral disciplines and address emerging issues where no international agreements yet exist. Three regional initiatives from Asia and the Asia-Pacific are particularly relevant:

1. ASEAN members' accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as a bridge between mega-regionals. With four ASEAN members already party to CPTPP and several others at various stages of accession interest, the expansion of CPTPP within ASEAN would create a critical mass of economies operating under high-standard trade disciplines that complement and reinforce the Regional Comprehensive Economic Partnership (RCEP) commitments. The G20 should support capacity-building and technical assistance to facilitate this process, recognizing that overlapping memberships across RCEP and CPTPP strengthen—rather than fragment—the regional trade architecture.
2. The RCEP 2027 General Review as a multilateral signaling moment. RCEP leaders have reaffirmed their commitment to a timely general review addressing remaining built-in agenda items, including investment, e-commerce, competition, and government procurement. The G20 should recognize the review as an opportunity to pilot rules—particularly on supply-chain resilience, digital trade, and sustainability—that can later feed into WTO frameworks. RCEP is an ASEAN-driven platform building on ASEAN's own economic integration, and its open accession clause makes it a natural vehicle for broadening multilateral-compatible rules across the Indo-Pacific.
3. ASEAN's role as a trade-governance incubator. ASEAN has concluded the Digital Economy Framework Agreement (DEFA), the world's first comprehensive regional digital economy framework, and proposed the Green Economy Framework Agreement (GEFA) to harmonize regional carbon standards and future-proof trade against climate-related barriers. These initiatives demonstrate that openness and resilience need not be traded off—both can be pursued simultaneously when countries with diverse interests commit to negotiating common ground. The G20 should support replication and interoperability of these frameworks across regions.

A final suggestion is for the G20 to strengthen coordination across trade, finance, and development institutions. The mandates of the WTO, IMF, and World Bank increasingly overlap as trade policies generate macroeconomic spillovers, financial conditions shape trade outcomes, and development finance underpins adjustment. The G20 should mandate joint surveillance of trade-related spillovers, integrated adjustment support for trade-affected economies, and co-development of standards for emerging areas such as embedded carbon measurement.

The alternative to constructive incrementalism is not a grand multilateral bargain—the political conditions for one do not exist. The alternative is paralysis, or worse: a drift toward a system

shaped primarily by power rather than rules, where the largest economies negotiate among themselves, and the rest adjust. The historical parallel with the interwar period is not exact, but the underlying dynamic is familiar—rising protectionism and economic coercion deepened political tensions and reduced space for cooperation, with catastrophic consequences. The postwar system was designed to avoid that outcome. It can still be adapted—through purposeful, coalition-based action by middle powers and regional groupings that have the most at stake and increasingly the capacity to lead.

The experience of middle powers and regional groupings—particularly ASEAN, navigating great-power competition while building a layered architecture of trade agreements, digital frameworks, and green standards—offers a model for how this can be done. The choice, as it has always been, is not between security and openness. It is whether we design a system that accommodates both in a rapidly shifting world or allow the absence of leadership to make the choice for us. Middle powers and regional groupings have shown they need not wait for that leadership to come from others.

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