

26-11 Europe of the Future 2050— Trade Policy

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It is vital that the European Union (EU) take the central leadership role in shaping the world trading system of the future. The need for strong leadership has not been as apparent since the period of postwar economic planning in 1944 at Bretton Woods and in the conferences that led to the drafting of the Charter for the International Trade Organization (ITO)¹ and the General Agreement on Tariffs and Trade (GATT). Because the United States has chosen to resort to a power-based approach to trade and because China, the world's largest trading country, has chosen to rely on a high degree of state involvement in its economy, it falls to the European Union to take the lead in working with others to consider how to shape the future of the world trading system based on values it shares with others subscribing to the liberal international order. Having the primary capacity to fulfill this role, it is its responsibility to do so.

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1 An organization that never became a reality due to the failure of the US Congress to approve the agreement.

THE PROPOSED EUROPEAN ROLE

If the EU takes the lead, it would not be alone. Many would join it and work with it: The *international progressives*, the mid-sized economies positively disposed toward trade, starting with a nucleus of Japan, Canada, Australia, New Zealand, Singapore, the United Kingdom, and South Korea, and branching out over time to Brazil, Costa Rica, Uruguay, potentially Indonesia, as well as forward-leaning Southeast Asian participants and several of the more active Latin American countries. A beginning may be made through a combination of the EU and members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).² Canadian Prime Minister Mark Carney has given voice to the proposition that the middle powers have agency, which they must now exercise:

...the question today for middle powers like us is whether we establish the conventions and write the new rules that will determine our security and prosperity or let the hegemons dictate outcomes. In the new global environment, the ability to form effective coalitions is becoming a central strategic capability.³

Collective leadership is needed. The EU must help set the pace. The convoy system, proceeding at the slowest speed, is no longer acceptable if timely progress is to be made.

THE FOUNDATIONS OF EU LEADERSHIP

Caveats: The EU will not be entirely free to pursue the trade policy of its choice, and the one recommended in this Policy Brief, without having met to a substantial degree four prerequisites⁴:

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- 2 Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United Kingdom, and Vietnam.
 - 3 Address to the Australian Parliament, March 5, 2026, <https://www.pm.gc.ca/en/news/speeches/2026/03/05/prime-minister-carney-delivers-address-both-houses-australias-parliament>.
 - 4 See also the EMU Lab 2026 Florence Report released in June 2026. It echoes many of the themes raised here but was not available at the time when this paper was submitted to CEPR on April 6, 2026, <https://www.eui.eu/Documents/web2021/emu-lab-2026-florence-report-executive-summary-ap20may2026-final.pdf>.

- 1 *Geopolitical standing.* Europe must work to gain sufficient geopolitical status to avoid having key aspects of its trade policy dictated by either or both superpowers, the United States and China. Both powers have at times pursued coercive trade policies that are contrary to optimal policy choices for the EU. Since EU status approaching that of a geopolitical superpower cannot be achieved overnight, some compromises will have to be made, but that does not prevent its envisioning a desired trade policy and then assessing how best to deliver it.
- 2 *The single market.* A second precondition for pursuing an optimal European trade policy is that the EU must perfect its single market. The recent Enrico Letta [report](#),⁵ quoting IMF studies, argues that the tariff equivalent of the friction of moving products from one EU Member State to another is the equivalent of a 44 percent tariff on goods (three times more than in the United States).⁶ For services the tariff equivalent is 100 percent. Conducting a trade policy from a position of strength is not a matter solely of having a single defense military force for the 27 members but also having a true single market. Within the EU, the costs from regulatory divergence, public procurement barriers, a fragmented services markets, professional licensing restrictions, and perhaps more fundamental issues such as the lack of a Capital Markets Union, need to be overcome.
- 3 *Coherence.* The third precondition for the pursuit of an optimal trade policy is that the EU has the attributes, to the extent possible, of a single state when addressing trade policy formulation. The subjects for trade negotiations have broadened very substantially. There is a myriad of regulatory jurisdictions both within the European Commission and at the level of Member States that impinge on trade aspects of other policy venues, including investment, health (given the all too real threats of pandemics), competition policy, industrial policy, farm policy, digital policy, and the deployment of artificial intelligence (AI), to name a few. The United States found a means of dealing with trade-related aspects of other policy preferences

5 See <https://european-research-area.ec.europa.eu/documents/letta-report-much-more-market-april-2024>.

6 Marta Santamaría, Jaume Ventura, Ugur Yesilbayraktar, *Borders within Europe*, BSE Working Paper 1229 December 2020 (Revised: February 2024), Barcelona School of Economics, <https://bw.bse.eu/wp-content/uploads/2021/01/1229-file.pdf>.

through the creation of “fast track,” also called “trade promotion authority,” a process for Congressional approval and implementation of trade agreements, as delegating specific advance authority was not feasible. Something like this approach may already exist for the EU in terms of qualified majority voting by the Member States, but something more specific may be needed to supplement the competence of the Commission.

- 4 *Accepting the mantle of leadership.* By share of global trade (goods and services combined), the EU is the largest trader, accounting for about 15.8 percent of world trade. Next is the United States with around 13.6 percent. Third is China with about 13.4 percent. Viewed objectively, the EU should have a clear leadership position in the world trading system. It has the necessary economic weight. It has the requisite market size. It has the necessary technical expertise and institutional capacity. It has the capability to formulate and promote initiatives. It can and must build coalitions. It has reserves of credibility and trust, and it is not lacking in diplomatic skills. It has many of the attributes necessary for it to lead in setting the international trade system agenda.

The voice of the EU must become commensurate with its weight and positive attributes. Neither the United States at present nor China is active or effective in shaping the world trading system and currently is not suited for the role. The EU could and, argued here, must, do so. Europe is to be forgiven for having become accustomed over many decades to being a close partner of the United States in managing the world trading system, but for the present, that is not possible. Now, it must take the initiative and find support elsewhere.

EU TRADE POLICY: STRATEGY

A recommended EU trade policy strategy should consist of the following:

- Maintain the existing global framework of rules reflected in the World Trade Organization (WTO), built as it is on agreed fixed ceilings to tariff levels and nondiscrimination.
- Expand the scope of the rules of the current world trading system to address emerging priorities, such as for climate, food security, and health as well as AI-related challenges.

- Engage vigorously and proactively in multiparty agreements responding to common trade challenges.
- Prepare to resist, through collective action where possible, trade coercion.
- Contain the harm caused by state-supported trade and investment practices.
- Provide more effective tailored responses to development needs.⁷

Leading the liberal international order

- *Maintain the existing global framework of rules reflected in the WTO, built as it is on agreed fixed ceilings for tariff levels and nondiscrimination*

Reestablishing stability. The first need of the trading system is greater predictability. The EU should work with others to affirm that the existing rules of the world trading system, centered on bound (contractually committed) tariffs, nondiscrimination (most favored nation), transparency, and binding dispute settlement will be the rule for it and those who trade with it, wherever possible. Far-reaching reforms can come later.

A “standstill”—a pledge not to backslide from past trade commitments—is needed.⁸ Those taking this pledge would undertake to not provide new protection other than that imposed in accordance with the existing rules of the trading system, *to the extent feasible*.⁹ There will be, of necessity, two major exceptions to a standstill as far as EU trade policy is concerned. These pertain to the EU’s dealings with the United States and China. Given its

7 The issue of development is of vitally important interest to the EU and the WTO but is not addressed in this Policy Brief but is covered in Alan Wm. Wolff, *Revitalizing the World Trading System* (Cambridge University Press, 2023).

8 Former trade minister of New Zealand, Tim Groser, in a joint article with two other senior negotiators from the EU and Canada, respectively, John Clarke and Steve Verheul, have suggested this.

9 See <https://borderlex.net/2025/07/01/comment-operationalising-ursula-von-der-leyens-cptpp-ambitions/>.

interests in maintaining US support for Ukraine in its war with Russia, the EU will have to determine what accommodations are necessary in its trade relations with the United States. This has already involved some departures from the guiding principle of MFN in its deal with the United States. As for trade and investment relations with China, if China maintains its current policies of state intervention, active management of the bilateral economic relationship is likely to be required.

It should not be foreclosed that the United States returns at some point to be a reliable and positive partner. In the meantime, a standstill, one that does not bind the United States, is a necessary and an achievable objective. Despite the spate of daily trade headlines emanating from the White House, the United States accounts for only between one-seventh and one-eighth of world exports. Thus, a standstill based on 2024 commitments could apply generally to actions taken by the rest of the world, accounting for the vast majority of global trade not directly involving the United States.¹⁰

Maintaining MFN. The EU should put on hold the call by EU Trade Commissioner Maroš Šefčovič for a reexamination of the basis for trade relations of the role of MFN (most favored nation, meaning nondiscrimination). Nondiscrimination is the core principle of the WTO, the GATT before it, and most trade agreements. MFN¹¹ was arrived at through centuries of trial. There is no good alternative. Ultimately it must be employed as a basic rule for global trade. The only known substitute is the application of relative power, which gives rise to a series of coerced relationships that can only increase resentment. Using power as a basis for a trading system is ultimately unsustainable.

Retaining nondiscrimination as the generally applicable principle does not mean that serious imbalances cannot be addressed

10 This approach would be more feasible if China also backs away from export-led growth to the extent that it relies on it now. If it does not, there will ultimately be negotiations to deal with surges in trade.

11 See <https://www.piie.com/blogs/realtime-economics/2026/prying-open-pandoras-box-scraping-mfn>.

through autonomous corrective policies or further negotiations. The end point to be sought through nondiscrimination is the freer movement of trade globally, although there must be adequate safeguards.^{12,13} Fortunately, no country or trading partner is following the example of the United States and abandoning its core trade commitments. That is likely to remain the case. For the EU, departures from nondiscrimination are to be expected under existing exceptions (such as for free trade agreements [FTAs] or treating trade with least developed countries) or when forced by circumstances to jettison the general rule, but they should not be a permanent feature of EU policy nor of the world trading system.

As the EU takes on broader responsibilities in the world trading system, a change in Brussels' and Member States' mindset is needed, just as it was for the United States and the United Kingdom in the mid-1940s when the goals of reconstruction and economic recovery replaced their prewar policies. Concrete recognition of this change in approach should involve creating a dedicated bureau within the EU services at the Berlaymont charged with responsibility for planning for the global trading system.

Championing a global vision. The first requirement for the future role of the EU in world trade is to have a vision of what is to be achieved. Cordell Hull, US Secretary of State in the Cabinet of Franklin Roosevelt in 1934 worked for the passage of the Reciprocal Trade Agreements Act, the opening of trade on a global basis, with tariffs bound and reduced, on the basis of reciprocity, and applied unconditionally in a nondiscriminatory manner (that is, according unconditional MFN treatment) for those willing and able ultimately to take on the obligations of the system. He saw this as a means to serve peace and as a path to greater prosperity. This proved to be the case.

The EU explicitly frames its trade policy as pursuing an open, sustainable, *and assertive* trade policy that supports economic

12 Ibid.

13 There are possible exceptions. Pragmatic steps, such as fitting benefits to individual needs of developing countries on a case-by-case basis, could still be pursued.

growth, strengthens resilience, and advances the green and digital transitions. Trade is to contribute to sustainable development, including climate protection and high labor standards. A harder edge has been adopted at least rhetorically, with the EU said to be becoming more assertive in defending its interests, enforcing trade rules, and addressing unfair practices. The slogan “open strategic autonomy” has been associated with this more active approach. This needs to be twinned with giving priority to fostering international cooperation globally. A strong EU will have the ability to act autonomously, but its independence must accommodate the EU’s being instrumental in creating and then leading a world trading system that is suitable for it and countries supporting the joint endeavor. The system must be fit for the 21st century and be both rules-based and values-based. The alternative, a zero-sum approach, based on increasing autarky, with an overemphasis on national security and domestic manufacturing, must be resisted.

- *Expand the scope of the rules of the current world trading system to address emerging priorities*

The EU should press for the **WTO to begin serious deliberations on issues of common interest**. Modern trade policy requires serving a multiplicity of objectives. For example, recent circumstances have taught that the value of fostering resilience is an essential ingredient of trade policy, whether the subject is energy, agriculture, electric vehicles (EVs), or AI, but also innovation, which can be nurtured only with openness. A lesson forcibly taught is that in addition, an open policy cannot be maintained without distributional fairness. While this is largely an internal matter, the system should help to achieve this objective. Unspoken, fairness was a core value of the WTO/GATT. Due to dispute settlement decisions making progressively less available measures designed to deal with the harms from trade, the objective of fairness was underserved by the body of WTO trade agreements. For this deficiency, the goal of certainty in continuing international cooperation on trade matters has paid a price, most notably with the defection of the United States.

The WTO and the world trading system it administers need to come to grips with current global trade challenges. This the WTO

has failed to do in the face of the crises it has faced in the opening years of this century. One failure was to have a common response to the COVID-19 pandemic. Trade had to be relied upon to provide essential goods, such as mechanical ventilators, protective masks and gowns, medicines, and eventually, vaccines. Little of what many countries needed could be found in domestic stocks or obtained in a timely manner through investment. Trade was critical as part of the needed collective response. But the WTO rules were few and were not generally applied. Equally serious, but manifesting itself more slowly, is the challenge of climate change and its impact on food security. Trade will be a vital part of the necessary response. A third example concerns strains in trade posed by war, with conflicts that have threatened the production and movement of energy, fertilizer, and food supplies. Trade has been at risk whether in the Black Sea or the Strait of Hormuz at times of crisis. The WTO has a role to play, but it has not met these challenges. During the COVID pandemic, agreements among a few countries proved possible. The way was shown by Singapore and New Zealand, which fostered the free flow of essential goods. Canada led like-minded countries to make sure that trade in agricultural commodities was facilitated. There have been no effective multilateral responses, however.

Serious deliberations on issues of common interest are needed on topics such as increasing food safety, understanding and dealing with the impact of AI on trade, creating the necessary and appropriate environment and climate-related measures, and preparing for future pandemics as well as dealing with crises arising from armed conflicts. The future agenda will also of necessity include digital trade and data governance. Outstanding issues under this heading include data localization vs. free flow of data, privacy and cybersecurity standards, protection of source code and algorithms, rules governing digital services and platforms, going beyond the current plurilaterals and expanding the list of adherents. The topic of climate and trade will include dealing with carbon border measures (e.g., the Carbon Border Adjustment Mechanism [CBAM]), subsidies for green technologies, and climate-related standards. The EU has been interested in addressing industrial subsidies and leveling playing field (more on this below). Related are issues that occur because of state capitalism. The future

WTO will also have to address resilience of supply chains, and the opposite, excessive dependence. Under the heading of economic security will be included managing export controls, investment screening, and sectoral priorities, such as those involving critical minerals and semiconductors. Services trade and agriculture will be key subjects, along with development. The relationship of trade to human rights including forced labor are subjects that are ignored only at systemic cost. Intellectual property (IP) in new domains such as AI will demand attention, as well as the movement of professionals. Finally, WTO institutional issues need to be addressed, including how the members organize themselves (as meeting as a committee of the whole for the conduct of business is unsatisfactory), reformed dispute settlement, and the role of the Director-General and Secretariat.

A reasonable response to a list of this length is to ask which are priority matters. It is a question that cannot be readily answered in advance. Circumstances will determine priority in managing the global trading system. A caveat, however, at this point is due. The primary purpose of the world trading system is to foster trade. The conclusions reached generations ago by Adam Smith and David Ricardo were as much a part of shaping the current trading system as the thinking of John Locke was to the idea of democracy, especially constitutional government and individual rights. The basic assumption is that increased global trade will bring global prosperity. And this proved to be successful almost beyond imagination from the trading system's creation in the aftermath of World War II up until the present. Now other objectives are competing for attention, some of which are close to the current core of EU policy preferences. These competing interests can be in conflict with achieving efficiency through expanded trade. A careful watch will be needed to make sure the trade policy while being values-based does not become excessively values-laden, losing sight of its primary objective. Take as a cautionary tale the United States' desire to install high-speed rail between San Francisco and Los Angeles. After many decades of planning, the United States has exactly zero kilometers of installed high-speed rail track. Competing objectives upended the project. This can happen all too readily to EU trade policy, where the benefits to be derived from trade may

be continuously diminished through attention given to other policy objectives. A balance must be struck.

- *Engage vigorously and proactively in multiparty (plurilateral) agreements responding to common trade challenges*

Seeking alternative trading arrangements. The most significant change for world trade with the advent of the second Trump administration is a loss of trust in the United States and a de-risking by others that is altering trade patterns. This explains the line of foreign leaders heading to Beijing to explore closer relations, as well as to New Delhi, Tokyo, and other Asian capitals. It explains an acceleration of bilateral deals long in the making, EU-Mercosur and EU-India, for example, and extension of tentative feelers to foster greater economic alignment with the CPTPP countries.

The EU should explore much closer ties with the like-minded. The most talked of option at present is a **CPTPP-EU policy alignment**. That initiative should be given precedence and have practical near-term effects. If it is feasible, the two blocs should suspend tariffs substantially between them, as a precursor to an FTA, and as part of a redirection of trade flows undertaken in the cause of de-risking. While the EU is digesting its latest FTAs, a domestic political assessment is needed in Brussels and national capitals as to how deep the cooperation with CPTPP can be, including the identification of areas for immediate regulatory alignment.

The EU has mastered the use of FTAs to a greater extent than any other party engaged in trade. It now has the challenge to expand on this base, to tie together where there is a fit bilateral and plurilateral arrangements. The FTAs worked to allow tariff (and some nontariff) liberalization on a bilateral basis. Those willing and able to make greater progress by subject matter should be encouraged to do so in partnership with the EU, always with an eye toward amalgamation into common global rules. Plurilateral agreements should proliferate among WTO members who have shared interests.

Progress can also be made by specific subject matter agreements outside of the WTO and FTAs, such as the Digital

Economy Partnership Agreement (DEPA). Every effort should be made when negotiating sub-multilateral agreements that they are employed as laboratories for eventual multilateral cooperation. They must be designed for eventual adoption as universal rules. This cannot succeed unless the way is cleared for plurilateral agreements to be adopted formally and become a part of the body of WTO law, with obligations and (at times) benefits limited to participants, but ultimately open to all who meet the requirements.

- *Prepare to resist, through collective action where possible, trade coercion*

The current exceptional conduct of the United States and those coerced into dealing with it cannot be allowed to dictate how world trade is ruled in general. How countries engage in their trading relations with the United States was given an initial answer in 2025. Most made or sought **deals with Trump's America** despite its higher tariffs and unilateral demands. There was little retaliation (outside of China and Canada). The pre-February 20, 2026¹⁴ deals had common elements—Trump would reduce his reciprocal tariffs (tariffs by executive action) in return for concessions from the other party of trade and investment. Then the “reciprocal tariffs” were declared to be illegal as a matter of US law by the US Supreme Court. Despite this, the Trump administration pledged to restore the US tariff wall on a durable legal basis by mid-July 2026. The EU, for its part, has called for Trump to honor his deal. Were the bilateral deal to be maintained, the EU would in general remove its tariffs on US industrial goods, give preferential access within limits to US agricultural goods, and accept a 15 percent US tariff on its exports to the United States. Based on what was on the table prior to February 20, left unaddressed would be future US tariffs under other authorities that exceeded 15 percent—either under section 301 of the Trade Act of 1974 (retaliatory authority) or section 232 of the Trade Expansion Act of 1962 (national security authority).

14 The date the US Supreme Court decided that the use of Trump's claimed main tariff authority was invalid.

What happens next? The **US-EU deal**¹⁵ was to give assurances with respect to current section 232 tariffs that they would be subject to a ceiling. It is unclear at present what assurances are to be provided with respect to future section 232 or 301 measures. Here, either the United States could give its commitment that the selective tariff authorities would not be applied to EU products, or, failing that, the 2024 *status quo ante* would apply, meaning that while the United States could impose additional tariffs when it chose to do so, the EU would be free to retaliate.¹⁶

What future is there for EU-US cooperation? It is entirely possible that during one of the next US administrations following this one, trade and regulatory cooperation can be revived between the EU and the United States, overcoming the failure of the Trans-Atlantic Trade and Investment Partnership (TTIP). At some point in the decade of the 2030s a bilateral US-EU FTA could even be contemplated. The history of US-European cooperation on trade issues is long, and the present strains in the relationship may be an aberration. There have been missed opportunities in the past: Tariff elimination by sector was permitted at one point under authority

15 See https://policy.trade.ec.europa.eu/news/joint-statement-united-states-european-union-framework-agreement-reciprocal-fair-and-balanced-trade-2025-08-21_en.

16 As for WTO consistency of the EU's actions: A special EU deal for the United States could, arguably, be excused by the invocation by the EU of the WTO/GATT national security exception to the rules under Article XXI. This is in practice what the EU has done. It entered into an otherwise GATT-incompatible agreement in the hope that this would secure continued US support for Ukraine. It did not, however, invoke the GATT exception. A new US-EU deal could accept a US flat tariff of 10 or 20 percent to coincide with US continuing to supply (sell to Europe) weapons for Ukraine as well as sharing military intelligence with Ukraine. Assisting Ukraine, as a future member of the EU, taking emergency action to assist the EU in its support of Ukraine, in current circumstances, would constitute a valid national security rationale. WTO/GATT Article XXI provides, in relevant part: "Nothing in this Agreement shall be construed... (ii) to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests...C) taken in time of war or other emergency in international relations;...."

granted to the US president in the Trade Expansion Act of 1962. They need not be overlooked in the future. Another route to a US-EU FTA is if both at some point join the CPTPP. It would make it the first near global FTA.

It should be recalled that the United States was for decades a strong supporter of the European economic project despite inevitable trade frictions from time to time between the two. Can the US position itself to become once again the chief partner of the EU in managing the trading system? There is evidence that the United States can be the partner once again that can work with the EU. Congress tried to cancel the “emergency” as the basis for Trump’s “reciprocal” tariffs. Neither American political party has espoused high tariffs. Neither party calls for the end of the rules of the trading system (nor does even the current US administration). The EU should be open to the possibility of a future US administration determining to once again be a chief trade partner of the EU, working with like-minded countries in an open rules-based multilateral trading system. To be sure, the rebuilding of trust will take time, and a stronger EU will be necessary not only in the interim but once the United States finds its way forward.

Another caveat: European policymakers believe that if countries benefit from access to the EU market, they should compete under broadly similar conditions. “Level playing field” (LPF) issues are designed to prevent a country from gaining a competitive advantage in trade by lowering regulatory, labor, environmental, or subsidy standards. The concept is central to many EU trade agreements and negotiations. The EU seeks rules limiting government subsidies that distort competition, similar to its own state-aid discipline; labor standards that prevent countries from gaining advantage by weak labor protections or wage suppression; commitments not to weaken environmental protections and climate policies governing carbon pricing, and environmental enforcement; avoiding tax regimes that distort competition; and ensuring that antitrust rules and regulatory enforcement prevent unfair advantages. EU firms operate under strict regulations; LPF is to ensure that foreign competitors cannot avoid similar costs. This approach, it is felt, can provide political support for trade agreements from Member States and the European Parliament.

Integration with EU regulatory policy is a goal. Trade agreements can be used to export regulatory norms. The EU's Brexit negotiation encapsulated this approach.

Another view is that the EU's seeking LPF can be employed by the EU as an excuse to restrict trade, a more elegant way of reaching the EU equivalent of a Turnberry Round. Were this to occur, it could undermine the competitiveness of EU business. A lesson can be drawn from the experience of the Indian economy: Where the Indian governments succeeded in regulating trade and economic activity generally, its industries became far less competitive internationally. Where it did not intervene but allowed its talented population freedom to excel due to an emphasis on education in science, technology, engineering, and mathematics (STEM), innovation was promoted and Indian software and traded services became highly competitive globally.

Another caution: LPF is more readily talked about than achieved. The major steel-producing countries have tried for decades to address global overcapacity, subsidies, and market distortions in the sector. The effort dates back to the formation of the OECD Steel Committee in 1979 (I was its first chairman). In more recent times, China participated in global steel talks once it became a major producer of steel, but it is currently not an active participant in the main multilateral forum addressing steel overcapacity, the Global Forum on Steel Excess Capacity (GFSEC), created by the G20 in 2016 and hosted by the OECD. At its creation, the forum included all G20 countries and additional OECD steel-producing economies together representing about 90 percent of global steel capacity. During 2016–2019 China participated in the Global Forum discussions and shared data on capacity and policy measures. In late 2019 China withdrew from the forum, refusing to join the consensus on extending the process. China produces over half of the world's steel, making it central to any effort to address global overcapacity. Western countries argue that Chinese subsidies and state-directed investment create excess capacity that depresses global prices. China argues that its production largely serves domestic demand and denies that its policies distort markets at home or abroad. LPF is easier to articulate than achieve.

- *Contain the harm caused by state-supported trade and investment practices*

Trade with China. As a rule, the EU regulates its trading relationship with China through use of *ad hoc* trade defense measures. It is an open question whether a more structured trade relationship will be negotiated, whether plurilaterally with the involvement of trading partners with like concerns or bilaterally by itself. The EU and Chinese markets differ significantly in size, openness, regulatory structure, role of law, and state involvement. China has a population over three times that of the EU. Its economy is half again larger in size but its consumers' purchasing power is about 40 percent that of the EU. EU policymakers will for many years to come seek to balance the opportunities and risks of trade with China. The United States dealt with the rise of Japan a half century ago with grey measures, largely voluntary export restraints. It now employs a discriminatorily higher tariff. The EU is using superficially WTO-consistent sectoral measures to achieve a similar end, with likely the same degree of success, namely a political palliative rather than a fundamental economic solution. IMF guidance¹⁷ requires adjustments by China. There is little evidence of China adopting timely and adequate measures.

The EU will have the difficult trade policy and diplomatic task of rationing market access and its use of potential countermeasures with its seeking eventual expanded market access in China and investment from China. This is likely to become more difficult with time as the trajectory of Chinese export performance and state involvement are not promising any early or satisfactory solutions.

A separate approach to investment has already been tried with the Comprehensive Agreement on Investment (CAI), which was put on hold seven years ago after an exchange of sanctions. Were China to continue to seek to join the CPTPP at some point, and if the EU had done so, this could overcome to some extent the political

17 Arjun Neil Alim and Thomas Hale, "IMF calls on China to halve industrial subsidies," *Financial Times*, February 18, 2026, https://www.ft.com/content/296d19ab-1e30-43c3-9df0-460070acc9a1?utm_source=chatgpt.com.

constraints the EU faces in negotiating agreements with China directly. It is worth a discussion within the EU and with its partners whether investment rules should be negotiated in a broader context than bilaterally. Separately, despite the setbacks that faced the EU's attempts to introduce investment rules into the WTO rule book twenty years ago, with more countries adopting divergent foreign direct investment (FDI) screening regimes, a multilateral effort to align national systems would make sense.

Transitioning from hub and spokes to a 21st century trade framework

A particular EU challenge is how it fits its multiplicity of bilateral agreements, FTAs, and economic partnership agreements into the trading world going forward. Questions over rules of origin arise with a patchwork of agreements, particularly if the EU moves closer to an arrangement with the CPTPP. It may be impractical for all the EU FTAs to be merged, given the differences in exclusions and limited preferences, especially in agriculture. A common protocol of rules of origin can be used that does not require harmonization of FTAs, as suggested by a former EU trade policy official. This could provide an alternative rule that companies could use optionally, thereby avoiding a painful harmonization of bilateral protocols.¹⁸

CONCLUSION

The mantle of leadership of necessity is passing to the EU, because of its capacity and history. It needs to play a major role in leading toward the world trading system of 2050 with maximum benefits for all. This takes a change in mindset, of the kind that was required of the key actors at Bretton Woods and Havana. An EU-CPTPP base can be used to make progress, but it should always be done with a view as to how it can be a to broader and finally global arrangements. Progress will often be incremental, and there may be parallel efforts in different venues.

Just as with the EU's single market, the global market will require enforceable rules if it is to succeed. In both instances, there will be

18 This has been suggested by Ignacio Barcero, former Commission official (in a paper as yet unpublished as of this writing).

resistance in the name of national sovereignty. Enforceable rules will ultimately be needed, not just softer political commitments. But a high level of political leadership will be essential. There would have been no EU without Monnet, Schuman, and Spaak, so the way forward will require personal leadership. It is difficult to achieve the kind of role for the EU via a professional bureaucracy acting alone, without buy-in at the highest levels by European leaders. While we cannot yet identify sources of positive leadership in the United States, for others to succeed without the United States, that element of leadership will have to be found in the EU to achieve success in its global trade policy 2050. A tall order, but entirely possible.



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