

Global Economic Governance in a Fragmented World

**How Geopolitics Shapes International Cooperation
and its Institutions**



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At a Glance

Chapter 1: Why Institutions Still Matter

- › **International cooperation** continues to be both necessary and possible to achieve, despite great power rivalry, nationalism, and the erosion of multilateral institutions.
- › Regional and global **hierarchies matter**: the steeper the power asymmetry, the stronger the temptation for hegemonic domination; flatter hierarchies foster cooperation and inclusive governance.
- › Secondary states (especially liberal middle powers) play a pivotal role in the **legitimacy and effectiveness** of international orders, as they can enable or withhold followership from great powers.
- › Effective multilateralism depends on **strengthening institutional output**, and deepening cooperation in areas where global public goods are at stake.

Chapter 2: A WTO without the United States?

- › The **WTO's current crisis** is primarily driven by US unilateralism and a paralysis of the dispute settlement system, compounded by rigid consensus-based decision-making.
- › A US withdrawal from the WTO is possible but unlikely, as it would undermine **core US economic interests** while strengthening China's relative influence.
- › The gridlock has led members to pursue **bilateral and plurilateral arrangements**, which may provide temporary stability but cannot replace the WTO as the central pillar of global trade governance.
- › The **WTO is wounded but not dying**; it is widely acknowledged that meaningful reform is needed, yet effective leadership to drive such reform remains elusive, especially in the absence of consistent US commitment.

Chapter 3: The Role of G20 in Times of Geopolitical Fragmentation

- › Since the global financial crisis of 2008, the **G20's agenda has become far more diverse**. Today, the G20 addresses almost every global policy area. However, resolutions often remain vague and ineffective due to a lack of political alignment.
- › Nevertheless, the G20 continues to be an **indispensable format for global governance**, particularly as a “reserve mechanism” for global crises and as a forum for dialogue without cumbersome bureaucracy.
- › In order to secure its legitimacy, the **G20 must focus on its core mandate**, develop the Troika into a multi-year planning body and align its working methods more closely with achievable outcomes.

Chapter 4: The Rise of BRICS

- › BRICS is using institutions such as the New Development Bank, BRICS Pay, and Joint SOE ventures to build **parallel infrastructures** that reduce dependence on Western markets and the US dollar.
- › **The rapid expansion of BRICS** reflects its appeal to emerging economies that seek strategic autonomy, multi-alignment, and protection from coercive trade and investment practices by major powers.
- › **China dominates BRICS' agenda-setting** and operational capacity, using the bloc to secure resources, technology pathways, and supply chains, while Russia's role adds geopolitical weight and controversy.
- › The rise of BRICS **confronts the EU with structural challenges**, whose regulatory models, reliance on private multinationals, and FTA-based strategies are poorly adapted to competing with a coordinated, state-capitalist economic bloc.



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Introduction

“The world of great powers is the new reality.”

Federal Chancellor Friedrich Merz at the World Economic Forum in Davos on 22 January 2026

The global rules-based order is undergoing its most significant stress test since the end of the Second World War. Multilateral institutions have long been criticised, either for their inaction or for failing to adequately represent developing countries. Take the debate about the need to reform the World Trade Organisation (WTO): this is almost as old as the organisation itself.

Yet the global governance crises has continued to worsen in recent years. First, Russia's war of aggression against Ukraine exposed divisions within the international community. Then, under Donald Trump's leadership, the United States started to adopt rule-breaking and economic coercion as standard practice. A different case is China, which likes to present itself as a defender of the status quo. In reality, though, it pursues hegemonic ambitions and employs unfair competitive practices and geo-economic instruments to achieve them.

The long-term impact of these current geopolitical dynamics for global governance remain to be seen. But just as it has not been entirely dialogue-based, cooperative or rules-based until now, it will not suddenly become completely anarchic, unilateral or imperialistic either. What is certain, however, is that abandoning the rules-based order would be harmful, particularly for smaller states and developing countries.

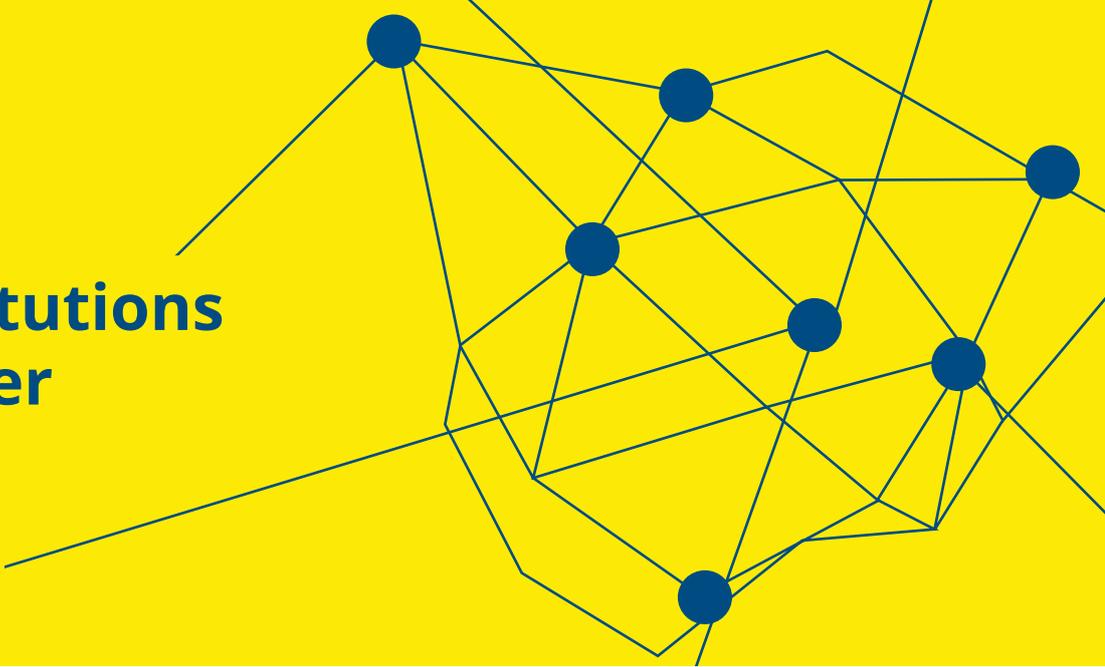
Through this compilation, the Konrad-Adenauer-Stiftung seeks to contribute to ongoing discourse surrounding the future of global governance within the realms of economic and trade policy. The focus is on the institutions via which global governance is exercised. In the first chapter, Christian E. Rieck outlines various ideal types of institutions, emphasises the importance of institutionalisation, and demonstrates which organisational structures are appropriate for specific purposes.

Each subsequent chapter focuses on a specific institution: the WTO, the G20, and the BRICS. Keith M. Rockwell begins by addressing the question of what the future holds for the WTO, and whether the US could abandon this organisation. In doing so, he also illustrates how some of the current lines of conflict have been present in global trade governance since its inception.

Gunter Rieck Moncayo and Nikolaus Rischbieter analyse why the G20 is ineffective and suggest ways in which this forum could regain its effectiveness, and thus its legitimacy. In their view, despite all the challenges, the G20 remains an indispensable format for global governance. Finally, Edmund Terence Gomez explains why the BRICS are growing in popularity in certain parts of the world as well as warning Europe against losing further influence.

Together, these analyses offer a multi-dimensional perspective on the challenges and potential pathways for the future architecture of global economic governance.





Chapter 1

Why Institutions Still Matter

by Christian E. Rieck

The world order seems to be quickly reverting to a concert of great powers, an oligopoly of competing global hegemony focused on the national interest and the use of raw power to maximise it (*Machtpolitik*). In doing so, they dismantle multilateral fora “to take back control” and carve up the world into spheres of influence “in the interest of national security”. Is the Ukraine War a harbinger of what is to come? It has already led to a reinvigoration of NATO and the militarisation of the deeply civilian European Union; a powerful geopolitical shift that is mirrored in most EU member states.

This chapter assumes that – even though the structures of regional and global governance settings are the most important determinants of state behaviour – multilateral frameworks are still malleable, creating space for political leadership to overcome political gridlock and increase their legitimacy and effectiveness. It will look at regional hierarchies of states to generate hypotheses about resilience and change in global governance and identify foreign policy instruments which can be deployed by liberal-minded states to strengthen international political frameworks that govern specific issue areas.

The central argument put forward by this chapter is that in any hierarchy of states, be it regional or global, the secondary states are the key players that define the legitimacy and effectiveness of a given transnational political order. This has important foreign policy implications for liberal middle powers such as Germany and Japan, as well as for their peer nations, a group of Western states and their like-minded partners around the world. After all, it is not just the great powers that have the necessary agency to make or break global governance. So, are we really entering a new era of realism, a New Middle Ages where might is always right? The answer is, perhaps surprisingly, both: yes, and no.

The secondary states are the key players

The Temptation of Hegemony: Yes, Great Powers Are Trying to Create a New World Order

The Trumpian Turn in the United States, more nativist, transactional and isolationist than at any time since the interwar years, might be the most disruptive blow to the rules-based international order.¹ Yet, is as much a driver of the new geopolitical age as it is a reaction to the assertiveness of illiberal states around the globe. The War on Ukraine is heralding a new “authoritarian internationale”, an era of deepened cooperation between China, Russia and like-minded states such as North Korea and Iran.² This is why many realist observers are witnessing the emergence of a “New Cold War”³ or even a “G-Zero World”⁴ of varying degrees of anarchy.

Indeed, a new, more illiberal, more nationalist and more parochial, political supercycle has begun that is independent of the personal styles of Presidents Trump, Xi or Putin. It is based on a new doctrine that views national sovereignty as essentially indivisible, cooperation as incurring higher costs than benefits, and foreign entanglements as something to be avoided.⁵ The main currency of this great power competition is hard power, a rational choice given the (perceived) higher levels of international anarchy and, therefore, the lower levels of trust between states, which is crumbling in almost all world regions. If might is right and friends become untrustworthy, then this is very much a “realist turn”⁶ – even if it is based on a one-sided perception of global governance and the institutions underpinning it. This new doctrine contrasts starkly with the three decades of self-reinforcing domestic and international liberalism that brought unparalleled development for most (not all) and had, thus, become the main political premise, a structural multi-party consensus. It explains the widespread global disappointment and exasperation with the style and substance of the Trumpian Turn.⁷ But – as social constructivism⁸ reminds us – perception creates its own reality.

China and the US have become more assertive on the global stage

This geopolitical turn is palpable in the behaviour of both China under Xi and the United States under Trump, the world’s greatest powers. Both of which have become more assertive on the global stage and this has led to a deterioration of deeply institutionalised multilateral fora such as the World Trade Organisation, which is supposed to reign in their rivalry. Russia as the most aggressive of the great powers has long been a heavily militarised regional hegemon focused on the domination of its near-abroad. Even India, a great power in the making, is a realist giant that for decades has engaged in selective multilateral cooperation and transactional positioning between the superpowers. Regional powers such as Brazil or South Africa, Turkey or Indonesia have also lowered their liberal profile in recent years; a result of their eroding liberal democracies⁹ as well as deteriorating democratic conditions in their regions given, amongst other things, the rise of populism. This has led to an increase in conditional regional integration everywhere where institutionalisation tends to be shallow and organisational mandates fragile.¹⁰ At the same time, the realist turn described here does not come as a surprise: especially in less cooperative world regions, a marked shift in how regional hegemons deal with their neighbourhoods has been underway since the mid-2000s. Moscow and, increasingly, Beijing and now Washington regard their neighbourhoods as their own backyards, and even as spheres of influence – the latest example being Venezuela which could be on the brink of an American-led coup.¹¹

While all of these changes in leadership style are the result of political decisions, the main reason for this erosion of cooperative behaviour is structural. Call it the “temptation of hegemony”:

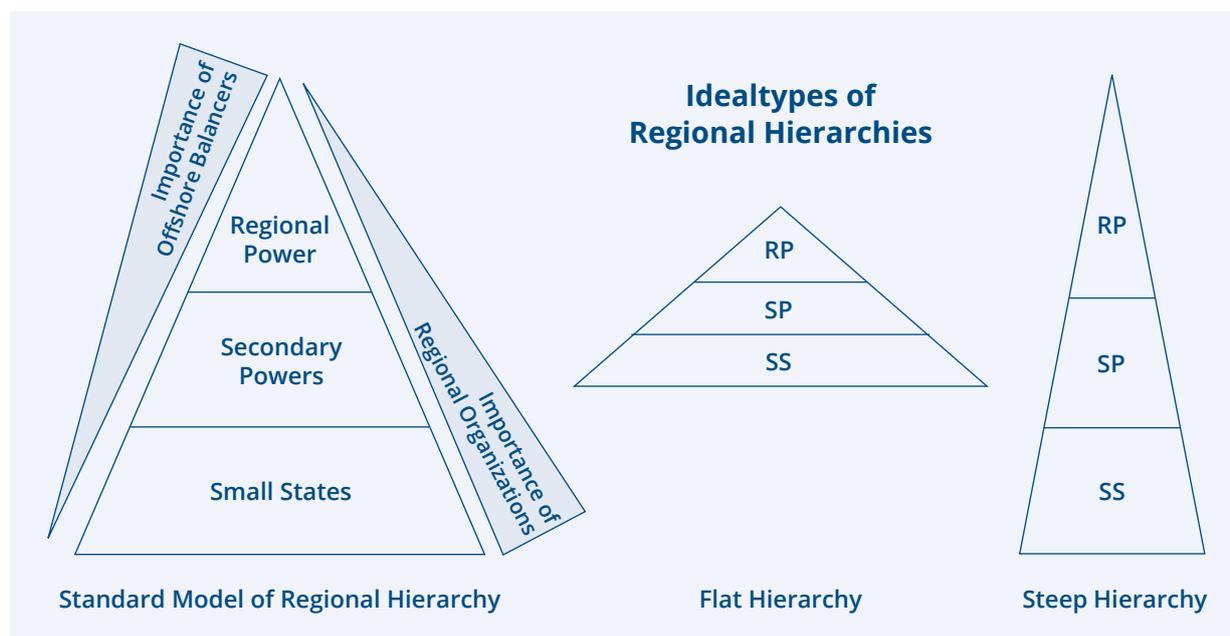


Figure 1: Ideal types of regional hierarchies. RP: Regional Power, SP: Secondary Powers, SS: Small States

The steeper the hierarchy, i. e. the more pronounced the power difference – as measured by population, economic size, technological prowess and military power – between the hegemonic power and the rest of the states in the system, the greater the structural incentives for political elites to push through their regional projects (inside or outside of regional organisations), and even against the will of smaller states. If the hierarchy is steep enough (the most glaring example being Russia’s near-abroad), not even the secondary powers can hope to influence the hegemonic power’s behaviour.¹² In such a setting, the regional power tends to be a regional dominator.¹³ In a flat hierarchy (such as with Europe), by contrast, the incentives for regional cooperation are much greater,¹⁴ as the power difference between the hegemon and the secondary powers is much less pronounced and the position of the regional power is more fragile. The easiest way to stabilise a hegemonic system under these conditions is to create an inclusive regional system in which non-hegemonic states have voice and agency to inform the hegemon’s leadership ambitions. Here, the system in question tends towards benign or cooperative hegemony. This is a simplified but not a static model: powers can rise and fall in the regional hierarchy of states,¹⁵ dependent on changes in their currencies of power, be it their ideational and cultural power or their economic and military strength.¹⁶

A world order primarily based on regional powers that demonstrate uncooperative behaviour towards weaker powers in their own region, can also only be a largely uncooperative one. Furthermore, the quality of relations between these major powers is crucial in this world system. The worse these relations become, the greater the risk of confrontation (including military confrontation), which would be extremely costly for all parties involved; whether they are a great power or not. Conversely, if relations between the great powers become too close and deep, it would negatively impact on middle powers’ and small states’ opportunities to have a say in how the world is run, both within and outside international organisations. This would then effectively be a true concert of great powers, in which almost all decision-making

power would be concentrated in an oligopoly of major powers. In sum, the new world order will show elements of great power rivalry and great power cooperation.¹⁷ The challenge for liberal middle powers will be to identify and stabilise the “sweet spot” where their agency to influence the new world order is greatest.

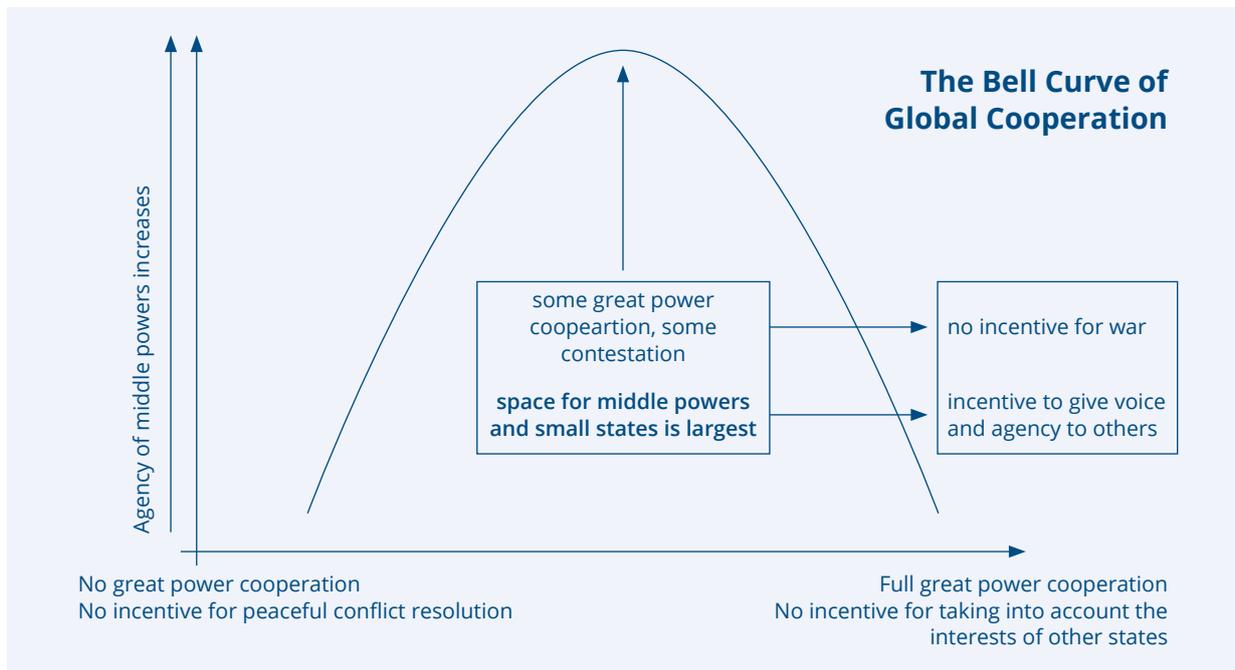


Figure 2: The bell curve of global cooperation.

This new world order could degenerate into great power politics without smaller states and against international organisations; especially within spheres of influence, it would also pit great powers against the smaller ones. Spheres of influence are essentially very steep regional hierarchies where non-hegemonic states enjoy only conditional sovereignty and are dependent on decisions taken in the capital of the regional hegemon. We are witnessing a renaissance of transactionalism, bilateralism, and presidential diplomacy, all trends that strengthen the executive branch of government vis-à-vis parliaments and have been discernible for some time. Furthermore, this style of foreign policy is increasingly at the detriment of universalism and multilateralism, central pillars of the post-war order since 1945.

Depolarising the Global System: No, International Cooperation Will Not Become Irrelevant

International forums with informal club governance are thriving

The few international forums that are thriving are arrangements of informal club governance such as the BRICS,¹⁸ or regional frameworks dominated by regional hegemonies such as the Shanghai Cooperation Organisation¹⁹, or the Eurasian Union²⁰, in which the major powers are relatively free to exert their power over weaker members. This is not a world order that will ever be universally accepted, and indeed there will be some push-back from some familiar as well as unfamiliar corners.

Three instruments of depolarisation – i. e. for lowering tensions in hegemonic systems – stand out: the first instrument is, of course, institutionalised international cooperation. Unsurprisingly, institutionalised global problem-solving frameworks will continue to be vital for smaller states in particular.²¹ They are an effective way for them to protect their sovereignty, multilateralise their national interests, and increase their visibility and voice in international relations through high-ranking diplomatic personnel in international organisations (e. g.: Rebeca Grynspan, the Costa Rican Secretary-General of UNCTAD) or international diplomatic initiatives (e. g. the Palau Pledge in marine conservation). As figure 1 illustrates, the importance of regional organisations is greatest for small states, too, as they have very limited scope for foreign policy independent of larger neighbours. They will be the strongest advocates for regional integration, as it tends to lower regional levels of conflict and socialises all actors to adopt a more cooperative mindset.²² The institutionalisation of conflict resolution mechanisms, not necessarily through bureaucratic (regional or international) organisations, creates a culture of regional cooperation that may dampen the hard-nosed realism characterising the foreign policy of regional hegemons. In other words: regional conflict resolution mechanisms serve to depolarise regional systems by channelling the negotiation process between hegemonic and non-hegemonic powers into an institutionalised, non-military form²³ – an argument that is also valid for multilateral frameworks at the level of global governance.

Yet, secondary states also benefit from global cooperation, as international organisations both constrain hegemonic behaviour and enhance regional or global public goods such as security, healthy environments or physical infrastructure. While regional hegemons define the culture of cooperation (or lack thereof) in their neighbourhoods, secondary powers are the pivotal states in any hierarchical system. They can grant but also withhold followership for the leadership aspirations and condition the leadership style of hegemonic states, too. Examples from the world regions include Brazil's creation of UNASUR in 2008 that required the consent of the secondary powers Venezuela, Argentina and Colombia, which have since left the organisation. Another example is the creation of an institutional pathway towards a common currency in the South African Development Community (SADC) in 2005. This required leadership by South Africa but also buy-in by all secondary powers in the region, from Angola to the Congo – before Pretoria abandoned this plan in a “Rambo Moment”.²⁴

Secondary states also benefit from global cooperation

Offshore balancing, can be as well an instrument of (regional) depolarisation. Figure 1 suggests that offshore balancers – a role the United States still plays in the Indo-Pacific – are especially important to the regional power, either as an amplifier or as a balancer of regional power aspirations.²⁵ Offshore balancing usually leads to some form of arrangement with the offshore balancer and/or a special relationship between the two. It is also highly significant for secondary powers, especially in flatter hierarchies where they are not simply soft balancers in their strategic contestation of regional hegemons.²⁶ Washington's offshore balancing has stabilised regional hierarchies in Europe and the Middle East that tended towards regional conflict, allowing for the creation of a deeply institutionalised European Union and a more fragile regional balance between Israel, Saudi Arabia and Iran.

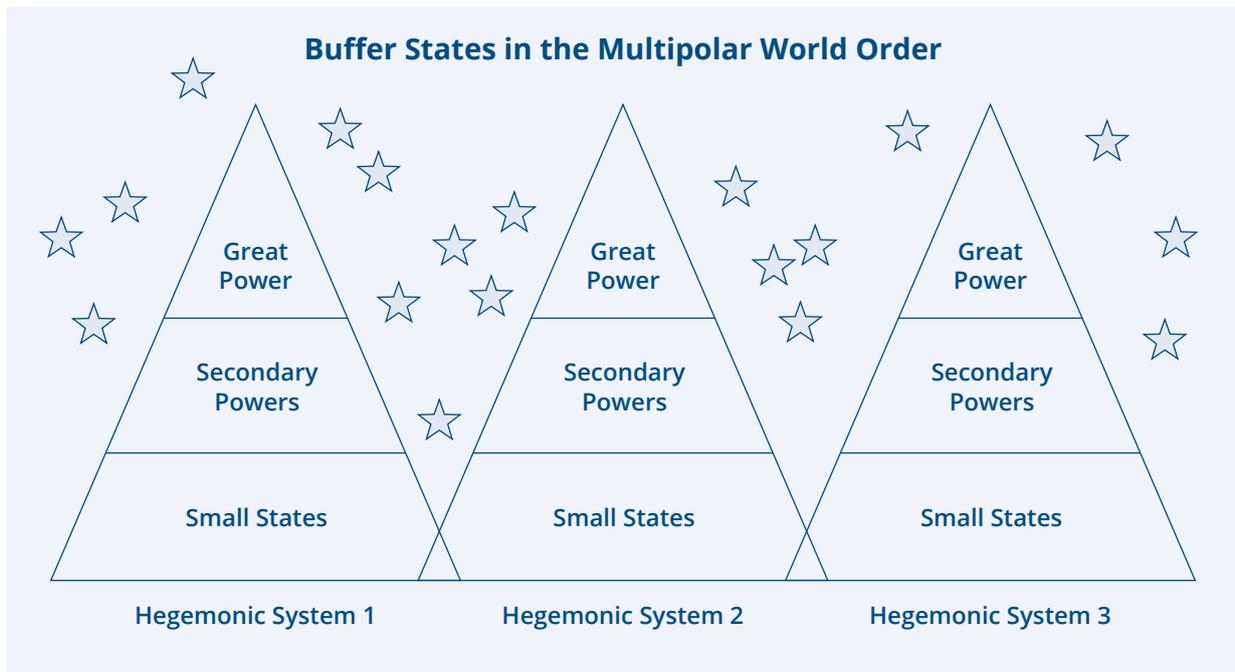


Figure 3: Buffer states in the multipolar world order.

The third instrument for depolarising conflictual systems is buffer states. They achieve depolarisation through multi-alignment, since the great powers must compete with each other for the allegiance of a larger group of neutrals, giving them some voice in the process. This also implies that no great power can feel emboldened to speak for the whole world or to break universal principles of international law unchallenged. Do not expect secondary states or middle powers to align with one political bloc or another. That would be counterproductive, because the more that large emerging economies are drawn into the orbit of one or the other great power, the more polarised the entire international system becomes. Instead, buffer states should actually be encouraged not to join any bloc. In this case, multi-alignment is not a passive, but an active foreign policy programme that secures the sovereignty and position of buffer states in a dynamic international environment.²⁷ Particularly important here are secondary powers at the global level that wield a certain amount of economic, military, and political clout – as with the founding of the Non-Aligned Movement in 1961, which further bolstered the idea of a “third way” between the superpowers.²⁸ Ironically, these secondary powers are also the states with the most to gain from international cooperation – because they cannot win the realist race, but also because they are already stakeholders in the liberal world order.

Three Ideal Types: The Structure of Issue Areas in Global Governance

The last hypothesis proposed by this chapter is that the legitimacy and effectiveness of issue area frameworks strongly depend on how they are structured; regionally and, by extension, globally. As these frameworks are malleable, influencing their design will affect the “balance of power” within them, leading to policy outputs of varying quality. The main proposition

here is that “secretariats” – secretary-generals and their staff in international organisations, rotating presidencies in more informal governance frameworks – will work more diligently towards fulfilling the organisation’s mandate than member states focused on maximising their national interest.

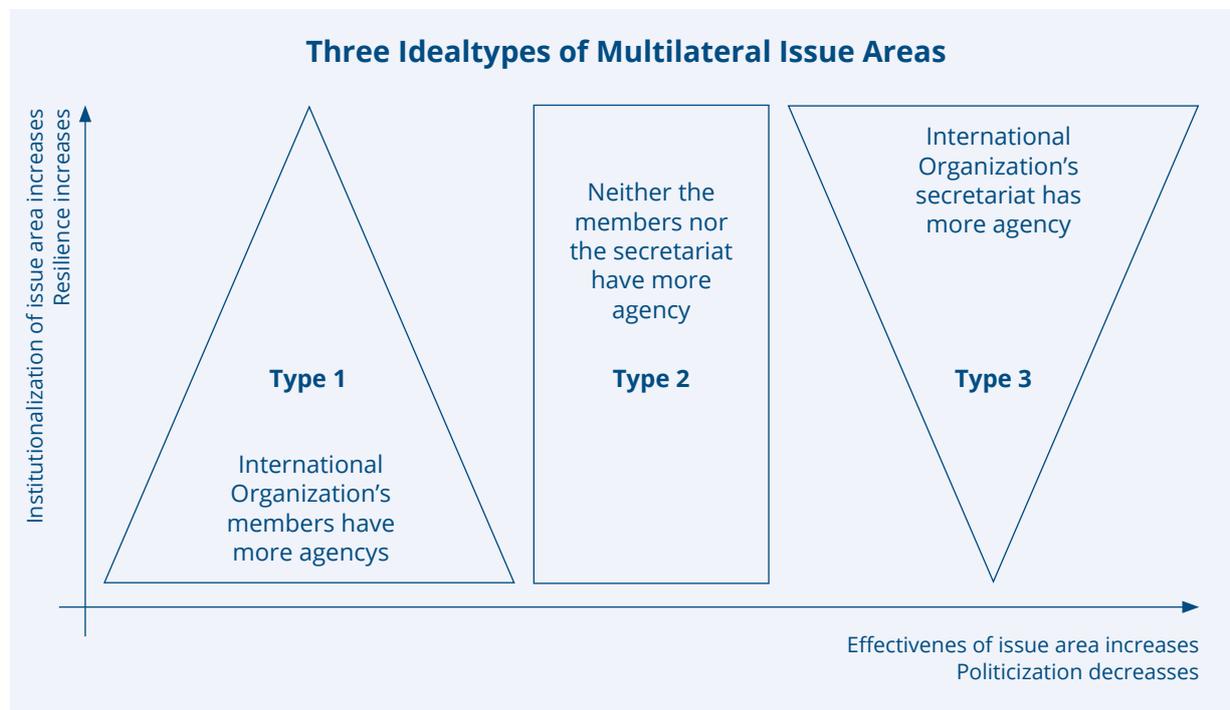


Figure 4: Three ideal types of multilateral issue areas.

“Bottom-up issue areas” (type 1) are member state-driven frameworks with weak or no secretariats. Examples are the G7/G20 that deal with many different issue areas under the same (informal) framework, or the Paris Climate Accords (climate) and Agenda 2030 (sustainability) that have no central enforcement mechanism. The more comprehensive and politically sensitive the issue area, the more politicised it tends to be. Legitimacy and effectiveness are then a function of (elusive) member state consensus on particular questions. “Top-down issue areas” (type 3), on the other hand, are secretariat-driven frameworks, such as the WHO (despite the row over COVID-19), or more arcane technical international organisations like the Universal Postal Union (global postal policies and standards) or the International Labor Organization (anti-slavery, labour standards). The OECD also deals with many different issue areas, but falls into this category, as its workings are technical and overwhelmingly apolitical. The more technical and niche the issue area is, the less politicised it tends to be. Here, the legitimacy of an issue area depends on its effectiveness. Finally, “mixed issue areas” (type 2) demonstrate a balance between member states and the secretariat, as in the case of the Arctic Treaty System. Having said that, climate change and the great power rivalry is already starting to gridlock the most controversial topics (resource extraction, environmental protection), pushing it towards type 1. Another case in point is the WTO that is degraded from type 3, now that its effective conflict settlement mechanism has been gridlocked.

Cooperation yields the best results if certain conditions are met

International cooperation (regional and global) yields the best results if certain conditions are met: cooperation frameworks need to be seen by its member states as (1) demonstrating *effectiveness* as an arena for constructive debate and a creator of norms, and (2) enjoying *legitimacy* so that these norms and critiques of enforcement by members are accepted. Also, these frameworks need to (3) offer opportunities for *leadership* so that ambitious members (presidential diplomacy) may use them to demonstrate that they are responsible stakeholders, as well as (4) generate some level of *followership*. This not only entails acceptance of individual members' leadership ambitions, but high enough levels of trust between members more generally.

Clearly, global governance suffers from deficits in all four conditions given that many issue area frameworks seem to be gridlocked today.²⁹ Great powers can also cause great harm to the rules-based international order – but they have always demonstrated a willingness to engage in institutionalised international cooperation because broad thematic alliances are able to solve transnational problems in a cost-effective manner and this also increases adherence to agreed rules. If the overarching goal of liberal middle powers is to enhance the legitimacy of those mechanisms, they should work towards increasing their output effectiveness – commonly a contribution towards global public goods in the form of a functioning regulatory framework within a given global governance issue area (trade, health, climate etc.). Top-down issue area frameworks are to be expected in more cooperative (regional and global) systems than in steeply hierarchical orders. However, the world order has not yet become such a steep hierarchy, so the potential benefits of cooperation still outweigh the cost.

From Theory to Action: Global Gridlock and Effective Multilateralism

How can these theoretical propositions inform political practice? The central foreign policy goal for liberal middle powers interested in protecting the rules-based international order must be to re-legitimise multilateral problem-solving mechanisms – be they centered on international organisations such as the WTO or on more informal governance frameworks such as the G7. Re-legitimation should focus on the output side of these mechanisms, i. e. increasing their ability to function well so that they can generate and enforce norms and rules. The German Federal Government (and many others) call this “effective multilateralism”.³⁰ The better the global framework conditions are, the easier it becomes to achieve this foreign policy goal. Or, put differently: the lower the polarity of the world order and, by extension, the tendency towards conflict within the global governance mechanisms in question, the larger the policy space for liberal middle powers to use their agency to strengthen these mechanisms (the “sweet spot”). So, liberal middle powers should invest in both specific global governance mechanisms as well as in the quality of the world system as a whole:

- ▶ Invest in open channels of communication with the great powers to serve as interlocutors if the quality of relations between them were to sour. This can take place through “special relationships” in the case of allies and close like-minded partners, or through dynamic economic, technological and political relations in other cases provided that core interests are not compromised.

- ›
Accept and encourage multi-aligners to adopt the role of buffer states in the multipolar world, as this will contribute towards decreasing the overall polarity of the world order. This should start with, but also go beyond, public proclamations of respect for multi-aligners' sovereignty – without any conditionality nor an expectation of getting anything in return. In short, this respect and encouragement should not be transactional in nature.
Buffer states decrease the overall polarity of the world order

- ›
Actively offer partnership to multi-aligners to prevent them from being sucked into the orbit of illiberal states wanting to overturn the rules-based international order. This can be achieved by bundling traditional foreign policy instruments and tailoring them to meet the demands of the partner state in question, depending on its level of development. Instruments include development cooperation; science diplomacy; technological cooperation; political dialogue on sensitive issues such as critical minerals; and the loosening of export restrictions.

- ›
Invest in regional problem-solving mechanisms wherever possible, as this should deepen the culture of cooperation in the world regions and help keep regional powers cooperative and liberal-minded towards their regions. Cooperative hegemon at home are more likely to be cooperative global powers as well. This can be achieved by becoming an observer state to like-minded regional organisations (including regional development banks), by contributing to setting the agenda and funding such mechanisms.

- ›
Actively engage international organisations and more informal clubs by using the liberal middle powers' agency to set a global agenda across platforms so as to strengthen the rules-based international order. This should include increases in funding for international organisations and policy coordination frameworks at global governance level to enhance output in as many issue areas as possible. Thematic coalitions of the willing, while useful in cases of sustained gridlock, are a distant second-best option if the overall goal is to increase the effectiveness of global governance.

- ›
Move global governance issue areas towards deeper institutionalisation (ideally type 3), but without the burden of more bureaucratisation. If this cannot be accomplished, then liberal middle powers should at least aim to strike a balance between secretariat and member states (type 2). This can be achieved through concerted efforts for institutional reform to strengthen secretariats and make them more independent of member states and thus improve the production of global public goods.
Move issue areas towards deeper institutionalisation

- ›
Accordingly, resist the push by transactional powers to downgrade global governance mechanisms to a member state-driven issue area (type 1). In any given global governance framework, increasing the role of member states vis-à-vis the secretariat may appear to strengthen input legitimacy under the guise of “democratisation”, but it leads to less institutionalisation, more gridlock and therefore less effectiveness.

These policy recommendations derive from what I call the “liberal institutionalism” of middle powers such as Germany and Japan, two of the most important net-payers of the United Nations. These countries – as well as a number of other, mostly Western, states – have demonstrated longstanding commitment to an effective multilateralism and have provided the political capital and financial resources to achieve that goal. On the one hand, these recommendations require greater cooperation among Western states, a deepening of the

“Western core” of sorts. While it also requires stronger cooperation with like-minded countries from the Global South whose contributions to the production of global public goods are often overlooked,³¹ on the other. A redefinition of the West – with or without the United States – as a more inclusive “Global West” that invites participation (ad hoc or of a more institutionalised nature) of like-minded stakeholders from the rules-based international order to improve the effectiveness of multilateralism would be much more than just a foreign policy narrative device. It would be an investment in the depolarisation of the global order by overcoming traditional dichotomies between Western and Non-Western states.

Finally, Western states that harbour leadership ambitions well beyond Europe – such as Germany and France with their (now defunct) “Alliance for Multilateralism”³² – must also understand that leadership requires followership if it is to become effective. In a more realist understanding, the level of influence that foreign policy ideas can exert largely depends on the attractiveness of the leading nations that announce them – and on what they can offer partners. Therefore, a sober assessment of these reputational resources should prompt them to invest in the foundations of the economic dynamism underpinning their position in the global hierarchy of states and generating the wealth and, ultimately, the attractiveness of their global influence.

Outlook: The Mechanics of Cooperation

The rules-based international order must become more effective and equitable to remain legitimate, and in this respect, Trumpian disruption opens up opportunities for reform in all areas of global structural policy. However, there will always be a need – both regionally and globally – to solve transnational problems cooperatively and to curb the arbitrariness of major powers. Non-hegemonic states have the greatest interest in cooperative problem-solving mechanisms. Still, they can only maintain these if they are economically and politically dynamic and militarily and technologically powerful, these being the most important factors determining their influence on the hegemonic powers. This is the backdrop against which all other policy recommendations are set.

Secondary states investments decrease the power difference The most surprising result of this somewhat mechanical perspective on regional and world order, then, may be that – at least within the hierarchical but cooperative systems that all joint policy forums are – secondary states investments not just in economic dynamism, but also in hard power potency, can serve to decrease the power difference with the hegemonic powers and, thus, increase the willingness of more powerful states to cooperate through institutionalised political frameworks such as international organisations. Seen in this light, the new German defence posture is both a reaction to the realist turn in international relations but also an attempt to regain global influence to protect and maintain the liberal international order.³³

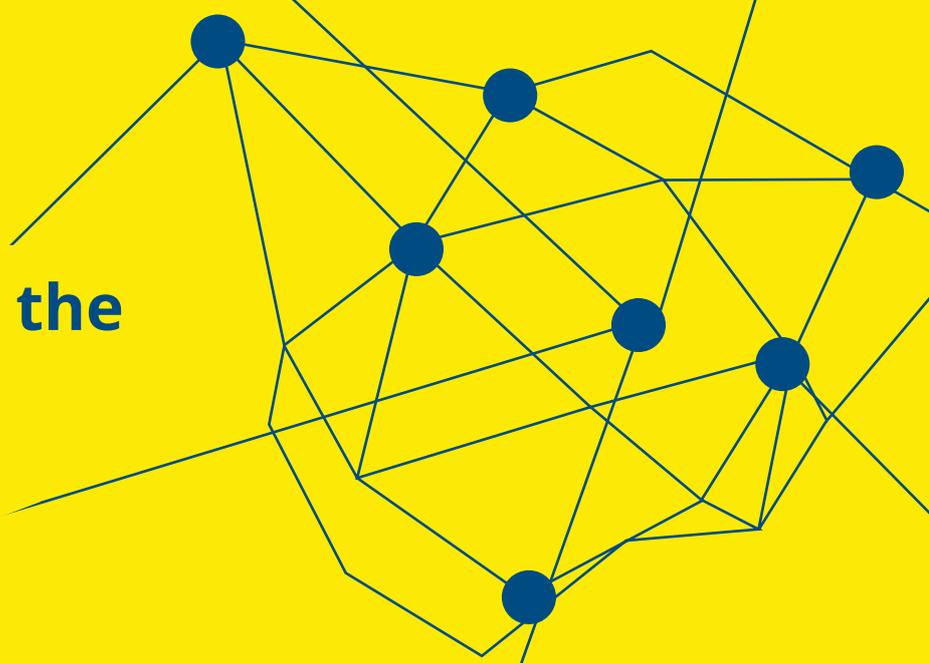
However, the liberal world order with its universally applicable principles and inclusive international organisations – which, from a global perspective, leads to more efficient results in the production of global goods than a purely transactional world order where major powers can freely exploit their potential for coercion – has more supporters than it currently appears.³⁴ Liberal middle powers such as Germany and its peer nations around the world have an important role model function in their dealings with their neighbouring states as well as with their partners in international organisations; this is a result of their role-conceptions.³⁵ The good news is that, together, they can exert major influence on the world order at all levels of global governance – so that it not only becomes multipolar, but also remains multilateral. It is still “no one’s world”.³⁶

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A WTO without the United States?

Possible But Unlikely

by Keith M. Rockwell



In July 1944, tucked away in the White Mountains of New Hampshire, negotiators from 44 countries sought to achieve something improbable and entirely without precedent: the creation of a global economic architecture based not on power, but on mutually agreed rules and on cooperation rather than coercion.

At the onset of the meeting, the outcome of the Second World War was largely a foregone conclusion. Fierce fighting continued in Europe and in the Pacific, but the conflict had tilted decidedly in the direction of the allies. Leaders in Washington and London had devoted considerable thought to the political and economic origins of the war and were determined to avert a recurrence of that horrific confrontation. Their goal was a new paradigm in which every country had a stake and in which quarrels would be resolved before they escalated.

But this Anglo-Saxon blueprint – in which the United States was indispensable – soon proved too narrow to accommodate the interests of an ever-larger group of governments. This was particularly true with respect to rules governing international trade. Almost as soon as the multilateral trading system was created, cracks generated by political pressures appeared. As the global network of rules expanded and the number of participating countries swelled, these cracks were covered up but never fully repaired.

Cracks appeared in the multilateral trading system

America's Long-Term Skepticism

For a time, the system functioned well enough, enduring as long as members, not least the United States, could accept its principles and rules. But doubts were sown in Washington at an early stage and US skepticism of the system's value grew. Trade is a political issue in all corners of the world, but in the United States, a country with a far smaller dependency on trade than its European or Asian counterparts, trade has a toxic edge.

The United States was the lone country that failed to ratify the International Trade Organization envisioned at Bretton Woods. In 1971, US President Richard Nixon terminated the Bretton Woods agreement on the convertibility of the dollar, froze prices for 90 days and slapped a ten percent duty on imports into the United States.¹

This was but a foretaste of the US unilateralism to come. In his first term, Donald Trump openly questioned US participation in the WTO. He claimed that WTO legal rulings were rigged against the United States and the rules were skewed to put US exporters at a competitive disadvantage. Trump's charges against the WTO were mostly false. But they resonated.

By 2016, when he was first elected, anti-trade sentiment had snowballed to such a degree that Trump faced little domestic opposition when he sought to sideline the WTO as a functioning institution. There was little push back in US political circles when in 2018, he applied 25 percent duties to imports of steel and ten percent tariffs on aluminum. Likewise, when the United States began blocking appointments to the WTO's Appellate Body the following year, few voices were raised in opposition.

Dispute resolution at the WTO was rendered largely dysfunctional

As the second tier of the once fabled dispute settlement system fell by the wayside, dispute resolution at the WTO was rendered largely dysfunctional. The Biden administration continued to block appointments and, afraid of its own shadow on the question of trade, largely treated the WTO with disdain. Washington continues to block these appointments, and the Appellate Body is no more.

The cavalcade of US negativity on the WTO raised questions as to whether the United States might leave the organization and what that could mean for the country and for the system itself.

Some members of the Trump administration now seem to recognize the benefits that flow to the United States from its WTO membership. US service exporters and those who receive royalties and licensing fees for their intellectual property understand that the WTO system underpins their success in international markets. A US withdrawal would also leave the WTO playing field wide open for China – a strategic blunder than even an isolationist White House is unlikely to commit.

There is no legal channel through which the United States could be expelled from the WTO, and it seems unlikely that Washington would choose to renounce its membership. Still, the mere fact that the question has been seriously considered is profoundly disquieting for the WTO.

Bretton Woods

The rationale behind the Bretton Woods Conference was and remains irrefutable: to deter the sort of nationalist policies that helped give rise to the Second World War. The competitive currency devaluations, rising trade barriers, and discriminatory preferences implemented in the 1920s and 1930s not only failed to roll back the Great Depression, they fostered a downward spiral of trade hostilities that put the world on a war time footing.

The more than 700 delegates who gathered in New Hampshire were not trade experts. Most were representatives of their nations' treasuries who sought to create a fund to assist countries burdened by balance of payment difficulties, and a bank to fund the reconstruction of Europe and assist in the development of poorer countries. On this front, the delegates succeeded, and the World Bank and the International Monetary Fund were born.

The specifics of trade policy were not directly addressed during the three-week meeting, yet trade issues were never far from sight.

The specifics of trade policy were not directly addressed

The delegates agreed that one of the goals of the newly created International Bank for Reconstruction and Development (IBRD) was “To promote the long-range balanced growth of international trade.”²

For the embryonic International Monetary Fund, the role was “to avoid competitive exchange depreciation” and “to assist ... in the elimination of foreign exchange restrictions which hamper the growth of world trade.”³

What was agreed for finance and development did not suffice for charting a global roadmap for trade, so negotiators agreed to further talks to “reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations.”⁴

These objectives were very much in line with what President Franklin D. Roosevelt and Prime Minister Winston Churchill had agreed in their August 1941 joint declaration known as the Atlantic Charter. The two leaders agreed “to further the enjoyment all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.”⁵

Early Signs of Trouble

The US-UK alliance was instrumental to the allies' victory in the Second World War, but frictions inevitably arose including in the planning and execution of Bretton Woods. One major point of friction was US opposition to Britain's system of preferential tariffs for members of the British Commonwealth. Roosevelt, a staunch opponent of colonialism, wanted an end to the Commonwealth preferential tariffs. Britain and other members of the Commonwealth naturally disagreed. As an incentive to give up the preference system, Washington agreed to put on the table the tariffs encompassed in the notorious Smoot-Hawley tariff act of 1930.⁶

Negotiators met in Geneva in 1947 to add technical details to the broad-brush framework agreed in Bretton Woods. Having laid the groundwork for a global trade compact, the 53 members of the United Nations Conference on Trade and Employment – including Iran, Lebanon, Syria and Iraq which never joined the GATT or the WTO – embarked for Havana to finish the negotiations. Four months later, negotiators agreed to establish the International Trade Organization and to sign the General Agreement on Tariffs and Trade, which remains the central template for governing world trade to this day.⁷

The GATT remains the central template for governing world trade

The Havana charter included sections on labor standards, foreign investment – both private and public – on maintaining domestic employment and safeguards against inflation and deflation. None of these measures were ever adopted within the multilateral trading system.⁸

In fact, the ITO never saw the light of day. The GATT was signed by 23 governments, but for the United States the International Trade Organization was a bridge too far. US Senators concerned that such an organization might impinge on American sovereignty made it clear they had the votes to block ratification. So, in 1950 President Harry Truman decided against sending the agreement to Capitol Hill for ratification.

The GATT, on the other hand, came into force and what a strange animal it was! It was never formally declared an organization. Those who agreed to its terms were not members but “contracting parties.” It was a treaty with a headquarters, a secretariat and 23 member governments.

The GATT

Although, or perhaps because the GATT was so obscure, it proved to be an unexpected success. From 1948, when the organization first opened, until 1995, when it was replaced by the WTO, GATT negotiators concluded eight “rounds” of broad and extensive trade negotiations.

The first of these rounds, in Havana, involved 23 countries and resulted in the reduction of 45,000 tariffs covering about 20 percent of global trade. Over the eight trade rounds, average industrial tariffs fell from roughly 40 percent to less than four percent. Between 1948 and 1997, trade in goods grew by 14 times. As a percentage of overall economic activity trade growth surged. In 1950, trade was equivalent to seven percent of global output, by 1997 trade had grown to 23 percent of world GDP. Today, world trade volume is roughly 43 times the 1950 level.⁹

National treatment and the principle of Most Favored Nation

At that time, the key principles of GATT were universally hailed, particularly the twin pillars of national treatment and the principle of Most Favored Nation (MFN) – which ensured that traders faced no discrimination vis-à-vis domestic companies or enterprises from third countries.¹⁰

The last of these rounds, known as the Uruguay Round, was the most far-reaching. For the first time trade in services, agriculture and textiles were seriously negotiated. Rules covering trade-related investment measures and protection of intellectual property were also introduced. The agreement also gave birth to the World Trade Organization which opened its doors in 1995.

There were 128 countries participating in those negotiations, but in reality, the talks were driven by a handful of countries. Brazil and India were the most influential developing countries, actively participating in the negotiations and particularly those that involved agriculture (Brazil) and textiles (India). But the real engine of the Uruguay Round was the “Quad” group of countries, the United States, the European Economic Community (later the European Union), Japan and Canada. Were those four to agree, the chances of an overall agreement were high.

A Mixed Reception

When the Uruguay Round deal was reached in Geneva in 1993, it met with jubilation in trade circles. Outside those circles scarcely anyone noticed. Unlike future ministerial level WTO meetings, there was little commotion. One protestor, from Greenpeace, chained himself to the gates of GATT's headquarters. That was it.

That was soon to change. In 1995, 39.2 percent of the global population lived in poverty and by 2024 that figure had fallen to 10.3 percent. Many economists attributed this remarkable achievement to the growth of trade.¹¹

**Remarkable
achievement in
poverty reduction**

But this mattered little to the opponents of the multilateral trading system. The hostility quickly mushroomed. Many governments in the developing world – and activists in rich countries – believed that the system widened income inequality and was rigged in favor of US and European multinational companies.

The WTO Years

In 1998, the WTO Director General, Italian Renato Ruggiero, assembled an all-star cast of world leaders in Geneva, including Nelson Mandela, Bill Clinton, Fidel Castro and Tony Blair. The occasion was the WTO's second Ministerial Conference, and the theme was to be a celebration of 50 years of the multilateral trading system. But anyone expecting that these leaders would deliver a full-blown endorsement of the WTO would have been disappointed. US President Clinton said WTO Members needed to be more transparent and to do more to promote environmental and labor standards.¹²

During the negotiations that established the WTO, President Mandela said “developing countries were not able to ensure that the rules accommodated their realities.”¹³

Deep divisions among the WTO member governments over those issues – labor standards, environment and development – ensured that the outcome of the third ministerial conference held a year later in Seattle was a dismal failure. Discord over these issues haunts the organization to this day.

The Seattle meeting profoundly changed the global discussion on trade. It also underscored the folly of creating a high-profile organization to oversee global trade rules without at first building a solid political foundation to support the organization and its objectives. Seattle exposed the deep cracks in the global trading system and political support for trade went into steep decline. This was particularly true in the United States, where it is now difficult to find a pro-trade politician.

WTO Today

When it is working well, the WTO performs many vital functions – negotiating new rules, resolving disputes, providing a forum in which members can exchange information, and offering technical assistance to developing countries to help them implement WTO rules.

The organization struggles to be relevant But few would suggest today that the WTO works well. The WTO's negotiating and dispute settlement functions are crippled, and the organization struggles to be relevant. The number of multilateral agreements struck at the WTO over a period of 30 years can be counted on one hand. Many governments, frustrated by the slow pace of activity at the WTO, now favor bilateral or plurilateral initiatives.

The problems which confront the WTO are largely of the members' own making. The decision-making is rigid and easily undermined by governments which prefer gridlock and endless rhetoric to problem-solving. The dispute settlement system limps along, but with nobody to hear appeals, rulings are scorned by governments that appeal "into the void" and thereby putting the dispute in permanent limbo. Even standard operating procedures are impeded by a persistent unwillingness of governments to notify the organization of any changes to its policies. As a result, information on subsidies, industrial policy or non-tariff barriers is woefully inadequate which further paralyzes key WTO functions.

Principles like non-discrimination, organization-wide participation and transparency are applied in such a way as to stymie negotiations, dispute resolution, and even the procedures for organizing and conducting meetings.

The dispute settlement system crumbled because the Appellate Body was too often guilty of overreaching its mandate and inserting its jurisprudence into decisions. But the real reason for the WTO's troubles is its largely impotent negotiating function. Hamstrung by a decision-making process which mandates that consensus of all 166 members is needed for organization-wide agreements, multilateral deals are rarely struck.

The Need for Reform

Everyone agrees reform is needed but there is no consensus on what that means. Many developing countries, for instance, would like broader derogations from existing rules. Developed countries, on the other hand, favor abolishing universal application of the "special and differential treatment" provisions which extend flexibilities to developing countries. These flexibilities include longer transition periods for implementing agreements and more leeway to hand out trade-distorting subsidies for farmers and manufacturers. No one opposes granting these flexibilities to the Least Developed Countries, but there is significant and growing opposition to applying such treatment to China and India.

Growing opposition to applying special and differential treatment

There is strong support for reforming the dispute settlement system with most countries favoring a return to a two-tiered system with the option to appeal. But the United States intractably resists the idea fearing that re-establishing an appeal process, even in a new configuration, would once again lead to judicial overreach.

Members have discreetly scaled back expectations for the 14th Ministerial Conference (MC14) in Yaoundé, Cameroon. No one foresees a breakthrough in dispute settlement, agriculture, decision-making, new rules for industrial policy, or greater clarity on the use of the national security exception.

Instead, the idea is to use the conference to identify where progress can be made *after* the Ministerial Conference. At the July meeting of the WTO's General Council, *Petter Ølberg, the Norwegian ambassador charged with overseeing the negotiations on reform, stated bluntly: "Our goal is not to solve every issue now. It's to identify where Ministers can add the guidance needed to move forward decisively after MC14."*

Even this objective seems overly optimistic. For as long as Donald Trump – an ardent skeptic of multilateralism – remains in the White House, there will be little progress on reform or anything else in the WTO. Everyone knows this. Few say it out loud.

Reports of Demise May Be Premature

As difficult as recent years have been for the WTO, the organization is not on the verge of collapse. US actions – and those of China, India and South Africa – have wounded the organization, but none of the 166 Member governments want to see its demise.

Trump's arrival for a second term sparked panic in the corridors of Geneva. And since returning to the White House again in January, the Trump Administration has regularly derided the WTO. White House Counselor Peter Navarro argued that MFN led to "a rigged system."¹⁴

In September 2025, US Trade Representative Jamieson Greer proclaimed that global trade rules would no longer tie Washington's hands on trade policy. Then, for good measure, he took a swipe at the organization. "Today, when people ask me about the WTO, I tell them: we have them right where we want them."¹⁵

Global trade rules would no longer tie Washington's hands

At first, diplomats responded to such statements with alarm. But now many diplomats are reassessing their views, adopting a pragmatic approach to the aggressive occupant of 1600 Pennsylvania Ave. These diplomats point out that the Armageddon forecasts of January have not come to pass and that Trump officials may be recalibrating their approach to the WTO. They point out that the fierce response from markets, consumers and some key trade partners have forced Trump to reconfigure the "Liberation Day" across the board tariffs he announced in April 2025.

The WTO funding imbroglio is another example of the United States reassessing its approach. In August, the White House included the WTO on a list of organizations to be defunded via a rarely invoked "pocket rescission" clawing back roughly five US billion dollars allocated by Congress to international organizations, including the WTO. The rationale was that spending on multilateralism "violates the President's America First priorities."¹⁶ The WTO was accused of "aiding and abetting global trade cheating by the Chinese Communist party."¹⁷

The United States had been tardy in paying its dues before, but this action seemed to indicate a permanent cessation of US funding commitments. WTO spending is modest with a 2025 budget of 204.9 million Swiss francs (219 million euros).¹⁸ The United States is the largest contributor to the WTO budget, but its 2025 contribution of CHF 23.1 million, is a rounding error for a country with an expected federal budget of 7.1 trillion US dollars.¹⁹

The White House announcement shocked the WTO, which led to the suspension of many activities and sent the organization's leadership scrambling to fill budgetary gaps. "Administrative measures", a cascading series of sanctions which limit the participation of non-paying WTO members, were applied to the United States in March.

Then an interesting thing happened: a week after posting the defunding notice, the White House website page was updated and the reference to the WTO cuts was deleted. Quietly, the United States transferred nearly 26 million US dollars to WTO headquarters. Accounts differ on what happened, but it seems the Office of Management and Budget unilaterally rescinded the funding without consulting the relevant agencies including USTR. When this was discovered, affected agencies weighed in sharply and the rescission was lifted.

Indications that the US is seeking to engage more constructively

Rhetoric aside, other important actions indicate that the Trump Administration is seeking to engage more constructively with the WTO. The newly appointed WTO Deputy Director-General, Jennifer "DJ" Nordquist, is highly respected for her work at the World Bank and at the Brookings Institution. During her first months in the job, she has received high marks from the Geneva trade community.

The appointment of Joseph Barloon as US ambassador to the WTO likewise demonstrated that Washington was serious about its dealings with the organization. Mr. Barloon is an experienced trade lawyer, who, in the first Trump Administration, served as General Counsel at USTR under Robert Lighthizer. Geneva diplomats acknowledge that his perspective on multilateralism does not match their own, but they are reassured by Mr. Barloon's technical expertise.

At last month's General Council meeting Mr. Barloon laid out the US position on WTO reform. While some members were startled by his attack on MFN and on the WTO Secretariat, much of what he raised on plurilaterals, addressing industrial overcapacity, improving transparency and scaling back concessions extended to some developing countries was considered thoughtful. Most of all, there was appreciation of the fact that Washington was engaged in the conversation.

The US has also shown acute interest in preserving the 1998 agreement prohibiting the application of tariffs on electronic commerce transmissions. Unless agreement among the members can be reached by ministers in March, the moratorium will expire, opening the door for a slew of charges on digital trade. The Trump Administration, which has close relationships with many tech titans, has put pressure on trading partners to agree to an extension of the moratorium. Recent trade deals with Indonesia, Malaysia and Cambodia all contain provisions in which governments commit their support to continue the moratorium.²⁰

In terms of the broader e-commerce agreement, the United States is unlikely to support a deal because it believes the current negotiating text does not address the country's national security concerns. Yet officials say they will not block others from going forward, as India and South Africa have tried to do. Likewise, Washington will not join but does not oppose a draft agreement aimed at facilitating investment in developing countries.

Clear Benefit for US Services Producers

Part of the Trump Administration's more pragmatic approach to the WTO stems from a recognition that US companies greatly benefit from WTO agreements. Aided by the General Agreement on Trade in Services (GATS), US services exporters including tech companies, financial institutions, educators and hospitality providers exported 1.1 trillion US dollars in services, by far the most in the world. The US trade surplus in services is 293.4 billion US dollars. Bolstered by the Trade Related Intellectual Property agreement, in 2024 US companies raked in over 144 billion US dollars in royalties and licensing fees; far more than those received in any other country.²¹

US companies greatly benefit from WTO agreements

Then there is the looming threat of China-controlled WTO. All of this portends an outcome in which the US holds the WTO at arm's length, but keeps an eye on developments and participates when it likes. The most likely result of the US ambivalence toward the WTO is that members will muddle through as best they can and hope that the next US president brings a more positive attitude toward the organization and trade more generally.

If Not the WTO, Then What?

Importantly, other WTO members have rejected the US example and renewed their commitment to WTO rules. Each member may have a bespoke trading relationship with the United States, but in terms of trade with others, tariff schedules largely remain as they were.

European and Asian officials may be relieved by the less hostile US stance towards the WTO but they are hedging their bets nonetheless – diversifying their trading partners and seeking new economic partnerships.

Perhaps the most interesting courtship involves the EU and the twelve-member Comprehensive and Progressive Trans-Pacific Partnership. The EU-CPTPP initiative advanced in November when trade ministers from the 39 countries met in Melbourne, Australia for their "inaugural" CPTPP-EU Trade and Investment Dialogue.

The most interesting courtship involves the EU and the CPTPP

Ministers agreed to uphold existing trade commitments – including commitments taken at the WTO – and to support the rules-based system. They pledged to work together on WTO reform and emphasized their support for plurilateral WTO initiatives, including those on electronic commerce and Investment Facilitation for Development. They also said they would work with all WTO Members to achieve “positive outcomes” at the ministerial conference in March. There are strong indications that CPTPP and EU trade ministers will meet in Yaoundé and may issue a statement on what the WTO should do next.²²

Another plurilateral initiative that is taking shape is the 14-member Future Investment and Trade Partnership launched in September 2025 by a group of small trade dependent economies. Objectives of the FIT partnership include facilitating supply chain resilience, supporting foreign direct investment, removing non-tariff barriers and unnecessary red tape at borders and the integration of trade technologies. The FIT partnership does not currently involve negotiating tariffs, nor are the rules binding. But this could change.²³

Nobody is suggesting that these arrangements might supersede the WTO. But they may provide a bit of stability in trading relationships at a time when such steadiness is sorely lacking.

A US Departure?

There is, of course, one other alternative: a US departure from the WTO. As mentioned earlier, the US is unlikely to initiate such a step though there are those in the Trump Administration – including the president himself – who have previously expressed a desire to do so.

Still, some trade experts believe such a divorce would be in the best interests of the wider membership and perhaps the United States as well. Two former Members of the WTO Secretariat, Henrik Horn, a professor of international economics at the Stockholm-based Research Institute for Industrial Economics and Petros Mavroidis, a law professor at Columbia Law School, accept that the current WTO rules do not provide the means for other members to expel the United States.

A US departure is unlikely to happen

In light of this, the two academics conclude: “The only existing option would be for the US to leave permanently and reapply when it so desires.”²⁴ This is unlikely to happen. Even the Trump Administration appears to understand that to leave the WTO would put the United States at a profound commercial disadvantage.

Conclusion

There is no denying that a US departure from the WTO would be a nasty shock to the organization. But leaving the WTO would also create immense problems for the United States. The chaos and uncertainty unleashed by President Trump’s erratic trade policies would be compounded by severing the ties that enable US companies to participate in overseas markets with predictability and certainty. US services companies, and innovators would lose the protection afforded to them under WTO rules.

This would be ironic given that American entrepreneurs benefit more from this protection than those from any other country. Just ask the Silicon Valley tech companies who have traditionally been among the WTO and multilateral trading system's most steadfast advocates.

This realization seems to have dawned on Washington, which could explain its decision to pay its WTO dues, to send a qualified trade expert to Geneva as ambassador, and to participate in those areas of WTO activity it believes suit it best.

But the status quo is not really an option either. Spinning its wheels as it has for so long has undermined confidence in the WTO not only in the United States, but across the globe. Reforming the organization is unquestionably the best way forward.

But for this to occur there will need to be leadership. But from whom? China? The world's second largest economy clearly has the clout to push for its objectives, but few WTO members see the Chinese model as one they wish to replicate. Moreover, most members are wary of Beijing's zero-sum approach to trade.

**For reforming the WTO,
there will need to be
leadership**

The European Union? The EU brings noteworthy bona fides to the party. No other member has been as consistently supportive of the multilateral trading system. Its immense size and broad array of interests mean Brussels has a stake in the WTO across the board. But the EU is an unwieldy beast beset with complex internal challenges and burdened by its own cumbersome decision-making process.

The Director-General is, by tradition and necessity, a neutral arbiter who can suggest and guide. But when it comes to matters of vast political consequence, the DG is constrained in what actions it can take, particularly if there are stark differences among the members. The fact that the current DG, Ngozi Okonjo Iweala, does not have Washington's confidence, further complicates matters.

Which leaves the United States. At present, expecting bold action from a government led by a transactional president who cares little for the nitty-gritty of trade policy and who harbors deep suspicions about multilateralism would be a poor bet.

But what of US policy post-Trump? The president's chaotic, antagonistic and arbitrary trade policies are increasingly unpopular. Many voters blame the tariffs for higher food and energy prices and there is unease about how they have alienated traditional US allies. A recent Pew poll showed that 61 percent of voters disapprove, while a poll from Yale University indicated that 71 percent of chief executives believe the tariffs have compromised their businesses.²⁵

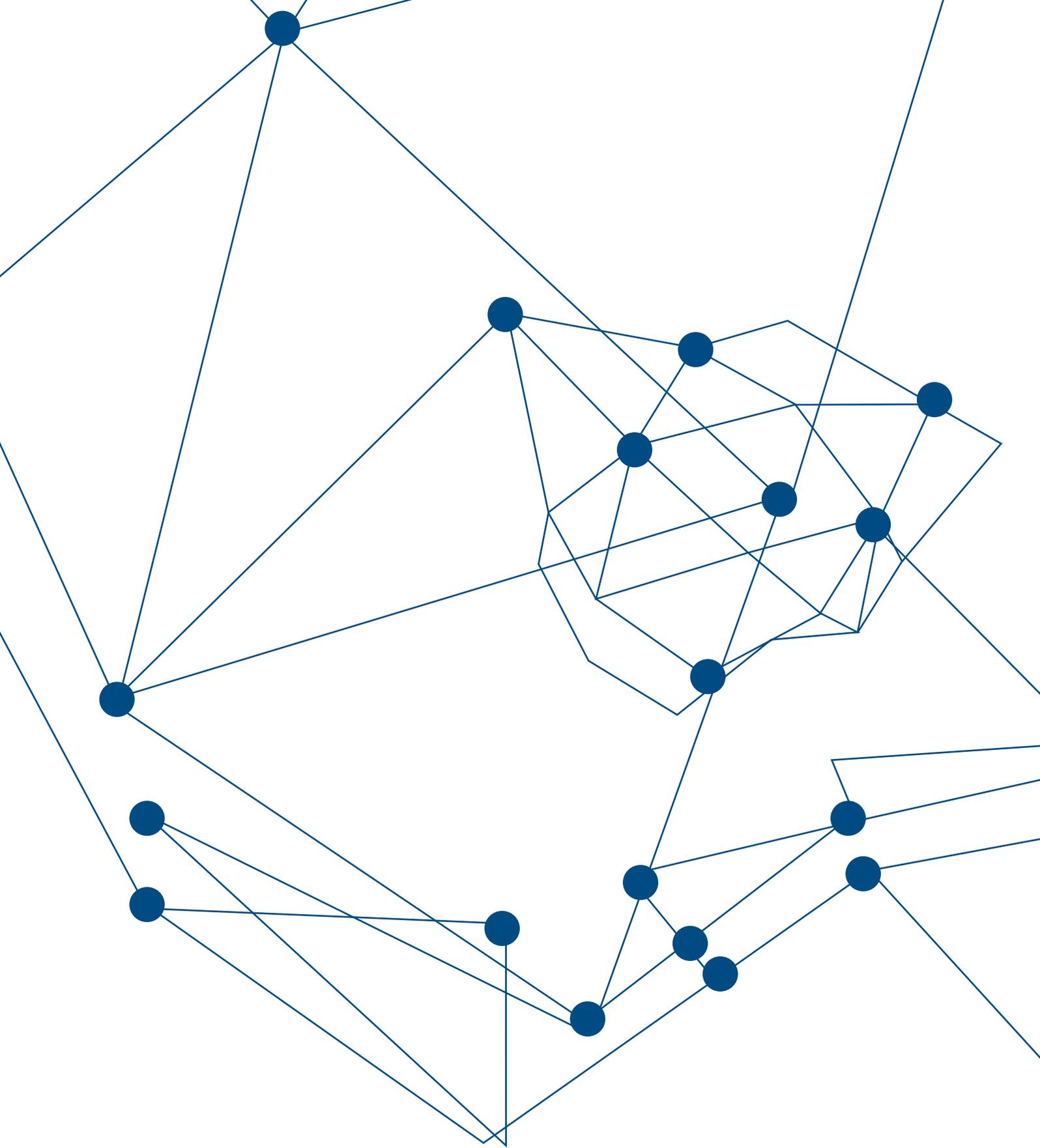
The Democrats have shown little affection for trade or the WTO. But change could be afoot. In three separate votes in the Senate this autumn, a majority of senators voted to strike down tariffs against Brazil, Mexico and Canada and against the tariffs unveiled on "Liberation Day." Given that the House of Representatives had previously cast a blanket vote prohibiting anti-tariff legislation from coming to the floor, these Senate votes went nowhere. But they did send a signal. It is instructive to see so many prominent Democrats speaking so critically about the application of tariffs. Would this trend hold if Democrats take the White House and the Congress in the coming years?

Predicting US trade policy in the coming years is a risky proposition

Predicting how US trade policy will evolve in the coming years is a risky proposition. Lurching into unilateralism is nothing new for the United States and is it unclear whether this most recent Trump-inspired bout is an aberration or the start of a long-term trend.

Confronted with what real protectionism looks like, might the people of the United States come to appreciate the rewards that trade, and trade rules, deliver for the country? It is too early to say. But today's US trade policy is driven almost exclusively by one man. After he has gone, things will no doubt be different. US trade relations with allies and perhaps the WTO are likely to improve – could they get much worse? But no one should expect a return to the heyday of multilateralism.

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The Role of the G20 in Times of Geopolitical Fragmentation

by Gunter Rieck Moncayo and Nikolaus Rischbieter

The year 2025 marks a special moment for the G20.¹ For the first time since upgrading the forum at the level of Heads of State and Government in 2008, each of the 19 member states has held the presidency once and hosted a summit. Just in time for this anniversary, the incumbent South African presidency has declared an evaluation of the G20 and its functioning and effectiveness to be a key priority.² This affords an opportunity to reflect on the role of the G20: where does its added value lie, what are its limits, and how can it remain effective in today's geopolitical environment?³

Development: From Specialist Meeting to a Summit with High Media Impact

Initially, the G20 was founded at the end of the 1990s as a meeting of finance ministers and central bank governors. The decade's increasing financial and currency crises formed the background to this; including the "tequila crisis" in Mexico, the Asian crisis and the Russian crisis. It became clear that the existing institutions were not in a position to ensure financial stability at international level. The G20, whose first meeting took place in Berlin in 1999, was to remedy this situation by bringing industrialised and emerging countries together around one table.⁴ As its work was deemed successful, the format became the focus of international attention during the global financial crisis that began in 2007.

In this historically exceptional situation, the G20 was upgraded in 2008 and brought together for the first time at the level of Heads of State and Government – heralding the birth of the G20 in its current form. Its mandate was clear: to save the global economy from a deep recession and create the foundation for new growth. Monetary, fiscal, economic and trade policy measures were adopted with impressive speed and in a coordinated manner, making a decisive contribution to stabilisation. Contrary to widespread scepticism at that time about international organisations' ability to take action, the G20 achieved remarkable success, as the American political scientist Daniel Drezner summarised in 2014 in a book that is well worth reading.⁵ Here, he portrayed how the international community, with the G20 as a central coordinating body, succeeded in effectively combating the crisis and pre-

Clear joint goals and a high degree of policy alignment as success factors

venting a global depression. Decisive factors of this success were a clear joint definition of objectives and a high degree of policy alignment among the members.

Yet, it was precisely this success that led to a sharp rise in the diversity of topics covered by the G20 as of the 2010s. The summit in Seoul in 2010 marked the beginning of a significant expansion of the agenda. In addition to international economic and financial policy, topics such as climate change and the fight against corruption were increasingly included in the agenda.⁶ Over the following years, virtually all major policy fields were added to this, from food security, health and employment right through to development and gender equality. At the same time, deeper political and economic differences manifested themselves within the G20 membership, making it increasingly difficult to find common positions.

This development has led the G20, which was still considered highly effective at the end of the 2000s, to now be criticised for its ineffectiveness. Its role as a central coordination mechanism for international economic and financial policy has been undermined, its agenda overloaded and its effectiveness curtailed. In light of increasing geopolitical fragmentation, this raises the key question: does the G20 still play a role, and if so, how can it effectively fulfil this?

Status Quo: Big Agenda, Low Effectiveness

The respective G20 presidency enjoys global media attention once a year: when the Heads of State and Government come together in autumn and adopt the final declaration. However, the work of the G20 does not just begin at this point. A myriad of meetings take place throughout the year to prepare topics on the agenda and discuss political initiatives. One of the key meetings this year was that of finance ministers and central bank governors in April

Overloaded and complex agenda hinders effectiveness

2025. Here, the host nation South Africa levelled sharp criticism against the effectiveness and efficiency of the G20. South Africa's central bank governor Lesetja Kganyago declared how the overloaded and complex agenda of the G20 means that it is no longer able to adopt effective policies.⁷

Thematic Overload and Decreasing Commitment

A look at the figures confirms this diagnosis: whereas the 2008 final declaration contained only 95 *commitments*, there were already 223 by 2022.⁸ A dilution in terms of content is also clear to see. Whereas action-oriented measures with time frames had been agreed in the past, vague declarations of intent without clear implementation steps dominate today. The main cause of this dilution is the declining level of *policy alignment* between the members as a direct consequence of expanding the agenda. Although the final documents thus signalise symbolic breadth, a concrete depth of focus and effectiveness fail to materialise.

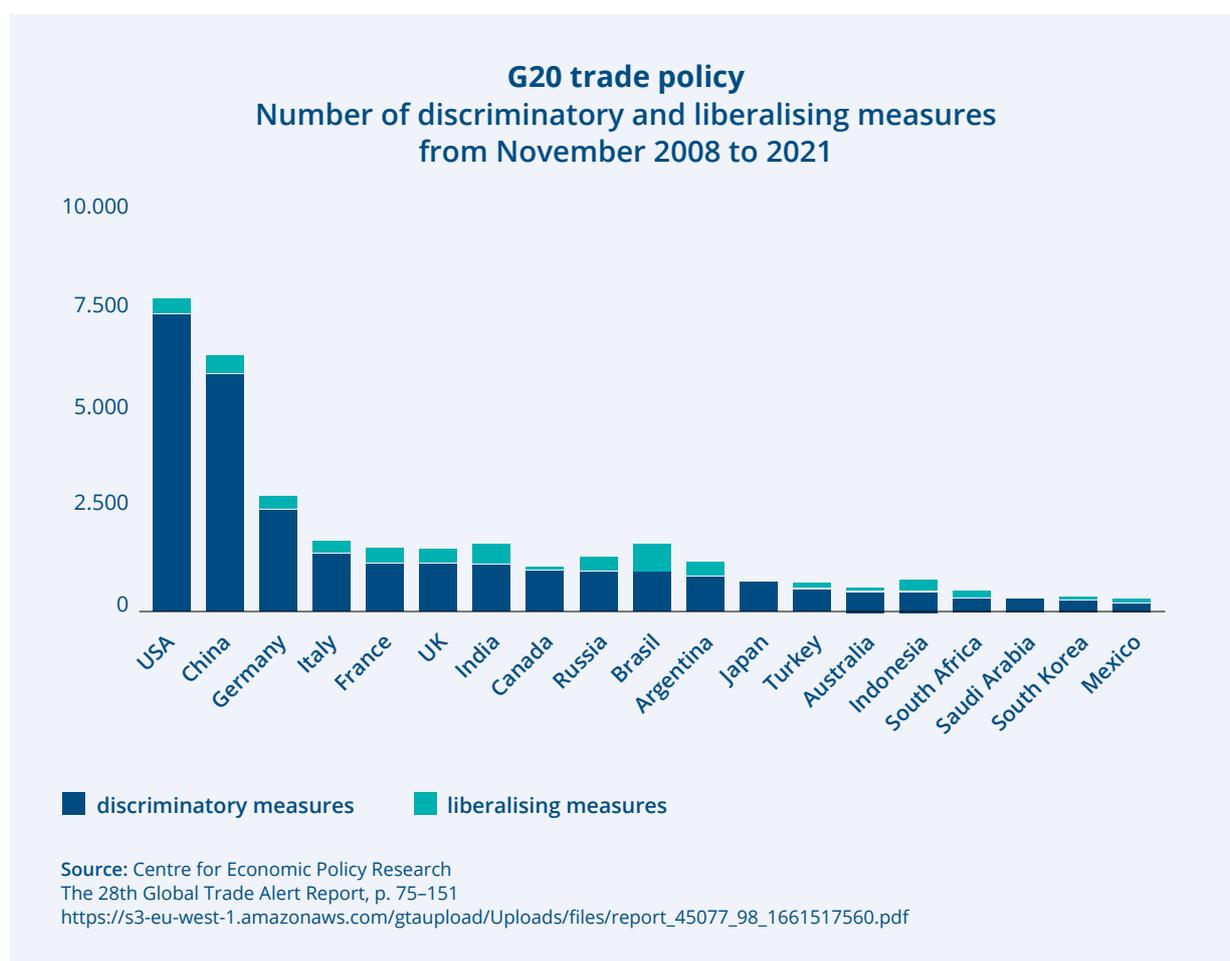
While the G20 originally dealt with economic and financial policy issues above all, the range of topics has been dramatically expanded since the 2010 summit in Seoul. In addition to climate and energy policy, the fight against corruption; international data policy; food and nutrition security; gender equality; health; employment and development were gradually added to the agenda. Today, there is scarcely a global policy field that is not mentioned in the G20 communiqué. As early as the 2010s, observers pointed out that the G20 had evolved

from an action-oriented forum for coordination into a mere *talk shop* that adopted numerous declarations of intent but scarcely implemented them.⁹ The fact that certain commitments were repeatedly included in the documents over the years, without having been realised and implemented, illustrates the G20's ineffectiveness and limited capacity for implementation.

This limited capacity of the G20 to implement measures is particularly clear to see in topics outside its core mandate – also because the interests of its members diverge much more strongly here. In climate policy, for instance, members have been reiterating the goal of phasing out fossil fuel subsidies since 2009, without ever having adopted a binding time frame. The picture is similar for socio-political goals such as the promotion of female employment; with ambitious promises having been formulated for years that have failed to be implemented to this day. During the COVID-19 pandemic, it also became clear that the G20 was initially successful at mobilising short-term funds and the international financial architecture reacted with astonishing speed and success to the fiscal challenges posed by the pandemic, but it was still unable to agree on a global vaccine distribution despite lengthy negotiations.

Interests diverge much more on topics outside the core mandate

Even in trade policy, despite countless commitments to reform the World Trade Organisation, the G20 remained largely incapable of action, while the multilateral trading system slid into a deep crisis. And despite the declared goal year after year of striving to dismantle trade barriers, an increasing number of trade-restrictive measures have been implemented by all member states since the financial crisis.



These examples highlight that: where interests greatly diverge, which particularly applies to topics beyond the international financial and economic architecture, the G20 rarely achieves more than minimum consensus on paper. This gives rise to a kind of *G20 fatigue*. The G20 has developed into a forum that addresses virtually every political problem, but increasingly rarely provides concrete solutions.

Duplicate structures between the G20 and the UN

Added to this, due to the expansion of its agenda, the G20 encroaches more and more upon areas that originally fell under the remit of UN specialised agencies, such as the World Health Organisation or the Food and Agriculture Organisation. Although these organisations are regularly invited, a clear division of labour between the G20 and UN has not emerged. This leads to duplicate structures that further undermine the legitimacy of the G20. That is also problematic because the G20 has invariably been criticised for its lack of representativeness. While it was, however, able to compensate for this lack of input legitimacy in international economic and financial policy through corresponding output, it lacks both in the other areas.

Institutional Weaknesses

A main reason for the overflowing agenda lies in the institutional structure of the G20 process. Each year, a new country takes over the presidency and uses this to demonstrate its own national priorities and raise its profile. New flagship projects are placed on the agenda, while earlier projects from preceding presidencies are hardly pursued with the same energy. The Troika, consisting of previous, current and future presidencies, is a mechanism that intends to ensure continuity. However, its effect remains limited in practice, as each presidency still sets its own priorities and determines the agenda. What's more, the opportunity to exploit the presidency for domestic policy ends and to style oneself as a "host to the powerful" against a magnificent backdrop is too tempting. One example of this was India's 2024 presidency, which used the symbol of the BJP ruling party, the orange lotus flower, as the logo for the G20 presidency, and thus exploiting it as an election campaign tool. The problem of institutional structure is exacerbated by the lack of a permanent secretariat that could monitor compliance with a coherent, multi-year agenda. Therefore, the G20 remains structurally vulnerable to short-term profiling interests and programmatic arbitrariness.

Growing Geopolitical Tensions

The geopolitical environment is hampering the capacity to act

Besides these institutional weaknesses, the geopolitical environment also hampers the ability to act. With the Russian invasion of Ukraine at the latest, the divisive aspects of international politics have become strikingly obvious and the trend is moving away from cooperation towards confrontation. This poses very specific challenges to the G20: the heterogeneity of the members and their interests, which had always existed, was replaced by open confrontation to some extent. And even within the Western bloc in the G20 that corresponds to the composition of its smaller sister, G7¹⁰, the erratic political style of Donald Trump is causing unprecedented friction. At the same time, the BRICS members¹¹ are acting with increasing self-confidence, fuelled primarily by numerous countries' interest in becoming members. Meanwhile the group, which like the G20 is a child of the global financial crisis, has grown to ten member states and sees itself as a counterweight

to the Western bloc within the G20. This growing polarisation stands in stark contrast to the search for common ground.

Legitimisation Problems

These two factors, thematic overload and geopolitical blockades, mean that the G20 is achieving fewer and fewer concrete outcomes. This intensifies the forum's legitimisation crisis, too. Since the G20 only has limited representation due to its exclusive composition, its legitimacy is mainly derived from its ability to deliver tangible results that have a global benefit beyond the circle of its members. If this output fails to materialise, its role is increasingly called into question.

Despite Everything: The G20 Remains Right and Important

Despite all these challenges, the G20 remains an indispensable forum for global governance. It accounts for some 85 per cent of the global economy, 75 per cent of global trade and two thirds of the world's population.¹² This lends it a weight that no other international institution outside the UN has in a similar form. Its particular added value also lies in its architecture. As a flexible, informal format, it facilitates coordination at the highest political level without getting bogged down by cumbersome bureaucracy.

Coordination at the highest political level without bureaucracy

The G20 undoubtedly made its greatest contribution during the global financial crisis from 2008. At that time, it not only succeeded in alleviating the most serious repercussions in the short term, but also in initiating long-term reforms. The introduction of capital requirements for banks (Basel III) and the monitoring of systemically important financial institutions are just two examples of measures that make the international financial system more robust to this day.¹³

The G20 proved its relevance in later years, too. During the COVID-19 pandemic, it coordinated the mobilisation of massive financial resources and strengthened the global financial safety net, including with a better equipped role for the International Monetary Fund and additional funding for multilateral development banks. With the Debt Service Suspension Initiative (DSSI) of 2020, it created urgently needed fiscal leeway for poorer countries; the resulting *common framework* is still the most important mechanism for restructuring the debt of ailing states.¹⁴ In 2021, the G20 voted in favour of a historic IMF allocation of 650 billion US Dollars in special drawing rights, which decisively contributed towards stabilising many economies.¹⁵ Without political support from the G20, this step would have probably been difficult to realise. The G20 also set the tone in international tax policy: at the Rome Summit, members agreed in 2021 to introduce a global minimum tax of 15 per cent for internationally active companies.¹⁶ This represented a breakthrough that had for decades been considered politically unfeasible.

G20 as a valuable “reserve mechanism” for global emergencies

The perhaps strongest evidence of the value of the G20 not only lies in these concrete successes, however, but in its function as a forum for dialogue. Even in times of massive geopolitical tensions, the members do not question its existence. The fact that Heads of State and Government regularly come together, exchange views and can speak directly with each other in times of crisis is already of value in itself. For instance, the meeting between US President Joe Biden and the Chinese President Xi Jinping at the 2022 G20 Summit in Indonesia helped, at least in the short term, to stabilise relations between both countries during a period of deep tension.¹⁷ Such a forum for dialogue is particularly beneficial in times of crisis. If the functioning G20 mechanism can be drawn on during global emergencies, then the first step towards a coordinated response has already been taken.

The G20 is therefore far more than just a summit in the annual calendar. It is a complex, year-round process involving finance ministers, central bank governors, Sherpas, high-ranking government representatives as well as civil society actors. Its particular strength consists of bringing together nations with very different cultures, interests or political systems and keeping them at the negotiating table despite rivalries, tensions, or conflicts. In a world shaped by geopolitical uncertainty and systemic rivalry, the G20 thus remains one of the few arenas in which global governance takes place in real time.

Look to the Future: Recommendations for Greater Effectiveness

In light of the central importance of the G20, it is necessary to take up the South African initiative for assessing its effectiveness and addressing existing problems in a targeted way. Here the aim should be greater effectiveness. Previous experience clearly shows that whenever the G20 has focused on its core mandate and acted in the common interest, it has been far more capable of action and more successful than when dealing with new, additional policy areas. A growing number of topic areas and the associated greater visibility of divergent interests undermined its effectiveness and credibility. This has given rise to several interconnected policy recommendations that could help make the G20 more effective again.

Returning to the Core Mandate

First, a thematic focus is essential. The G20 should clearly focus on its original mandate once again: a stabilisation of the international financial and economic architecture. There is a high

Stabilisation of the financial and economic architecture

degree of *policy alignment* between the members in this area, as all states have a fundamental interest in global financial stability. This is the case regardless of the fact that Russia is excluded from important parts of the international financial market owing to sanctions following its invasion of Ukraine. Experiences from the 2008 financial crisis or during the COVID-19 pandemic have shown that the G20 can act particularly effectively in precisely this area. It has adopted rapid, coordinated measures, strengthened the global financial safety net, supported multilateral development banks and thus specifically contributed to stabilisation.

By contrast, a number of other topics, from gender equality and health right through to the bioeconomy, are relevant, but do not fit the core mandate of the G20 and could be better dealt with in other, more legitimate forums, such as the United Nations or its sub-organisations. The G20 has also shown that it is not in a position to make clear joint decisions and guarantee their implementation in many of these topic areas. A return to the core mandate would therefore not only increase the G20's capacity to act, but also enhance its output legitimacy. The G20 would once again be more strongly perceived as a forum that produces concrete, actionable results, instead of spreading itself too thinly with a plethora of issues.

Strengthening and Expanding the Troika

Closely tied to this thematic streamlining is a further development of the Troika mechanism so as to achieve the necessary agenda discipline. To date, the Troika comprises the previous, current and future presidencies. In practice, this format only leads to coherent multi-year planning to a limited extent, however. All too often, national prestige projects of the respective host countries dominate, which generate symbolic visibility but are quickly forgotten after the end of the presidency.

In order to change this, the Troika concept should be reinforced by transferring the right to determine the agenda from the host country to the Troika itself. Decisions ought to then be taken jointly and special national approaches would be impeded. What's more, the Troika could be extended to five members, which would raise the threshold for placing new topics on the agenda, as a unanimous vote from all five members would be required. The longer duration of individual members in the group of five would also make it easier to establish long-term planning, as projects could be consistently monitored over several years. In such a group of five, each of the five sub-groups of the G20, between which the presidency currently rotates, would be represented.

Strengthening of the Troika concept for more agenda discipline

Role of the OECD as a Quasi-Secretariat

A further milestone for enhancing the effectiveness and, in particular, thematic coherence lies in strengthening analytical and institutional support. Today, the OECD (Organisation for Economic Co-operation and Development) already performs a kind of informal secretariat function by providing reports and analytical input upon the invitation of the respective presidency.¹⁸ It has the expertise and institutional infrastructure to reliably support the G20 across changing presidencies.

Given that the creation of a completely new G20 secretariat is politically difficult to implement and entails a lot of administrative effort, the existing role of the OECD should be further strengthened. As an official "G20 partner secretariat", it could ensure continuity, coherence and the monitoring of thematic focussing.

Reforming Ways of Working and Communication

Ultimately, the G20 also needs to improve its internal working methods and external communication. Important lessons can be learnt from the most successful years. Back then, the final communiqués were short, clearly formulated and, above all, action-orientated. They contained concrete time frames, clear responsibilities and verifiable targets. Today, on the other hand, the texts are mostly long, riddled with vague formulas and mainly contain declarations of intent. This weakens credibility both internally and externally. A return to succinct,

Return to succinct, results-oriented communiqués

result-oriented communiqués with timelines would help translate consensus into concrete implementation. Beyond this, it would strengthen confidence in the G20, as it would be perceived as a forum capable of action that amounts to more than just symbolism.

Parallel to the thematic expansion of the agenda, the number of official accompanying processes has been steadily growing over the years as well. While in 2008 only Business 20 (companies) and Labour 20 (trade unions) carried out an official role, this has now been supplemented by Civil 20, Think 20, Women 20, Youth 20 and Science 20, alongside other unofficial formats. New topics and initiatives fed into the G20 mechanism via these diverse accompanying processes pose an obstacle to the goal of a focussed agenda. The role of the accompanying processes should therefore be reconsidered and should not extend beyond a purely consultative function that can be requested by the Troika if needed.

Flexibility in Times of Crisis

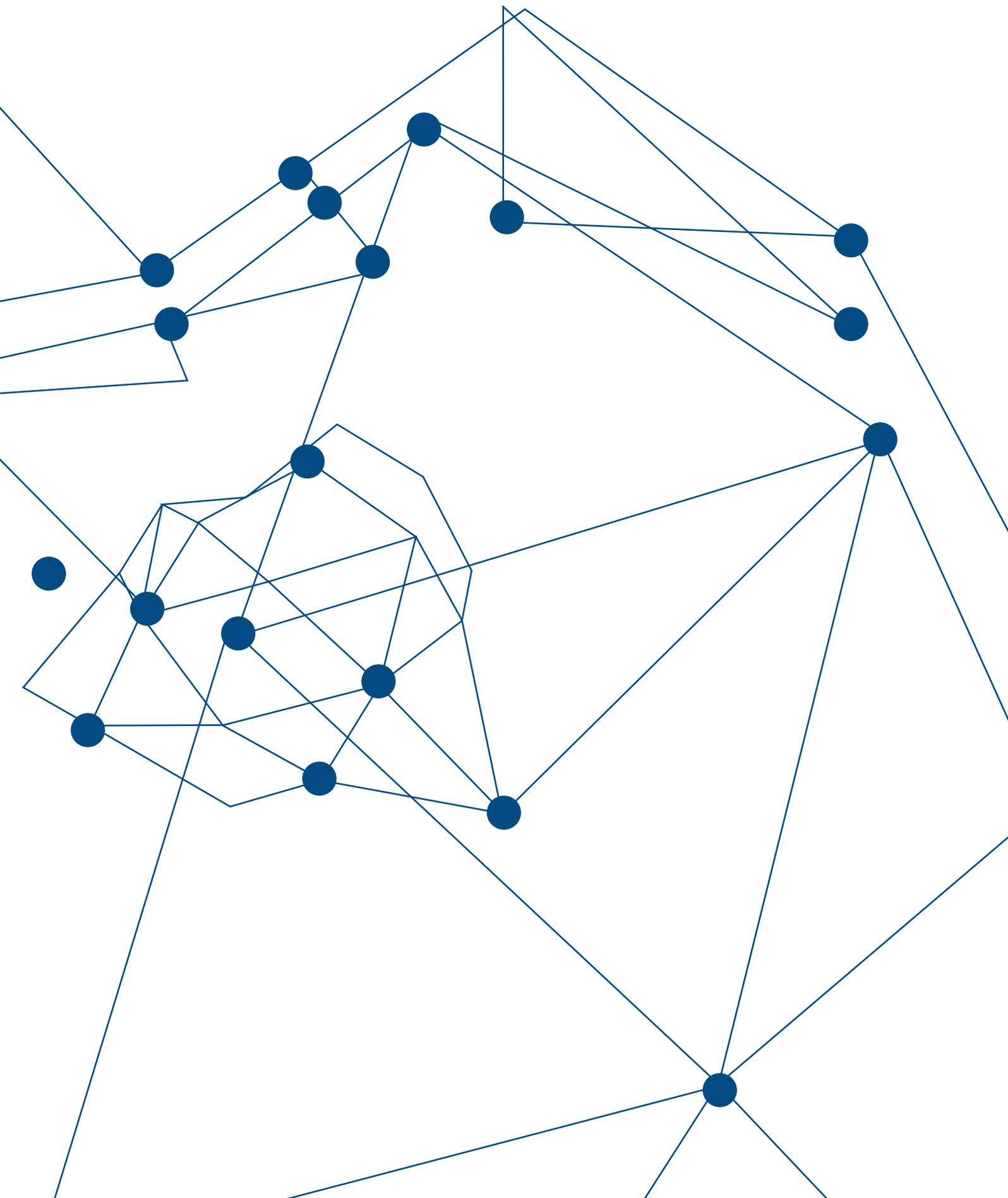
At the same time, the G20 should not lose its greatest strength – namely the ability to react fast and in a coordinated manner in global crises. The restriction to core topics must therefore not culminate in a rigid fixation. Rather, the G20 needs to remain capable of action when external shocks such as financial market crises, pandemics or debt emergencies require it. In such situations, the Troika can and should adapt the agenda at short notice so that the G20 can fulfil its role as a “reserve mechanism” for global crises.

Conclusion

The G20 can only regain its effectiveness and legitimacy if it focuses on a few core issues, develops the Troika into a multi-year planning body, strengthens the OECD as a quasi-secretariat at institutional level and gears its working methods more strongly towards realisable outcomes. Germany should work towards this jointly with its European and international partners within the G20. Such a reform would not only restore the forum’s ability to act, but also demonstrates that the international community is capable of concrete cooperation despite growing geopolitical tensions. The G20 could thus prove once again that it is an indispensable instrument of global governance, especially in times of increasing fragmentation. Crucial for the success of this reform is that it is supported by all G20 members and understood as a common goal. It appears as though South Africa’s current presidency will facilitate this. Germany should support South Africa in advancing this reform.

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- 3 The authors would like to thank Christian E. Rieck, University of Potsdam, for his valuable input during the drafting of this paper.
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The Rise of BRICS

The New Economic Power Pact?

by Edmund Terence Gomez



Global Political Economy: Conflicts and Institutions

By the end of 2024, economic decision-making by government leaders in emerging economies was shaped by two key features of the global political economy. The first was the distinct presence of three superpowers: the United States of America, China, and the European Union. Closely linked to this was the intense hostility between China and the US-EU alliance, driven largely by China's extraordinarily rapid industrial growth over the past decade.

To counter the US-EU alliance's attempt to slow its rapid economic rise, China played a leading role in creating and expanding BRICS, a multi-country institutional framework originally comprising four large, fast-developing economies. Though BRICS began as an informal group of rather unusual bedfellows, it has since evolved into a major geopolitical-cum-geo-economic bloc. Characterised by both cooperation and competition, BRICS has helped its members to develop scale as well as scale-up mutually beneficial infrastructure, industrial, and technological projects, while also challenging the hegemony of the US-EU alliance in the global economy.

BRICS is challenging the US-EU hegemony in the global economy

Emerging economies were forward-looking when constructing this geo-economic and geopolitical institutional structure. In January 2025, a shocking twist in economic power pacts occurred. That month, Donald Trump returned as President of the United States and promptly announced that his administration would go it alone against China, while also taking an adversarial position against his country's long-standing ally, the EU. Trump made it clear that he intended to disrupt this neat division of economic battles between the three superpowers. He subsequently moved to impose huge tariffs on most economies globally, including EU members, to compel them to offer trade and investment opportunities that favoured the United States.

The second feature of the global political economy was how companies around the world, actively supported by their governments, used supply chains to lower production costs, enhance productivity, and secure access to global markets. Supply chains are dominated by small- and medium-scale enterprises (SMEs), which constitute a significant component of every country's corporate sector. By 2024, there were approximately 400 million SMEs globally, representing about 90 percent of all firms. In the EU, there were 26 million SMEs, about

99 percent of all firms, employing 48 percent of the total workforce, or about 90 million people.¹ In one of the world's most dynamic economic regions, Southeast Asia, there were over 70 million SMEs, making up some 97 percent of all firms in the region and accounting for 85 percent of total employment.²

The effective employment of SMEs, specifically within supply chains, had become a priority in public policy debates. If governments were to create global supply chains, this would inevitably require efficient utilisation of the multitude of SMEs in their respective economies where real entrepreneurial talent lay. As China's economy began to rapidly industrialise in the 1980s and 1990s, following an influx of foreign direct investment (FDI), the government recognised the urgent need to nurture SMEs to foster domestic entrepreneurial capacity, including through exposure to competition worldwide. China took two steps to integrate domestic firms into global markets. In 2001, China joined the World Trade Organization (WTO). Two years later, the Chinese government introduced its SME Promotion Act to

The SME Promotion Act contributed to rapid industrialisation

cultivate entrepreneurial companies, an endeavour that eventually contributed to the economy's rapid industrialisation.³ In 2025, the Private Sector Promotion Act was introduced to enhance support for SMEs, primarily through research and development (R&D) aid to boost innovation, with the aim of creating "Little Giants" in core industries.⁴

Another method deployed by China to secure access to global or regional supply chains was through its "Go Out" policy, also introduced in 2001, to encourage its numerous state-owned enterprises (SOEs) as well as its privately-owned companies to enter emerging economies.⁵ Subsequently, these SOEs and private enterprises decided to take over supply chains in emerging economies.⁶ This was a quick way for Chinese enterprises to embed themselves in these markets. Indeed, over the past two decades, it has been through these supply chains that Chinese SMEs have come to acquire knowledge to innovate and augment production, though also with substantial state support for R&D.

When Trump returned as US President, he actively emphasised that he would help American firms secure – once again – a dominant global presence. The Americans had been devoting particular attention to three critical burgeoning sectors: artificial intelligence (AI), clean energy, and bioengineering. The US has a dominant presence in bioengineering and technology and the related AI industry. China, meanwhile, has emerged as a major actor in industries linked with clean energy. China now dominates the production of solar panels, electric vehicles (EVs), and batteries, while also producing these products at a much lower

China controls the extraction and processing of critical raw materials

cost compared to its competitors. In the technology sector, China's presence is growing at such a rapid pace that the threat is palpable among American firms. Crucially, for China, it has secured control of the extraction and processing of rare earths and critical minerals vital for technology-related sectors, such as semiconductors, and batteries for EVs; a matter of great consternation to the Trump administration.

With the battle between the US and China ramping up, the EU is out on a limb. Meanwhile, countries in Asia, Latin America, and Africa are increasingly confronted with the desire of the US, China, and the EU to secure access to key trade routes in these continents, as well as to obtain control of their under-soil resources. Never before have three economic superpowers separately competed to forge investment and trade deals with Asian, African, and Latin American countries, individually as well as through regional blocs, such as the Association of Southeast Asian Nations (Asean) and the Latin American-based Mercosur.

The EU-based economies are also burdened with their own debilitating problems. Indeed, the EU's most dominant members, Germany and France, are confronted with economic and political problems, including fears of a deep-seated recession. However, for all its woes, the EU continues to be a formidable figure in the global economy. For example, although the EU has paid inadequate attention to Southeast Asia,⁷ it is Asean's third-largest trading partner, accounting for ten percent of this region's trade. Asean is expected to emerge as the fifth-largest economy globally by 2030.

As for emerging economies, they recognise the need to engage with both the US and China to drive economic growth, while not neglecting the EU. It is therefore crucial for emerging economies to determine how to tread a fine line between these economic superpowers. By working separately with the US, China, and the EU, emerging economies will not be overly dependent on any of them. One approach towards this fine line is by working in partnership with other emerging economies through a variety of institutional alliances. Enter BRICS. However, this new major institutional cooperative structure is dominated by China, thus prompting Trump to threaten those countries that join BRICS with more tariffs. China, in turn, has openly objected to the US' unilateral trade deals with emerging economies in exchange for a reduction in tariffs.⁸

Reducing dependencies by cooperating through a variety of alliances

In this context, where the US depicts itself as an economic hegemon and China is a dominant presence in key global supply chains, while also being a leading presence in the rapidly burgeoning BRICS, where does it leave the EU? How should the EU move forward? Indeed, should the EU work with BRICS? This is a difficult matter for the EU to consider given its longstanding opposition to China. In any case, the EU is now in deep conflict with Russia, the other leading BRICS member, following its invasion of Ukraine.

BRICS: Emerging Institutional Frontier?

New institutions are a response to existing inequities, including asymmetries in economic power distribution, which is a reason for the growing importance of BRICS, though it is dominated by China and Russia. BRICS can be effective because member countries are aware that they are all in the same boat in so many ways. A BRICS-like institution can function as a strategic cooperative structure for emerging economies in a situation where they see themselves as being exploited, even bullied, by the US. China can certainly benefit from BRICS's rise, as it will be able to dictate economic coordination far more authoritatively within this bloc. Meanwhile, a multilateral economic framework no longer exists in which the US or the EU can play a similar hegemonic role.

Critical junctures in recent history have contributed to the creation of BRICS, as well as numerous emerging economies' desire to join this institutional alliance. At the turn of this century, there was much global interest in the growing influence of a few large emerging economies – India, China, Russia, and Brazil. While these four then rapidly-industrialising economies had met informally during the first half of the 2000 decade, the trigger that led to the decision to formalise their cooperation as BRIC was the 2008 global financial crisis.

The 2008 global financial crisis led to formalise their cooperation

In view of this financial crisis, government leaders worldwide underwent a major shift of in thinking to find an alternative, more just, development model, as well as the creation of mutually beneficial cooperative ties between countries. One year later, Brazil, Russia, India, and China formalised their cooperative ties as an institutional framework: BRIC. In all four of these countries, the state is a dominant figure in the economy, with economic growth fostered by their SOEs. These SOEs feature prominently in critical, capital-intensive sectors such as utilities, telecommunications, infrastructure, energy and natural resources, banking, defence, transportation, logistics, and aerospace.⁹

BRIC was formed in 2009 at a summit in Russia. Two years later, South Africa joined this pact. BRICS members called on industrialised economies to recognise the importance of emerging countries in the global economy, though also asserting that they had no desire to create a new world order.¹⁰ In 2010, BRICS voiced its concern about American and European dominance of key global financial institutions, namely the World Bank and the International Monetary Fund (IMF). BRICS called for a review of what they see as a US-dominated financial infrastructure.¹¹ However, even after the lessons of the global financial crisis had been learnt, no reforms were made to these two financial institutions. In response to this, in 2014 BRICS established the New Development Bank (NDB), to provide its members with loans and guarantees for strategic infrastructure projects and industrial ventures.

BRICS has since grown significantly, in size and in influence

BRICS has since grown significantly, in size and in influence. Geoeconomic and geopolitical conflicts were core factors contributing towards BRICS's recent large expansion. By 2025, its membership had doubled, totalling ten. The countries incorporated into this institutional framework were Egypt, Ethiopia, Iran, the United Arab Emirates (UAE), and Indonesia. BRICS introduced what it termed as "partner countries." Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Uganda, and Uzbekistan are now listed as partner countries.¹² As of 2025, BRICS members account for approximately 40 percent of global GDP in purchasing power parity terms, and 55 percent of the world's population.¹³ The energy-centric nature of BRICS's new members has added to the US' growing unease about China. Iran and the UAE are among the world's largest oil exporters. What's more, many of the world's leading energy companies, from Russia's Gazprom to China's PetroChina and Indonesia's Petrobas, are state-owned or deeply state-intertwined.

This idea of BRICS as a mechanism for "multi-stakeholder participation"¹⁴ has contributed to its almost four-fold expansion. Interestingly, though, no country affiliated with BRICS is part of the Organisation for Economic Cooperation and Development (OECD). A defining feature of BRICS is that its members' economies are controlled by state actors who can collectively or bilaterally institute policies, propose projects, and facilitate investment flows through their SOEs which shape development strategies that do not include either the US or the EU.

Adding to concerns held by the US and the EU about a China-hegemonic BRICS is the presence of other fairly newly-constructed institutions. In 2001, China and Russia had, in fact, become part of another cross-regional institution, the Shanghai Cooperation Organization (SCO), whose self-proclaimed aim is to promote peace and cooperation. While it originally also comprised Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, the SCO had ten members by 2025, including India and Iran. Like BRICS, the SCO has 14 "dialogue members,"¹⁵ making it another formidable organisation. No EU country is a member of the SCO.

Institutional Structure, Type of Enterprises, Supply Chains

The rise of BRICS over the past two decades has coincided with what has increasingly come to be recognised as a period when different forms of “state capitalism” have emerged.¹⁶ The distinct forms of state capitalism within BRICS countries indicate that context matters when determining their economic development model. But two core features of BRICS countries are their adoption of industrial policies and their employment of a variety of similar state-controlled institutions that are active in the economy, both domestically and globally. These state-controlled institutions encompass SOEs, sovereign wealth funds (SWFs), and development financial institutions. Like the original BRICS members, the economies of all countries that have been incorporated into this bloc are dominated by SOEs.

Industrial policies and state-controlled institutions

BRICS's collection of states that have control of disparate economic-based institutions reflects the fact that a variety of state-business relations is in place; a nexus that also has to be assessed when reviewing the China-EU-US divergence, as well as each of their economic heft. Obviously, the public-private dichotomy, as conventionally understood, is not the same in these three economic superpowers. Power relations in state-business ties in China are often heavily weighted in favour of state interests as opposed to corporate interests, as seen in the American neoliberal model. The EU has adopted an arms-length relationship with business, particularly large-scale enterprises.

BRICS members have a state-business nexus that is more akin to what is found in China, though a number of them have also adopted more liberal market-type policy ideas. These member states have one common core feature at hand: control of a range of different enterprises that they can deploy in the market based on decisions derived from state-to-state negotiations. The SOEs under governmental control in these 19 countries can easily forge joint ventures for major projects, share resources, and create supportive financial agreements to fund their ventures. Differently put, BRICS members can create with ease state-state – or public-public – partnerships through their respective SOEs. Investment flows and decisions about key projects can be decided by the leaders of two nations, not by business owners. These projects can, however, be executed by SOEs in collaboration with private firms, selected by virtue of their capacity to deliver.

The World Bank notes that, in 2017 83 percent of developing countries' investments in infrastructure projects were by state-linked institutions and SOEs.¹⁷ In 2023, the OECD reported that SOEs globally had 53.5 trillion US dollars in assets and generated over twelve trillion US dollars in revenue.¹⁸ In an earlier report, the OECD pointed out a pertinent issue: in 2020, half of the world's ten largest companies and 132 of its 500 biggest were SOEs.¹⁹ In a Forbes' annual listing of the largest public companies in the world in 2025, no EU-based firm appeared in the top 20. Five of the top ten enterprises were SOEs, four of which were from China.²⁰

State-linked institutions and SOEs play a dominant role

How these SOEs are owned and controlled by governments differs from country to country. For example, China's Chinese State-Owned Assets Supervision and Administration Commission (SASAC) has been described as an institution that “exercises state shareholder power over most SOEs and makes rules to regulate SOEs. As a regulatory authority, the SASAC is a state assets supervision-focused and ministerial-level governmental agency.”²¹ As of

September 2025, the reported volume of total assets of SOEs administered by SASAC was “over 90 trillion yuan” (or about 12.73 trillion US dollars).²²

Sovereign wealth funds (SWF), which serve as a vital source of development funds, are another major state-controlled institution that features in the economies of numerous BRICS members. The growth and influence of SWFs over the past two decades have been phenomenal. In 2025, SWFs globally managed some 13 trillion US dollars’ worth of assets, an extraordinary growth, as the figure was only about one trillion US dollars just two decades earlier, in 2000.²³ Africa’s current appetite for SWFs is driven by the global prominence of such funds in Asia and the Middle East.²⁴ Among BRICS members, Indonesia established its second SWF, Daya Anagata Nusantara (Danantara) in 2025, with assets amounting to 61 billion US dollars in an attempt to enhance the “global competitiveness” of the SOEs under its “authority,” including through “capital allocation, restructuring, and mergers.”²⁵ Interestingly, Trump called for the creation of such a fund in the US shortly after his return to the White House.²⁶

Within BRICS, members are creating a variety of joint collaboration endeavours. On financial issues, BRICS Pay, a payment-cum-messaging initiative, was proposed in 2018 to enable local-currency cross-border payments. This is a mechanism to bypass the use of the US dollar in its members’ transactions. In September 2025, active implementation of BRICS Pay was advocated, which was seen by the US as an attempt to undermine the dollar’s dominance.²⁷

To support this initiative, the NDB proposed guarantee mechanisms to de-risk cross-BRICS investments. Both the NDB and BRICS Pay serve as institutional enablers for joint business ventures formed by enterprises from member countries. Crucially, too, through the NDB, an industrial-financial infrastructure has been put in place to facilitate the implementation of large-scale projects.

NDB and BRICS Pay serve as institutional enablers

A related initiative is the BRICS PartNIR Innovation Center (BPIC), created in 2020 and involving joint actions to foster an “industrial revolution” in areas such as the digital economy, green development, and supply chains.²⁸ The value of reliable supply chain partners is clear to see, as it helps achieve resilience, efficiency, innovation, and cost savings, while also contributing to sharing risks, improving quality, and enabling quick responses to disruptions.

BPIC’s primary effort is to foster joint R&D, nurture start-up co-creation, and encourage industrial pilot projects. At a BRICS industrial “match-making” event in Beijing in 2025, twelve projects totalling about four billion US dollars were endorsed by member countries focusing on digital manufacturing clusters, med-tech partnerships in the healthcare sector, and green development projects.²⁹ The implications of efforts of this sort, within and between countries, include the creation of global supply chains that do not comprise companies from the US and the EU. Table 1 provides some examples of joint projects by BRICS members involving such match-making that have either commenced or are in the pipeline.

BRICS Countries	Joint-Ventures	Projects
China-Russia	China Railway Major Bridge Engineering Group (MBEC)/SK Most Group (SOE-private firm)	Tongjiang–Nizhneleninskoye railway bridge
Russia-China	Rosneft & Gazprom/China National Petroleum Corporation (CNPC) & Sinopec (all SOEs)	R&D/Low-carbon cooperation. Rosneft & CNPC signed MoUs for joint research in exploration, refining, petrochemicals, & green tech
Russia-China	Sibur/Sinopec (Private firm-SOE)	Amur Gas Chemical Complex in Russia (polyethylene & polypropylene production facility)
China-Russia	CNPC/Rosneft (both SOEs)	CNPC-Rosneft MoU: joint exploration & production in Rosneft's eastern Siberian fields
Brazil-China	Envision Energy (China)/FRV (Fotowatio Renewable Ventures) – owned by Saudi Arabia & based in Spain (both privately-owned)	Net-Zero Industrial Park focusing on Sustainable Aviation Fuel (SAF): creating green oil ecosystem
China-Brazil	CNOOC, CNPC, & Sinopec/Petrobras (all SOEs)	MoUs for oil & gas exploration & production & energy transition projects
China-Russia	COMAC (China)/United Aircraft Corporation (UAC) (Russia) (both SOEs)	Cooperated in a Russo-Chinese aircraft (COMAC C919/C929). Now under China's control
India-Russia	Hindustan Aeronautics Limited (HAL)/United Aircraft Corporation (UAC) (both SOEs)	MoU to manufacture a twin-engine, narrow-body aircraft
China-South Africa	Hisense (China)/China-Africa Development Fund (Private firm & state-backed institution)	Hisense South Africa Industrial Park in Atlantis, Cape Town
Russia-South Africa	Russian Railways (RZD) & Transnet (South Africa's rail network) (both SOEs)	Cooperation on infrastructure, rail transport, & R&D – through MoUs
China-Nigeria	China Civil Engineering Construction Corporation (CCECC) (Contractor)/China Development Bank (CDB) (Financing) (both SOEs)	Kano-Kaduna standard gauge railway project

Table 1: Joint-Ventures – Between SOEs & SOE-private firms from BRICS countries

These joint endeavours by BRICS members are vital for China, as it has grown increasingly dependent on emerging economies for major resources, particularly under-soil elements, in order to advance technological upgrading. These developing economies also serve as major sites for investments in core industries, for example in the industrial sector, while equally being a location for mega infrastructure projects that constitute part of China's Belt-Road Initiative (BRI). The member states of BRICS are economies in need of infrastructure projects to secure investments and boost productivity.

BRICS' Rise: Where Now EU?

When looking at BRICS and the hybrid state enterprises they control, it is evident that the state is not only back, but it has embedded itself into the heart of the capitalist economy – running companies (often across borders) and shaping capital markets. China's financially and technologically well-endowed SOEs are forging joint ventures with similar SOEs controlled by BRICS members; a method to facilitate China's entry into these emerging economies. BRICS should not just be seen as a multi-lateral institutional structure. There is a complex network of state-controlled enterprises within BRICS that can be deployed to create a vibrant inter-dependent economic bloc.

Western-based multinational companies are at a distinct disadvantage

In this situation, Western-based multinational companies, including those from Europe, are at a distinct disadvantage. Trump's response to this situation was to resort to bilateral discussions with emerging economies, using threats of punitive tariffs to secure agreements that favour the US. However, China has, undoubtedly, benefited from the world's discontent with Trump's hard-nosed tariff-based tactics. Moreover, Trump's tactical response of employing blanket tariffs to advance the interests of American enterprises around the world is not necessarily conducive to his endeavour to secure control of supply chains. This tactic certainly does not encourage cross-border manufacturing with countries that it can count on to keep production costs low.

As for the EU, "strategic autonomy" has emerged as its response to China's ascendancy and US belligerence.³⁰ However, the EU is deeply susceptible to major problems that prevent it from achieving this autonomy. The EU has not yet achieved its goal of decoupling from China, especially in strategic sectors. It has serious difficulties with securing access to energy and critical minerals, while also hardly being at the forefront of technological innovation. Furthermore, the EU's inordinate focus on regulations contributes to higher production costs, further undermining the ability of European firms to enter supply chains in emerging economies and, in turn, eroding their capacity to compete. For example, the EU and BRICS members regularly clash over the EU Deforestation Regulation (EUDR), which restricts imports of essential commodities. European firms worry about compliance, potential cost increases, and the competitive disadvantages that may arise because of the EUDR.

The EU method to achieve this strategic autonomy is by stepping up its efforts to sign free trade agreements (FTAs) with emerging economies. This step-up has drawn the EU to regional blocs such as the Regional Comprehensive Economic Partnership (RCEP), the world's largest FTA.³¹ RCEP comprises 15 countries, i. e. China, Japan, South Korea, Australia, New Zealand, and Asean members, a number of whom are affiliated with BRICS. RCEP's combined population is 2.2 billion, while the EU's ties with it will help the Union expand trade given

that it covers some of the world's largest markets and more than half of global exports. Increasingly, consideration is also being given to the idea of EU joining the Comprehensive & Progressive Agreement for Trans-Pacific Partnership, a free-trade agreement signed in 2018 that now includes twelve countries, together representing about 15 percent of global GDP.³² The US does not figure in both of these regional blocs, while China is a dominant figure in RCEP.

Increasingly, consideration is given to the idea of EU joining CPTPP

If the EU's primary method to achieve this strategic autonomy is by signing FTAs with emerging economies, China has adopted a fundamentally different approach. China is not particularly interested in FTAs. A Memorandum of Understanding (MoU) is China's preferred tool when in post-entry negotiations with a country (see Table 1). China has specific deals in mind, during one-on-one country negotiations, which are secured through MoUs. This one-on-one country negotiation with MoUs for specific projects is a method that is now being emulated by the US. The EU should realise that FTAs are not the panacea for its current problems, nor are they a viable method to secure entry into emerging economies.

It is clear that the EU will require remarkable ingenuity if it is to effectively manage an emerging state-capitalist giant like BRICS. State capitalism is strengthening, not weakening, and some of the world's most enterprising SOEs and SWFs are controlled by BRICS members.

The EU needs to come to terms with the strong role of the state in BRICS member countries when determining their industrialisation process, shaping inter-country firm relations, and creating vibrant interlocking business networks to sustain economic growth, while also dealing with the pressures of geoeconomic conflicts.

The EU needs to come to terms with the strong role of the state

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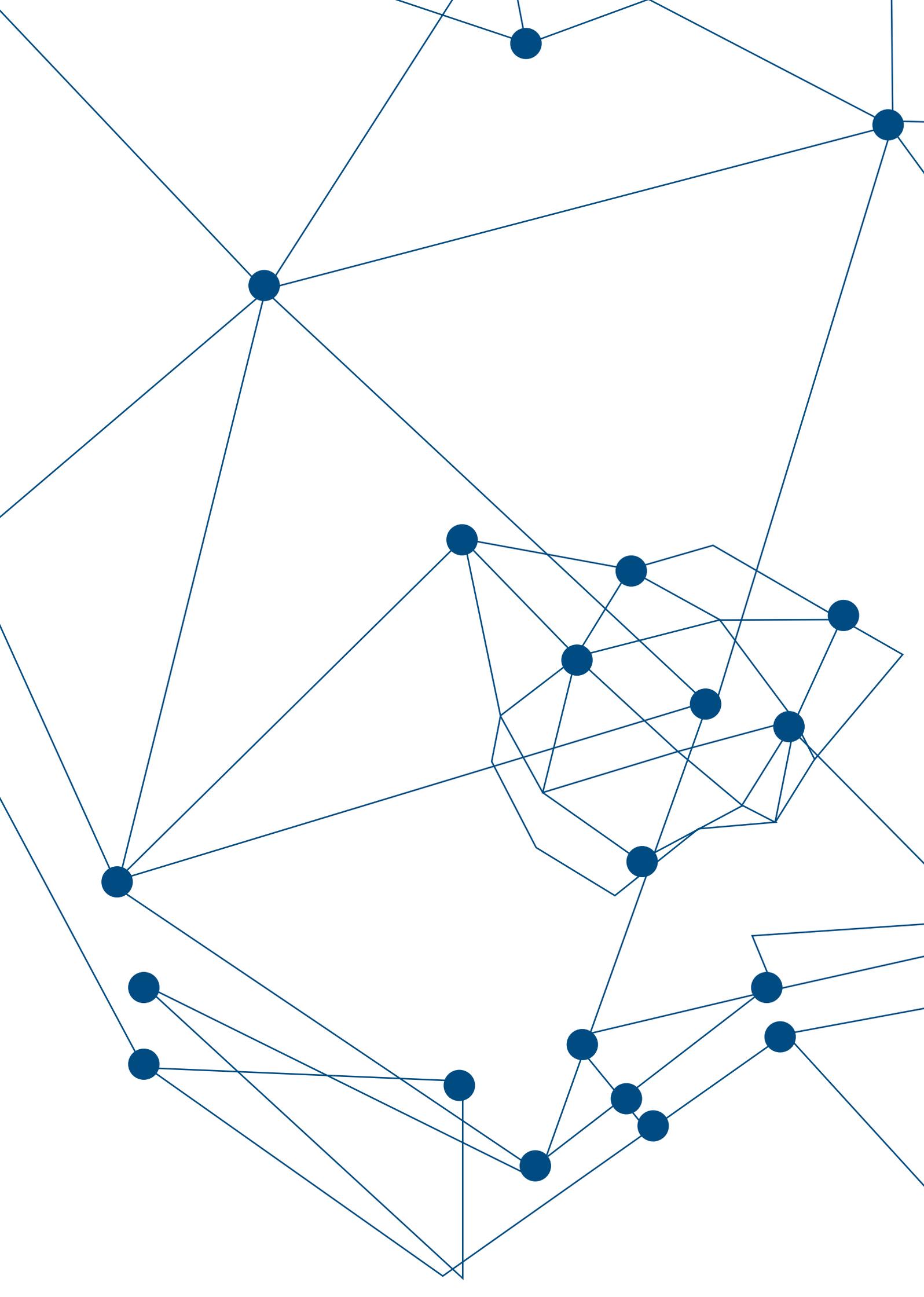
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The global rules-based order is undergoing its most significant stress test since the end of the Second World War. Multilateral institutions have long been criticised, either for their inaction or for failing to adequately represent developing countries. Yet the global governance crisis has continued to worsen in recent years. The long-term impact of these current geopolitical dynamics for global governance remains to be seen. What is certain, however, is that abandoning the rules-based order would be harmful, particularly for smaller states and developing countries.

Through this compilation, the Konrad-Adenauer-Stiftung seeks to contribute to ongoing discourse surrounding the future of global governance within the realms of economic and trade policy. The focus is on the institutions via which global governance is exercised. Four chapters offer a multi-dimensional perspective on the challenges and potential pathways for the future architecture of global economic governance.