

Saving global economic governance from the ‘Trump shock’

Why rules-supporting countries should establish a ‘third pole’ in the global economy, without the US and China

Creon Butler



Chatham House, the Royal Institute of International Affairs, is a world-leading policy institute based in London. Our mission is to help governments and societies to build a secure, sustainable, prosperous and just world.

Contents

	Report summary	2
01	Introduction	4
02	Trump's trade policy shock	7
03	Other international aspects of Trump's economic governance shock	20
04	How should the rest of the world respond to the Trump shock?	35
05	The case for a 'third pole' in global economic and financial governance	39
06	How should the third pole be established?	46
07	Technology and the third pole	62
08	Conclusions	65
	About the author	67
	Acknowledgments	68

Report summary

Rules-supporting countries urgently need a practical way to sustain international economic governance without the US or China. Establishing a ‘third economic pole’ open to all, but based initially on an alliance between the EU and CPTPP, is likely to be the most effective way to achieve the required scale and substance.

-
- President Donald Trump’s second-term economic policies represent a dramatic break with the past 80 years. The US has substantially increased average tariffs on imported goods. The administration has also withdrawn its support for key global public goods, including the net zero transition, worldwide energy security, international monetary and financial stability, and the global elimination of poverty.
 - Trump’s policy shifts have had less immediate impact on US and global economic growth and financial market confidence than might have been expected. But the reduction in Middle East oil and gas supplies that has followed the US-Israeli attack on Iran may change this. It is in any case likely to be only a matter of time before the full suite of Trump policies substantially reduces trend growth and economic stability in the US, and possibly the wider world.
 - Meanwhile, China has never fully accepted the core principles underpinning open international markets for goods, services and capital. Nor has it aligned its trade, industrial and exchange rate policies with these principles. China is far from the only country to behave in this way, but as the second largest national economy after the US, it has become a highly disruptive influence.
 - Against this background, some commentators have argued that other countries have no choice but to align themselves economically with either the US or China.¹ Others have called for ‘variable geometry’ in which so-called middle powers form coalitions of the willing to achieve collective goals.² This report takes a different approach, arguing that other market-oriented economies

¹ Wolf, M. (2025), ‘The fracturing of the world economy’, *Financial Times*, 25 November 2025, <https://www.ft.com/content/b5157c3c-568e-4a49-ba19-e8bda1fc7bec>.

² World Economic Forum (2026), ‘Davos 2026: Special address by Mark Carney, Prime Minister of Canada’, 20 January 2026, <https://www.weforum.org/stories/2026/01/davos-2026-special-address-by-mark-carney-prime-minister-of-canada>.

should establish a permanent ‘third pole’³ in the global economy *without* the US and China. The goal would be to preserve and improve, in the largest economic space possible, the core principles and rules underpinning economic openness, absence of coercion and pursuit of mutual benefit.

- These principles have served the world well since the Second World War. Over the medium term – say, five to 10 years – this approach would be more beneficial to many countries than accepting the subservient economic relationships on offer from the US and China. The establishment of a third pole, independent of the US and China, is also likely to be the most effective route to save worldwide economic and financial governance over the longer term (i.e. 10–25 years).
- Establishing a third pole in the global economy will not be straightforward, however. There is no hegemonic power among the likely participants, and many countries are currently tied to the US through military alliances. But today’s direction of US and Chinese economic policies creates space for a third pole to stand for something different – and positive – in international affairs. This fact alone could enable such a concept to attract increasingly strong political support, creating the conditions for prospective members to overcome obstacles to their participation.
- This report sets out a proposed political and diplomatic process for establishing a third pole in the global economy. The author argues that the best place to start is through a non-military alliance between the EU and the 12 members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), plus potentially some other major economies such as Brazil, South Africa and South Korea. The alliance should focus in the first instance on maintaining and developing the international trade and investment system. But its remit should be expanded as quickly as possible to cover other key areas in global economic and financial governance undermined by US and Chinese actions.
- Prospective members of the new grouping will need to take some calculated risks, including facing up to the possibility of retaliation from the US and China. They will also need to prioritize deployment of the political, diplomatic and technical resources required to get the initiative off the ground. Moving quickly is vital both to forestall further erosion of international economic cooperation and to provide an urgently needed counter-narrative to the positions being taken by the US and China respectively. There is no time to lose.

³ This report uses the term ‘pole’ in the same manner that terms such as ‘unipolar’ and ‘multipolar’ sometimes describe the international political environment. Not to be confused with the common geographers’ usage of the term to reflect a binary relationship between two poles. In international relations, there can be multiple poles.

01

Introduction

From tariff hikes to the Iran war, recent US policies have undermined and distorted global economic governance. How can the damage be undone?

The suite of economic and financial policies implemented by the administration of President Donald Trump since he took office for a second time in January 2025 marks the biggest shift in global economic and financial governance since the Second World War.

There have been other dramatic shifts in post-war US economic policy (notably the ‘Nixon shock’ of 1971).⁴ However, the ‘Trump shock’ is fundamentally different in five main ways. First, it affects a much broader range of policy areas, including trade, international monetary and financial stability, global energy security, the net zero transition and the global effort to reduce poverty. Second, some of the most important policies of Trump’s second administration, or Trump 2.0, are based on invalid arguments and internally inconsistent theories, most notably on climate change but also in terms of the relationship between the US current account and investment flows. Third, the Trump administration has treated close allies – particularly the EU and Canada – with hostility sometimes exceeding that which it has shown towards strategic competitors such as China. The administration has also combined economic demands with threats of force, as seen in Trump’s insistence that the US be granted control of Greenland, a Danish sovereign territory. Fourth, in economic negotiations the Trump administration has systematically pursued asymmetric outcomes in which the US is the outright winner, rather than pursuing mutually beneficial solutions with counterparties. Finally, some US policy actions have outwardly seemed closely aligned with the financial interests of the president’s businesses, family or associates.⁵

⁴ On 15 August 1971, President Richard Nixon ended the convertibility of the US dollar into gold at \$35 per ounce. See Garten, J. (2021), ‘How the ‘Nixon Shock’ Remade the World Economy’, Yale Insights, 13 July 2021, <https://insights.som.yale.edu/insights/how-the-nixon-shock-remade-the-world-economy>.

⁵ Gameo, L. and Schoenfeld Walker, A. (2025), ‘Trump’s Tangled Web of Deal-Making, Policy and Riches’, *New York Times*, 31 December 2025, <https://www.nytimes.com/interactive/2025/12/31/us/trump-deals-policy-conflicts-web.html>; and *Financial Times* (2026), ‘America’s shift to an insider economy’, Editorial Board, 28 January 2026, <https://www.ft.com/content/1d3b1f8c-7968-4dcd-8982-9295da15a186?syn-25a6b1a6=1>.

While the US’s chosen role in the world economy has undergone enormous change in barely a year and a half, China’s role is evolving more gradually. China’s economic weight has continued to grow in recent years, consolidating the country’s position as the second largest national economy after the US. This has been matched by China’s development of world-leading capabilities in both green technology and digital technology – notably, in the latter case, artificial intelligence (AI).⁶

China is not as proactive or overt as the US in challenging economic governance norms, and has repeatedly sought to portray itself as a champion of multilateralism.⁷ But in practice, China’s approach to the world economy has important similarities with that of the US today, and also poses serious problems for third countries. For example, China has generally complied with the letter of its treaty obligations within the World Trade Organization (WTO), but often not with the spirit of open markets and fair competition. This is reflected in the country’s continuing use of state subsidies, and in a reluctance to allow sustained appreciation in the renminbi despite a surplus on trade in goods exceeding \$1 trillion.⁸ China has repeatedly deployed economic coercion for political ends, and has supported Russia’s attack on Ukraine (despite Russia being in clear breach of the UN Charter). China has also refused to comply with the rulings of the Permanent Court of Arbitration at The Hague on Chinese claims in the South China Sea.⁹

Faced with these realities in US and Chinese behaviour, third countries or blocs – particularly the traditional economic and security partners of the US – must decide how to respond. Some commentators argue that the current US stance could prove temporary in key respects, and that the best strategy is therefore to wait until America reverts to more rational and orthodox foreign and economic policies. Others have argued that the world is necessarily bipolar (in effect, with global power divided between the US and China). According to this view, third countries or blocs will ultimately have to align themselves economically (and possibly even politically) with either the US or China, however unpalatable this may prove to be.¹⁰

Other commentators have argued that the world will become multipolar, and that this will result in the emergence of multiple ‘coalitions of the willing’ seeking progress on important issues one by one.¹¹ These coalitions may be formed by so-called ‘middle powers’, or be led by the US or China. The composition of any given coalition will depend on the issue in question, and on the extent to which participants’ underlying interests converge.

⁶ Kynge, J. (2025), ‘Can the West recover from China’s hi-tech knockout blow?’, *The World Today*, 15 December 2025, <https://www.chathamhouse.org/publications/the-world-today/2025-12/can-west-recover-chinas-hi-tech-knockout-blow>.

⁷ CGTN (2025), ‘President Xi Jinping’s key quotes on importance of multilateralism’, 31 August 2025, <https://news.cgtn.com/news/2025-08-31/President-Xi-Jinping-s-key-quotes-on-importance-of-multilateralism-1Gguyt8e1SU/p.html>.

⁸ Jett, J. (2026), ‘China reports record \$1.2 trillion trade surplus for 2025, defying Trump’s tariffs’, NBC News, 14 January 2026, <https://www.nbcnews.com/world/asia/china-reports-record-12-trillion-trade-surplus-2025-defying-trumps-tar-rcna253940>.

⁹ Hayton, B. (2021), ‘South China Sea: Five years since the Hague ruling’, DW, 12 July 2021, <https://www.dw.com/en/beijing-defiant-five-years-since-the-south-china-sea-ruling/a-58237995>.

¹⁰ Wolf (2025), ‘The fracturing of the world economy’.

¹¹ World Economic Forum (2026), ‘Davos 2026: Special address by Mark Carney, Prime Minister of Canada’.

However, this report considers another possible outcome where, instead of a bipolar world, there is a deliberate shift to a tripolar world in which market-oriented economies other than the US establish a permanent alternative ‘pole’ in the world economy, and for global economic governance, distinct from both the US and China.

The goal would be to preserve and improve, in the largest economic space possible, the core principles and rules underpinning economic openness, absence of coercion and pursuit of mutual benefit that have served the world well since the Second World War.

The goal of this ‘third pole’ would be to preserve and improve, in the largest economic space possible, the core principles and rules underpinning economic openness, absence of coercion and pursuit of mutual benefit that have served the world well since the Second World War. The author argues that over the medium term – perhaps five to 10 years – such an approach would be more beneficial for members of the new group than if they simply accepted the subservient economic relationships on offer from the US and China, or tried to sustain multiple coalitions of varying weight and importance. An architecture of this type would also have the best chance of re-establishing an effective and reasonably fair system of global economic governance in the long term if a future US administration reverts to more collaborative behaviour.

While some commentators have argued that a third pole would be impractical, this report shows that there is a plausible way to achieve it, provided the founding members are willing to prioritize mobilization of the necessary resources and take some calculated risks.

But the situation is urgent. The success of a such a grouping depends on moving forward decisively over the next six to 12 months. The existing consensus on preserving a WTO basis for trade among non-US economies is fragile, and could be easily disrupted by further US actions. There is also a risk that some essential participants in the proposed grouping (notably the EU) may choose a more inward-looking strategy unless the potential of an alternative economic pole is quickly realized. Conversely, the next 12 months could provide a window of opportunity for innovation in global economic governance, as President Trump’s ability to deploy tariffs and other retaliatory measures may be constrained by continued domestic legal challenges, by an altered balance of domestic political power following the US mid-term elections in late 2026, and by the growing negative economic consequences arising from his economic and foreign policies, including the war he chose to launch in the Gulf.

02 Trump's trade policy shock

Trump's 'America first' policies have sought to maximize the value the US extracts from its trade and investment counterparties. So far, most other economies have sought to minimize disruption by conceding ground to the US. However, circumventing the US will become increasingly attractive if US demands become more extreme.

At the core of President Trump's shock to global economic governance are his policies on trade and investment. Against expectations, and contrary to what happened in his first presidency, he has largely done what he said he would do in the 2024 election campaign. This reflects planning ahead of the election by conservative thinkers.¹²

Scarcely a week after taking office, Trump announced an initial set of tariffs against Canada, Mexico and China on 1 February 2025. The administration sought to justify the measures on national security grounds, citing concerns about illegal immigration and cross-border flows of the opioid fentanyl. The initial tariff hike was followed by numerous policy twists and turns, as the administration first raised tariffs against selected groups of countries, then paused the tariff hikes temporarily, and then either reached settlements or reimposed tariffs.

Several domestic legislative powers were used to authorize tariffs. The administration's preferred approach was to invoke the International Emergency Economic Powers Act (IEEPA); this was the basis for the so-called 'reciprocal tariffs' imposed on all US imports on 2 April 2025. The net result was an almost sevenfold increase in the US average effective tariff rate, from 2.4 per cent at the start of 2025

¹² Dans, P. and Groves, S. (eds) (2025), *Mandate for Leadership 2025: The Conservative Promise*, Washington DC: The Heritage Foundation, https://static.heritage.org/project2025/2025_MandateForLeadership_FULLL.pdf.

to 16 per cent (the highest average rate since 1936) as of 20 February 2026.¹³ At this point the US Supreme Court intervened, ruling that the tariffs imposed through the IEEPA were illegal. However, the president quickly used another piece of legislation – Section 122 of the Trade Act of 1974 – to impose a 10 per cent across-the-board tariff for 150 days (albeit with a number of exemptions).¹⁴ As of 8 April 2026, the US average effective tariff rate stood at 11.8 per cent, its highest since the early 1940s.¹⁵ After allowing for substitution effects (i.e. the way consumers and businesses can be expected to shift purchases in response to tariffs) and other scheduled changes, the rate is projected to fall to 8.2 per cent by the end of the year.¹⁶ This is still a very substantial increase on the level that prevailed ahead of Trump’s second term.

The Supreme Court ruling was a significant setback for the president, as it reduces his scope to impose unlimited tariffs on individual countries indefinitely and with minimal explanation. It has also put in question some of the 20 or so economic agreements that President Trump had negotiated with various trading partners following the imposition of reciprocal tariffs. This is partly because the president’s imposition of Section 122 tariffs has broken the terms of a number of these agreements, and partly because the ruling on use of the IEEPA weakens the president’s ability to enforce the agreements – at least in the short term.¹⁷ A further setback is that the administration must repay illegally collected IEEPA tariffs to companies that paid them and that subsequently register a claim.¹⁸ The total value of refunds could reach \$166 billion, depending on how many companies file claims.¹⁹

However, the ruling is unlikely to change the president’s intent: namely, to use access to the US market to extract economic, financial and political concessions from trading partners (see Section 2.1). And there are at least four other legislative powers that he can use as a basis for imposing tariffs.²⁰ These laws are not necessarily as flexible or quick as the IEEPA, but given time, it seems likely that the administration will be able to fine-tune them. Such powers may also ultimately be more legally durable than the IEEPA, particularly in circumstances where the president’s supporters have a majority in Congress. In addition, Trump has many other non-tariff sources

¹³ The Budget Lab (2026), ‘State of U.S. Tariffs: February 21, 2026’, <https://budgetlab.yale.edu/research/state-us-tariffs-february-21-2026>.

¹⁴ Shortly after imposing the 10 per cent tariff under Section 122, the president announced that he would increase the rate to 15 per cent. However, this has so far not been implemented. On 7 May the International Trade Court ruled that the 10 per cent tariff had been imposed illegally. However, it only granted immediate relief to the small group of companies that had brought the suit, and the administration is planning to challenge the ruling.

¹⁵ The Budget Lab (2026), ‘State of U.S. Tariffs: April 8, 2026’, <https://budgetlab.yale.edu/research/state-us-tariffs-april-8-2026>.

¹⁶ Ibid.

¹⁷ In response to the IEEPA ruling, the European Parliament initially suspended ratification of the US deal with the EU. It then ratified the deal on 26 March 2026, but imposed a number of additional conditions, including that the deal would become null and void if the US imposed any further measures.

¹⁸ CliftonLarsonAllen LLP (2026), ‘IEEPA Tariff Refunds: FAQs for Importers’, 17 April 2026, <https://www.claconnect.com/en/resources/articles/26/tariff-refunds>.

¹⁹ Credit Pulse (2026), ‘Guide to IEEPA Tariff Refunds’, 25 March 2026, <https://www.creditpulse.com/blog/guide-to-ieepa-tariff-refunds>.

²⁰ These are: Section 232 of the Trade Expansion Act (1968), which can be used to impose tariffs for reasons of national security; Section 301 of the Trade Act (1974), designed to combat unfair foreign trade practices that burden or restrict US commerce; Section 122 of the Trade Act (1974), allowing a general tariff of up to 15 per cent for 150 days (after which it must be extended by Congress) to address balance-of-payments issues; and Section 338 of the Tariff Act (1930) to combat discrimination against US commerce. See Gasiorek, M. (2026), ‘The Supreme Court ruling on Trump’s tariffs leads to more uncertainty’, Centre for Inclusive Trade Policy, 21 February 2026, <https://citp.ac.uk/publications/the-supreme-court-ruling-on-trumps-tariff-leads-to-more-uncertainty>.

Another key feature of the US tariff strategy launched at the start of 2025 has been the enormous complexity that has resulted together with day-to-day uncertainty about what tariff rates will be applied to what products, over what period and for what reason.

of economic leverage, such as the ability to restrict access to the US dollar clearing system, or other countries’ dependence on the US for defence. The possibility these levers will be deployed is likely to deter several advanced-economy trading partners that have already signed asymmetric trade and investment deals with the US from quickly trying to unpick these arrangements. The European Parliament initially suspended ratification of the EU’s mid-2025 trade deal with the US, but subsequently allowed it to go through after adding a wide range of conditions under which the EU will no longer have to keep its commitments if the US fails to uphold its side of the agreement.²¹

Aside from the size of the increase in tariff rates, another key feature of the US tariff strategy launched at the start of 2025 has been the enormous complexity that has resulted together with day-to-day uncertainty about what tariff rates will be applied to what products, over what period and for what reason. This reflects the US president’s direct oversight of the strategy, resulting in a highly idiosyncratic approach and a wide and expanding range of motivations for applying tariffs.

2.1 The rationale for Trump’s new trade policy

So far, at least five different motivations can be identified.

The first is to **force other countries to reduce their own tariffs and non-tariff protection measures vis-à-vis the US**, while the US itself maintains its existing protections against other countries’ exports.²² In addition, the US administration has made clear that it will define for itself what constitutes foreign protection, rather than relying on independent arbitration or court rulings. As a result, tax and regulation policies that affect US companies operating in overseas markets may be defined as discriminatory simply because US companies lobby against them, or appear to be disproportionately affected, or because there is no parallel regulation in the US domestic market.

From the Trump administration’s point of view, the metrics of success for this strand of trade policy appear to be the size of the overall US current-account and trade deficits, and the size of the US’s bilateral deficits in trade in goods with individual trade partners. The latter yardstick was at the core of the ‘reciprocal tariffs’ formula implemented using the IEEPA. But this approach takes no account of the complex underlying economic mechanism through which changes in the US current account as a result of the imposition of tariffs will ultimately be determined by the US savings

²¹ Corlin, P. and Genovese, V. (2025), ‘MEPs freeze US trade deal after Trump erupts over Supreme Court ruling’, Euronews, 23 February 2026, <https://www.euronews.com/my-europe/2026/02/23/meps-freeze-eu-us-trade-deal-over-latest-trump-threats>; European Parliament (2026), ‘EU US trade deal: MEPs set conditions for lowering tariffs on US products’, press release, 26 March 2026, <https://www.europarl.europa.eu/news/en/press-room/20260323IPR38830/eu-us-trade-deal-meps-set-conditions-for-lowering-tariffs-on-us-products>.

²² This extractive trade policy is well described in Korteweg, R. and van Wijk, D. (2026), ‘Coercive Extractivism: The mechanics of Trump’s transactional approach to Europe’, Clingendael, 2 April 2026, <https://www.clingendael.org/publication/coercive-extractivism-mechanics-trumps-transactional-approach-europe>.

and investment imbalance.²³ The administration’s reciprocal-tariffs policy also ignores trade in services, where the US has a large and growing surplus with the rest of the world. Nor does it take account of the principle of comparative advantage.²⁴

The second goal is to **bring about more job-creating investment by US and foreign companies in America**. This is partly intended to result from the tariffs eventually imposed – making it more expensive to serve the US market from abroad. The administration is also seeking specific investment commitments from foreign governments in return for allowing some continued access to the US market. It is unclear what such commitments will mean in practice, particularly in the case of market economies where most investment is in the hands of private firms and individuals rather than governments. Nonetheless, Japan has agreed to finance a \$550 billion fund, largely controlled by the US government, which will invest in US strategic industries; the fund is capped at \$20 billion a year, with any profits mainly set to go to the US government.²⁵ South Korea has agreed a \$350 billion fund.²⁶ Taking a slightly different approach, the Swiss government has coordinated a set of pledges by private Swiss companies on investing in the US.²⁷

The third motivation, **boosting US economic security**, has been cited as an additional rationale for reducing the overall current-account and trade deficits. It is also being used to justify continuing with the Biden policy of 100 per cent tariffs on Chinese electric vehicles (EVs), effectively closing the US market to this source of supply. Economic security is the purported justification for protections for the US steel and aluminium industries, for provisions in new bilateral trade agreements designed to deter trading partners from deepening trade and investment links with China, and for bilateral deals to lock in supplies of critical minerals. The economic security justification for tariffs has been applied almost as freely *vis-à-vis* the US’s close allies as to the US’s strategic competitors.

The fourth motivation has been to **raise additional revenue for the federal government**, in part to offset the extension of tax cuts and other measures in the ‘One Big Beautiful Bill’ (OB BB) Act. As has become increasingly clear, this is an essential element of the tariff strategy. So while Trump is willing to negotiate, in return for concessions, some reductions in the high tariffs he originally imposed, there is likely to be an irreducible minimum (probably a headline rate of 10 per cent) below which he will not go. Before the Supreme Court’s IEEPA ruling, estimates suggested that the tariffs imposed up to that point under different legal powers would raise a net \$2.35 trillion in additional revenue over the period 2026–35

²³ Under the equivalence $(X-M) = (T-G) + (S-I)$.

²⁴ Although the administration did eventually exempt from reciprocal tariffs goods that the US cannot produce domestically.

²⁵ Chou, W. (2025), ‘Investing in Security and Success: Analysis of the US-Japan \$550 Billion Strategic Investment Fund’, Hudson Institute, 5 September 2025, <https://www.hudson.org/trade/investing-security-success-analysis-us-japan-550-billion-strategic-investment-fund-william-chou>.

²⁶ Lim, H. J. (2026), ‘South Korea scrambles to pass U.S. investment bill after Trump threatens higher tariffs’, CNBC, 27 January 2026, <https://www.cnbc.com/2026/01/27/south-korea-scrambles-to-pass-us-investment-bill-after-trump-threatens-higher-tariffs.html>.

²⁷ A recent report by McKinsey suggests that there has been a sharp pick-up in announcements of FDI projects in the US. In the first five months of 2025, announced FDI into the US more than doubled, in annualized terms, relative to the 2022–24 period, with gains in all sectors except EVs and basic manufacturing. The historical realization rate on announcements is 60–80 per cent. However, it is unclear if this will continue to hold in the Trump era. See, Devesa, T. et al. (2025), *The FDI shake-up: how foreign direct investment today may shape industry and trade tomorrow*, McKinsey Global Institute, <https://www.mckinsey.com/mgi/our-research/the-fdi-shake-up-how-foreign-direct-investment-today-may-shape-industry-and-trade-tomorrow>.

(taking account of the gross revenue raised and the offsetting reductions in tax receipts elsewhere due to growth and income effects, etc.).²⁸ This estimate was reduced to \$1.0 trillion as a result of the court ruling, but would rise again to \$1.6 trillion if the temporary tariffs imposed under Section 122 could be made permanent. However, under any scenario, this would amount to less than half the \$5 trillion total cost of the OBBB Act.

The fifth motivation is to **achieve a diverse range of foreign and domestic policy objectives**. For example, in August 2025 Trump imposed an additional 25 per cent tariff on Indian goods exports to the US (bringing the overall tariff rate to 50 per cent) as retaliation for Indian purchases of Russian oil.²⁹ He also imposed an additional 40 per cent tariff on Brazil (again, bringing the overall rate to 50 per cent) with the apparent goal of forcing the Brazilian authorities to release Brazil’s former president, Jair Bolsonaro, following the latter’s conviction for his role in an attempted coup.³⁰ In January 2026, Trump threatened to impose an additional 10 per cent in tariffs on eight European countries as part of his campaign to force Denmark to sell Greenland to the US. This motivation for using tariffs is potentially the one most greatly restricted by the Supreme Court ruling, as it depends on Trump being able to act quickly and in a targeted way with minimal evidence. Since the ruling, he has rarely deployed tariff threats in this way. However, it remains to be seen whether the approach will re-emerge once the administration has completed development of its replacement regime for the IEEPA.

2.2 Key features of Trump’s strategy

Detailing these motivations highlights several central features in Trump’s trade strategy that make the policy very hard for other countries to respond to systematically in the short term. However, if key elements of this strategy are sustained, the US will increasingly become an unattractive market to serve despite its size.

The most important problems are the invalid arguments and inconsistent theories underpinning a number of Trump policies. This chapter has already described the serious flaws in the original reciprocal-tariffs formula. Another example is the inconsistency between seeking to reduce the US trade deficit, and hence the current-account deficit, and trying to boost capital inflows in the form of foreign direct investment (FDI) into the US economy.³¹ There is also a contradiction in using

²⁸ The Budget Lab (2026), ‘State of U.S. Tariffs: April 2, 2026’.

²⁹ These were reduced to 18 per cent in an interim agreement on 9 February. In return, according to the White House, India promised extensive reductions in tariff and non-tariff barriers on US exports as well as cooperation to address non-market policies in third countries (i.e. China). However, the commitments on the Indian side are not clearly specified, and it is unclear how much will be implemented, particularly after the US Supreme Court’s IEEPA ruling. See: The White House (2026), ‘Fact Sheet: The United States and India Announce Historic Trade Deal’, 9 February 2026, <https://www.whitehouse.gov/fact-sheets/2026/02/fact-sheet-the-united-states-and-india-announce-historic-trade-deal>.

³⁰ Covington (2026), ‘U.S. Tariffs and Sanctions Against Brazil and the Brazilian Response’, 13 August 2025, <https://www.cov.com/en/news-and-insights/insights/2025/08/us-tariffs-and-sanctions-against-brazil-and-the-brazilian-response>. In the case of Brazil there were significant exemptions, and Trump reduced tariffs unilaterally when faced with criticism about rising food costs in the US.

³¹ In theory, a fall in the current-account deficit could be squared with rising inward investment if US official foreign currency reserves were to rise rapidly. But this is not part of the administration’s strategy, nor is there any need for the world’s main reserve currency issuer to hold large (and potentially costly) foreign currency reserves.

tariffs and trade negotiations to force foreign companies to switch investment from overseas locations to the US while claiming to want to strengthen the US economy. The facilities companies construct under such pressure are likely to be less productive than those they would have built overseas; this in turn will damage other US industries that, as a result of tariffs, have to rely on these new facilities for inputs.³² Furthermore, the new tariffs will discourage imports of products (such as footwear) that US workers may generally be too highly paid and skilled to make, and of products (such as some advanced computer chips) that the US workforce lacks the skills and operational culture to make successfully. Either way, workers will be diverted from areas where they are more productive to areas where they are less productive.

A further problem is the way the strategy has so far been completely unconstrained either by WTO rules or by obligations under the US’s 20 bilateral or minilateral free-trade treaties that pre-date the current administration. Even the United States–Mexico–Canada Agreement (USMCA),³³ which Trump signed in his first term, is not immune. After initially imposing tariffs in violation of the agreement, the administration restructured tariffs on Mexico and Canada to comply with the USMCA, including exempting the 85 per cent of goods imports that meet the agreement’s origin and documentation requirements. However, in January 2026 the president threatened to impose 100 per cent tariffs on Canada if it signed a trade deal with China.³⁴ Indeed, the president appears willing to reopen any trade agreement at any point even though partner countries may believe they have settled all outstanding issues. He also appears to attach very little weight to the costs incurred by domestic or foreign business in dealing with constantly changing tariff levels.³⁵

These challenges are reinforced by the fact that many of the purported ‘deals’ that have been signed were initially sketchy and vague. The administration has chosen not to implement them in US law, and partner countries have often found them hard to implement. For example, the UK–US trade deal signed in May 2025 ostensibly removed Section 232 tariffs on UK exports of steel and aluminium products. But a recent US announcement on Section 232 leaves substantial tariffs of 25 per cent on UK metal imports in place.³⁶ The US also suspended talks on implementing a related technology investment agreement because of UK reluctance to make additional concessions on market access for US food exports.³⁷ Meanwhile, the EU’s bilateral deal with the US, announced in July 2025, included a clause capping future US tariffs on European pharmaceutical products at 15 per cent (including any that might arise from the ongoing Section 232 investigation). However, subsequent

³² It might be argued – following Lipsey and Lancaster’s ‘General Theory of Second Best’ – that the new Trump tariffs are being imposed to correct distortions in trade flows resulting from prior actions by other countries, and that the net result will be more optimal for the US economy than leaving the original distortion in place without any response. However, in this case the correct approach would be to target tariffs on specific policies, or specific countries (if a country is engaging in widespread distortions), and to permit the validity and proportionality of the measures taken to be assessed independently.

³³ Office of the United States Trade Representative (undated), ‘United States-Mexico-Canada Agreement’, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement>.

³⁴ Williams, A. (2026), ‘Donald Trump threatens 100% tariffs on Canada if it seals trade deal with China’, *Financial Times*, 24 January 2026, <https://www.ft.com/content/cfba49b6-feb6-4982-b61d-6ec6cba5c845>.

³⁵ Indeed, the administration has complained that the Supreme Court’s IEEPA ruling had reduced its ability to create uncertainty, which is a deliberate part of the strategy in forcing other countries to agree to US terms.

³⁶ RV Industry Association (2026), ‘Latest Section 232 Measures to Modify Steel, Aluminum, Copper Tariffs’, 3 April 2026, <https://www.rvia.org/news-insights/latest-section-232-measures-modify-steel-aluminum-copper-tariffs>.

³⁷ Williams, A. and Parker, G. (2025), ‘US suspends technology deal with the UK’, *Financial Times*, 15 December 2025, <https://www.ft.com/content/afd45e58-5351-4379-8f7e-5788da3d2e20?syn-25a6b1a6=1>.

Faced with the possibility of further tariff hikes on goods, other countries may begin to consider service sectors as an attractive target for retaliation.

statements by the Trump administration raised questions about whether there could yet be additional tariffs as a result of the Section 232 investigation. In addition, at the end of April 2026 Trump threatened to impose 25 per cent tariffs on imports of EU cars and trucks by July 2026 (up from the agreed 15 per cent), claiming that the EU had been slow to implement other aspects of the July 2025 deal.³⁸

The fact that Trump’s trade strategy has so far focused almost entirely on trade in goods and has largely ignored trade in services probably reflects the very large *overall* surplus that the US currently enjoys in services trade, alongside the political priority Trump sees in expanding what the administration might consider ‘high-quality’ manufacturing jobs.³⁹ But there is no guarantee that this situation will continue. Faced with the possibility of further tariff hikes on goods, other countries may begin to consider service sectors as an attractive target for retaliation. Equally, Trump has strongly criticized digital services taxes and sustainability disclosure requirements as discriminating against US companies. This is despite the fact that these measures are applied equally to all companies and go to the heart of domestic policy sovereignty. The EU agreed to withdraw proposals for an EU-wide digital services tax in parallel with its July 2025 trade deal. But this may only prove to be a temporary truce.

A further concerning aspect of the Trump trade strategy is the way the administration has struck deals with individual US technology companies, entitling the US government to share revenues from private sector chip sales to China as a condition for allowing the companies concerned to continue exporting. The first such deal permitted some US technology companies to sell relatively basic AI chips to China in return for handing over 15 per cent of the revenue to the US government.⁴⁰ A second deal, with NVIDIA alone and following intense lobbying by Jensen Huang, NVIDIA’s CEO, allowed the company to sell a more advanced chip (though not the most advanced available). Undertaken against the advice of US national security experts, this arrangement gave the US government a 25 per cent share of revenues.⁴¹ It remains to be seen whether the Chinese government will grant import licences for the chips in question, and how much demand there will be given increased competition from Chinese producers.⁴² However, these arrangements highlight a broad shift from the use of relatively straightforward, criteria-based trade restrictions, imposed on grounds of national security, to a highly selective approach in which the ability to export and the incidence of export taxes are not only country- or sector-specific but may be targeted to benefit or punish individual US or foreign companies.

³⁸ Blackburn, G. and Corlin, P. (2026), ‘Trump to raise tariffs on EU cars to 25%, accusing bloc of not complying with deal’, Euronews, 1 May 2026, <https://www.euronews.com/my-europe/2026/05/01/trump-says-will-raise-us-tariffs-on-eu-cars-to-25-accusing-bloc-of-not-complying-with-deal>.

³⁹ This is no doubt welcomed by some US trading partners, such as the UK, which has a substantial surplus on trade in services with the US. See: Office for National Statistics (2025), ‘UK trade with the United States: 2023’, 17 January 2025, <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/uktradewiththeunitedstates2023/2023>.

⁴⁰ Sevastopulo, D. and Acton, M. (2025), ‘Nvidia and AMD to pay 15% of China chip sale revenues to US government’, *Financial Times*, 10 August 2025, <https://www.ft.com/content/cd1a0729-a8ab-41e1-a4d2-8907f4c01cac>.

⁴¹ Hamid, J. (2025), ‘Jensen Huang secured Trump’s approval for Nvidia to sell H200 chips to China with a 25% US cut’, MSN, 14 December 2025, <https://www.msn.com/en-us/news/politics/jensen-huang-secured-trump-s-approval-for-nvidia-to-sell-h200-chips-to-china-with-a-25-us-cut/ar-AA1Sk6Hy>.

⁴² Chen, M. (2026), ‘Nvidia Restarts H200 Chip Sales to China: Inside the Policy Reversal Reshaping the AI Chip War’, Tech Insider, 22 March 2026, <https://tech-insider.org/nvidia-h200-chip-sales-china-2026>.

2.3 The responses of other countries

Although the US share of world trade is only 14 per cent (compared to a share of more than 25 per cent of global GDP), the administration proved very effective in 2025 at leveraging access to the US market to force other countries to make asymmetric policy concessions.

This partly reflected the attractiveness of the US domestic market (integrated, wealthy and open to consumption of foreign goods), and the fact that trade is generally less important to the US economy than to the economies of many of America’s trading partners. It also reflected the speed with which the president was able to act due to the flexibility of the IEEPA legislation (now ruled illegal) and his willingness to ignore the US’s existing bilateral and multilateral treaty obligations.

In addition, the US administration combined leverage linked to the size of its market with other forms of leverage, notably the dependence of many trading partners on the US for security guarantees.

While a coordinated response at the outset, including the threat of retaliation, from *all* of the US’s main trading partners might in theory have forced a change of policy, this was not a practical possibility. This was because, in the absence of the US itself, no country was willing to take on a leadership role. There are also major differences *between* countries in terms of domestic market size (and hence potential leverage on the US), dependence on trade with the US, the extent of US respect for existing trade agreements,⁴³ and dependence on the US for security guarantees. A coordinated response would also have meant forming a *de facto* alliance with China, which many countries would have seen as unpalatable (given China’s own use of economic coercion and breaches of international trade norms over past years). In these circumstances, it is not surprising that the US’s trading partners responded individually rather than collectively to Trump’s tariff threats.

Only two economic actors, the EU and China, were big enough to retaliate unilaterally against US tariffs with a plausible chance of forcing the US to back down. In 2024 the EU was the US’s largest trading partner, with bilateral trade in goods and services estimated at \$1.5 trillion;⁴⁴ China was the US’s fourth largest trading partner (if the EU is treated as a single trade counterparty), with total bilateral trade of nearly \$661 billion.⁴⁵

The EU appeared initially to be on a course of retaliation, with the European Commission preparing a series of merchandise trade retaliation measures in response to President Trump’s announcements. The EU also considered retaliating

⁴³ Thus, Mexico and Canada have benefited from the US’s current approach of respecting (uniquely among its trade agreements) the terms of the USMCA, which covers some 80–90 per cent of total trade in goods and services by the two countries with the US. However, the agreement is due for review on 1 July 2026, at which point the US may no longer accept the current, essentially balanced, arrangement.

⁴⁴ Office of the United States Trade Representative (2026), ‘European Union’, <https://ustr.gov/countries-regions/europe-middle-east/europe/european-union> (accessed 2 Jun. 2026).

⁴⁵ USAFacts (2026), ‘What is the value of US trade with China’, <https://usafacts.org/answers/what-is-the-value-of-us-trade/countries/china>. Arguably Canada and Mexico, whose trade in goods and services with the US amounted to more than \$900 billion each in 2024, also have the capacity to mount a successful trade war *vis-à-vis* the US, particularly if they were to coordinate their efforts (indeed, Canada did retaliate against the initial wave of US tariffs). However, both countries are substantially smaller than the EU and China in economic terms, and much more dependent on trade and other relations with the US.

on trade in services (where the US enjoys a substantial bilateral surplus) and deploying the EU’s anti-coercion instrument, which grants wide-ranging powers to impose restrictions on trade, finance and investment.

However, in the event, the EU decided not to take the retaliation route and settled in July 2025 for an asymmetric negotiated outcome, the terms of which allowed the US to impose a 15 per cent tariff on most imports of EU goods (some goods designated as ‘strategic’ were kept at zero tariffs; in contrast, the tariff rates for steel, aluminium and copper were set at 50 per cent). At the same time, the EU committed to eliminate all existing tariffs on US industrial goods imports, granted preferential access to some agricultural commodities, and agreed to making substantial US investments and purchases of energy from the US.

The EU’s decision was deeply unpopular at home, and the EU’s leadership was criticized for mishandling the response – including for delaying retaliation at the outset of the trade conflict. However, it is now widely perceived that the EU decided to prioritize its security interests and in particular the goal of maintaining US support for Ukraine in the latter’s conflict with Russia. European leaders visited Trump in August 2025 to shore up support for Ukraine’s president, Volodymyr Zelenskyy, after Trump’s meeting with the Russian president, Vladimir Putin. It is likely the European meeting with Trump would have gone much less well if the EU–US trade negotiation had been unresolved. A further goal, also largely achieved by the July agreement, was to preserve the EU’s freedom of action in domestic economic policy.

Other advanced economies, including Japan, South Korea and the UK, have broadly adopted a similar approach to that of the EU, in so far as they have agreed to asymmetric trade deals with the US. On the surface, the goal has been to maintain access to the US market, but maintaining US security guarantees and cooperation has probably been a decisive factor in all cases.

By contrast with the advanced economies, and in line with its approach during Trump’s first presidency, China moved quickly to retaliate against US tariffs. China imposed its own tariffs on imports of US goods in response to Trump’s initial February 2025 measures, and raised trade barriers further in response to escalation by the US. The retaliatory tit for tat got to a point where, in April 2025, US tariffs on China (at 145 per cent) and Chinese tariffs on the US (at 125 per cent) would have been sufficient, if sustained, to end virtually all merchandise trade between the two countries. After pauses, rollbacks and re-escalations, China further strengthened its restrictions on US access to critical minerals in October 2025. This was followed by a meeting between Trump and China’s president, Xi Jinping, on 30 October, the outcome of which was effectively a one-year truce.⁴⁶ China agreed to roll back many of its restrictions on US access to critical minerals, while Trump eased tariffs on Chinese goods. Before the Supreme Court ruling in February 2026, the average US tariff rate on Chinese goods stood at 47 per cent, while the average Chinese tariff rate on US goods was 32 per cent. However, there were many exceptions qualifying this picture.

⁴⁶ Butts, D. (2025), ‘China suspends some critical mineral export curbs to the U.S. as trade truce takes hold’, CNBC, 9 November 2025, <https://www.cnbc.com/2025/11/10/china-suspends-some-critical-mineral-export-curbs-to-the-us-as-trade-truce-takes-hold.html?msoclid=337efb016b5d61db3f50ed066a7a60ea>.

The most important factor explaining the difference between the EU and Chinese approaches to Trump’s tariffs is the fact that China does not rely on the US for security guarantees. Indeed, given the strategic competition between China and the US, the authorities in Beijing may have been concerned that any sign of weakness in responding to US trade actions would have been exploited by the Trump administration in other areas. Other factors underpinning the Chinese response are likely to have included the Chinese authorities’ greater willingness to accept the economic costs of retaliation (despite weakness in China’s domestic economy) and the current highly competitive position of Chinese manufacturing industry, which could allow the country to continue exporting profitably to the US despite historically high tariffs. China may also have believed that it could reroute significant volumes of trade to the US via third countries, although this tactic could prove more difficult than in the past given the way the US is framing trade agreements with countries such as Vietnam and Mexico.⁴⁷

Most countries have maintained their trading relationships with partners other than the US on WTO terms as far as possible.

Alongside the immediate negotiations with the Trump administration, other countries have gradually begun to develop a broader strategy for dealing with the US assault on global trade norms. So far, this strategy has three main elements:

First, most countries have **maintained their trading relationships with partners other than the US on WTO terms** as far as possible. The WTO has estimated that 72 per cent of world trade continues to be on WTO-consistent terms (albeit down from 80 per cent in 2024).⁴⁸ At the same time, world merchandise trade grew by a remarkable 4.6 per cent in 2025, despite the Trump tariff shock, as the result of very strong growth in trade of AI-related investment goods. Services trade, which to date has not faced restrictions, also grew by 5.3 per cent.⁴⁹

Second, many countries or blocs have **pushed harder to conclude free-trade agreements (FTAs)** with partners other than the US. Such agreements can play a crucial role in maintaining trade stability in the face of possible spillovers from changes in US tariff rates. But FTAs are also a way to diversify trade away from the US over the long term. The substantial concessions agreed by both parties in some recent agreements indicate the urgency with which this goal is now being pursued.

The EU has led the way with two major agreements. The first is the EU–Mercosur Free Trade Agreement, which could add an estimated €80 billion to EU GDP (the FTA was signed in December 2024 and adopted by the European Council under qualified majority voting in January 2026,⁵⁰ although it has been referred to the European Court of Justice by the European Parliament). The second is the EU–India FTA, signed in January 2026, which removes or reduces tariffs on 90 per cent of goods traded between India and the EU; the FTA is expected

⁴⁷ Either way, China’s confidence in its ability to keep exporting profitably to the world as a whole despite high US tariffs has so far been confirmed by continued strong export growth. Chan, H.-H. (2026), ‘China says exports up 14.1% from a year ago ahead of Trump-Xi Summit’, AP, 9 May 2026, <https://apnews.com/article/china-trade-exports-growth-april-4e17ad3271e7391a27a247698cddd6f8>.

⁴⁸ Staiger, R. (2026), ‘Views of the Chief Economist’, World Trade Organization, WTO Blog, 20 March 2026, https://www.wto.org/english/news_e/news26_e/blgrs_20mar26_332_e.htm.

⁴⁹ World Trade Organization (2026), *Global Trade Outlook and Statistics*, March 2026, https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf.

⁵⁰ European Commission (2026), ‘The EU–Mercosur trade agreement’, last updated 30 April 2026, https://commission.europa.eu/topics/trade/eu-mercospur-trade-agreement_en.

to double EU exports to India by 2032.⁵¹ Other important EU agreements include a new Comprehensive Economic Partnership Agreement (CEPA) with Indonesia, and a wide-ranging agreement with the UK to enhance the existing post-Brexit Trade and Cooperation Agreement in areas such as emissions trading, sanitary and phytosanitary measures, fisheries and youth mobility. The EU has also stepped up its efforts to modernize existing agreements with Mexico and Chile, and to achieve an FTA with the United Arab Emirates (UAE) and possibly the Gulf Cooperation Council (GCC).

Other economies are also pursuing major non-US FTAs. The UK and India signed a bilateral FTA in July 2025, while Canada has announced its intention to double its non-US exports over 10 years.⁵² There are indications of broader efforts to shore up the international trading system, or at least the principle of open markets for trade and investment. These include the EU’s proposal for deeper cooperation with – although not membership of – the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a 12-country grouping;⁵³ and the announcement in May 2025 by New Zealand, Singapore, Switzerland and the UAE of a new partnership among smaller trading nations to promote trade, investment and open markets.⁵⁴ As many commentators expected, the WTO Ministerial Conference on 26–29 March 2026 failed to achieve any breakthroughs on the reform agenda, and the WTO continues to be disparaged by the US.⁵⁵ However, the WTO remains a key forum for most countries’ efforts to shore up the multilateral trading system.

Third, there has been a renewed focus within some larger federal countries and trade blocs on **removing internal trade and investment barriers**. Canada has announced the removal of all federal obstacles to trade between its provinces, while the EU has doubled down on efforts to create a genuine single market in savings and investments as well as in energy. India appears to be using the pressure from external trade agreements to remove internal barriers.⁵⁶ This follows the template China adopted during its process of accession to the WTO in the late 1990s and early 2000s. The economic benefits from internal market reforms are typically estimated to be far greater than the losses likely to be incurred as a result of restricted access to the US market.⁵⁷

⁵¹ Salve, P. (2026), ‘This is what’s in the India-EU trade deal — and who stands to gain’, CNBC, 27 January 2026, <https://www.cnbc.com/2026/01/27/india-eu-trade-deal-tariffs-exports.html?msocid=337efb016b5d61db3f50ed066a7a60ea>.

⁵² Trade World News (2025), ‘Carney Targets Doubling Canada’s Non-U.S. Exports in 10 Years’, 23 October 2025, <https://www.tradeworldnews.com/carney-doubling-canadas-non-u-s-exports>.

⁵³ The members are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the UK and Vietnam.

⁵⁴ Inside Government (2025), ‘NZ-Singapore-UAE-Switzerland launch new investment partnership’, 16 September 2025, <https://insidegovernment.co.nz/nz-singapore-uae-switzerland-launch-new-investment-partnership>.

⁵⁵ Office of the United States Trade Representative (2026), ‘Press Release Regarding the WTO’s 14th Ministerial Conference’, 30 March 2026, <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/march/press-release-regarding-wtos-14th-ministerial-conference>.

⁵⁶ Srivastava, A. (2025), ‘Explainer: How non-tariff barriers are choking Indian exports’, *Financial Express*, 4 December 2025, <https://www.financialexpress.com/business/news/explainer-how-non-tariff-barriers-are-choking-indian-exports/4065805>.

⁵⁷ Adilbish, O. et al. (2025), *Europe’s Productivity Weakness: Firm-Level Roots and Remedies*, IMF Working Paper WP25/40, <https://www.imf.org/en/publications/wp/issues/2025/02/14/europes-productivity-weakness-firm-level-roots-and-remedies-561771>.

Moves to shore up international trade rules, diversify trade and deepen domestic markets in response to the Trump trade shock could lead, in theory, to the emergence of a relatively open economic space occupying the area surrounding the US.

These moves to shore up international trade rules, diversify trade and deepen domestic markets in response to the Trump trade shock may prove significant in the longer term. Indeed, they could lead, in theory, to the emergence of a relatively open economic space occupying the area *surrounding* the US, in which the free flow of trade and investment is largely preserved. But so far, at least, such initiatives appear fragile, uncoordinated and largely piecemeal. They are therefore vulnerable to being derailed by further actions by the US or possibly China.

Three questions will be critical in determining how the global trade and investment regime will evolve:

First, will the trade and investment deals negotiated by the US in 2025 stick? Or will they gradually come undone? Counterparty governments may face growing public opposition to unequal agreements (as has already happened in relation to the investment commitments made by Japan and South Korea), or may gain sufficient time to develop economic and security policies that reduce dependence on the US. Alternatively, the US Supreme Court’s IEEPA ruling may empower other governments to unpick the deals, particularly if Trump’s search for an alternative legislative basis for his tariff policy leads the US to impose tariff rates that are higher than those previously negotiated with counterparties. If the Republican Party loses control of Congress at the mid-term elections in November 2026, this may further undermine Trump’s ability to use tariffs and military threats to exert pressure.

Second, will Trump overreach in his demands or lose negotiating traction in other ways? In response to certain US demands, trading partners may conclude that the price being demanded for access to the US domestic market is simply not worth it. The more extreme the demands of the US, and the longer other countries or blocs have had to prepare for the economic consequences of a collapse in their trade with the US, the more likely an outright rejection of US demands becomes.

Possible future scenarios that might trigger this sort of reaction by US trading partners include the US demanding that the EU cede the right to regulate and tax US tech companies operating within the EU; the US demanding that Canada forgo its aim of negotiating a trade and investment agreement with China; or the US pressuring Denmark, under the threat of tariffs, to sell some or all of its sovereign territory in Greenland to the US. Similarly, if Trump carries out his threat to attack a NATO ally by occupying Greenland by force, it is impossible to see how the NATO alliance could continue, as the very protections it purports to offer would be meaningless. The US has taken a considerable hit to its credibility following its attack on Iran, including as a result of the administration’s failure to consult Congress or foreign partners, the failure of the war to achieve many of the president’s initially stated objectives, and the growing likelihood that the US will end the conflict having made the economic and political situation considerably worse for its allies in the Gulf, Europe and Asia. This will inevitably affect the way other countries respond to US demands around trade and investment in future.

Third, will other countries or trade blocs follow the US and Chinese tracks?

This would mean, for example, responding to internal and external pressures by subsidizing and protecting domestic industries, taking unilateral action to secure critical minerals and deploying tools for economic coercion. This is most critical in relation to the EU. Given its weight in global trade, it is hard to see how a significant degree of openness could be maintained globally if the EU chose to follow a mix of the US and Chinese approaches.

03 Other international aspects of Trump's economic governance shock

The US has effectively withdrawn or greatly diluted its support for global public goods in four critical areas: the net zero transition, energy security, monetary and financial stability, and international aid and development. So far, the response of other countries has been partly acquiescent, and largely piecemeal and uncoordinated.

Measures affecting trade and investment are at the core of the Trump administration's new approach to global economic governance. But a very broad range of US international economic policies have been radically disrupted, and to some degree reshaped, through actions internationally and at home.

One way of looking at the impact of these other changes is to see them in aggregate as a **withdrawal of US support for the provision of non-military global public goods**.⁵⁸ This is different from the administration's specific trade and investment policies, which are essentially about seeking to advance US prosperity through trade protection measures, economic coercion and the exploitation of security guarantees.

⁵⁸ A public good is typically understood by economists as a product or service that is non-excludable and non-depletable (or 'non-rivalrous').

Four of the most important public goods for which the US has withdrawn or greatly diluted support are: the net zero transition; worldwide energy security; international monetary and financial stability; and global poverty reduction. The impact of US policy changes varies from one public good to another. This also affects the way other countries or economic actors may need to respond.

This chapter looks in more detail at each policy area and discusses how other countries and economic actors have so far responded. The four areas discussed are by no means an exhaustive list of the public goods affected, but they help to illustrate the challenges facing non-US policymakers in responding to US actions. The challenges include, in some areas, the need to deal with concerted efforts by the Trump administration to disrupt collective policies after the US has opted out from the mechanisms or agreements designed to advance them.

3.1 Net zero transition

In one of its most consistent and dramatic policy shifts, the Trump administration has stopped US support for climate action at home and abroad, while attempting to block pro-climate initiatives by other countries.

The Trump administration has stopped US support for climate action at home and abroad, while attempting to block pro-climate initiatives by other countries.

Key **international actions** by the US in this area include withdrawing from the Paris Agreement on climate change, and announcing the US’s withdrawal from the UN Framework Convention on Climate Change (UNFCCC), the Intergovernmental Panel on Climate Change (IPCC), and many other climate-related international organizations and agreements.⁵⁹ The administration has stopped US international climate finance, including withdrawing \$4 billion in pledges to the Green Climate Fund (GFC).⁶⁰ It has sought to make the IMF, World Bank and Financial Stability Board (FSB) scale back or stop climate-related analysis, policy development and financing. It has also been reported as using extraordinary ‘bullying’ tactics to force other countries to delay for a year (and probably indefinitely) the proposed levy negotiated by the International Maritime Organization (IMO) on highly polluting vessels.⁶¹

Domestically, the Trump administration has cancelled at least \$29 billion in Biden-era funding, enshrined in the Inflation Reduction Act (IRA), that had been intended to incentivize the net zero transition,⁶² and has cut a wide range of federal support for scientific research. The administration has revoked the US Environmental Protection Agency’s landmark ‘endangerment finding’, a 2009

⁵⁹ The White House (2026), ‘Fact Sheet: President Donald J. Trump Withdraws the United States from International Organizations that Are Contrary to the Interests of the United States’, 7 January 2026, <https://www.whitehouse.gov/fact-sheets/2026/01/fact-sheet-president-donald-j-trump-withdraws-the-united-states-from-international-organizations-that-are-contrary-to-the-interests-of-the-united-states/>; Aeberhard, D., Hagan, R. and McGrath, M. (2026), ‘Trump withdraws US from key climate treaty and dozens of other groups’, BBC News, 8 January 2026, <https://www.bbc.co.uk/news/articles/cp80ln97py5o>.

⁶⁰ Schonhardt, S. (2026), ‘US ditches world’s biggest climate fund, a day after spurning landmark treaty’, Politico, 8 January 2026, <https://www.politico.com/news/2026/01/08/us-ditches-worlds-biggest-climate-fund-in-storm-of-departures-by-trump-green-fund-00716136>.

⁶¹ Friedman, L., Bearak, M. and Smialek, J. (2025), ‘Trump Officials Accused of Bullying Tactics to Kill a Climate Measure’, *New York Times*, updated 6 November 2025, <https://www.nytimes.com/2025/11/06/climate/trump-climate-international-bullying.html>.

⁶² Baddour, D. (2025), ‘New Map Shows \$29 Billion in Climate and Environment Grants Canceled or Frozen by Trump’, Inside Climate News, 17 September 2025, <https://insideclimatenews.org/news/17092025/trump-stops-29-billion-in-grants-for-environment-climate-renewable-energy>.

scientific ruling determining that greenhouse gases endanger public health, which is the legal basis underpinning US climate regulation. It has also sought to block all offshore wind projects on national security grounds (although this action has been overturned by federal courts).⁶³ Republicans in Congress are planning legislation that would shield oil and gas producers from liability for damages and injury caused by their products, in a similar manner to the liability protections enjoyed by gun manufacturers.⁶⁴

The administration and its allies have also threatened US and foreign banks, asset managers and insurers with legal action in an effort to force them to roll back policies designed to restrict financing for hydrocarbon assets. A number of international alliances have stopped or sharply curtailed their operations as a result. Notably, the Glasgow Financial Alliance for Net Zero (GFANZ), an independent private sector umbrella body made up of representatives of financial institutions, has changed its structure and operational focus.⁶⁵

The US administration has maintained or initiated some policies that are potentially helpful to the net zero transition, such as in efforts to secure supplies of critical minerals, but the alignment is only incidental.

President Trump has called climate change a hoax, and administration statements attack climate policies as ‘radical’. In international contexts, administration officials have argued that ‘enough has been done’ (in relation to the work of the FSB on the financial risks arising from climate change) and that the climate work of the IMF is ‘non-core’. The main motivations for the US administration’s actions seem to be political (appealing to the president’s MAGA base), a response to lobbying by the US hydrocarbon industry, and a belief that pursuing climate change mitigation policies will limit economic growth by increasing energy costs in the short term. This is particularly important in the context of the enormous spike in demand for electricity from the AI industry.

But given the consensus among climate scientists, along with the growing incidence of extreme weather events, it is hard to believe that some administration officials are *not* aware of the medium-term threat that climate change poses both to the US and the global population. It is also highly likely, even if one discounts their damaging global consequences, that the administration’s fossil fuel-focused energy and economic policies will over the long term tend to weaken US growth, reduce the competitiveness of US industry, increase risk in the US financial system and reduce US energy security.⁶⁶

The extent to which these negative outcomes occur will depend in large part on the response of US companies, states and consumers, and on whether they pursue the net zero transition independently despite the efforts of the federal government

⁶³ Frazin, R. (2026), ‘Courts allow all five offshore wind projects blocked by Trump to resume construction,’ *The Hill*, 2 February 2026, <https://thehill.com/policy/energy-environment/5718960-trump-wind-farm-injunction>.

⁶⁴ Gelles, D. and Zraick K. (2026), ‘Republicans Seek Protections for Oil Giants Against Climate Lawsuits,’ *New York Times*, 2 April 2026, <https://www.nytimes.com/2026/04/02/business/oil-liability-shield-laws-climate-lawsuits.html>.

⁶⁵ Glasgow Financial Alliance for Net Zero (undated), ‘2025: new year update from GFANZ secretariat,’ <https://www.gfanzero.com/press/2025-new-year-update-from-gfanz-secretariat>.

⁶⁶ Aylett, C. and Schröder, P. (2026), ‘Trump’s repeal of landmark climate ruling is a strategic own goal,’ Chatham House Expert Comment, 17 February 2026, <https://www.chathamhouse.org/2026/02/trumps-repeal-landmark-climate-ruling-strategic-own-goal>.

to discourage them. Some companies are clearly continuing with their net zero plans, but are simply not talking about the subject in public. This may reflect longer-term perspectives, or the recognition that markets outside the US are unlikely to follow the same route. Other companies, particularly in the energy sector, have slowed their transitions, although it is unclear how far this is in response to the Trump administration’s actions (including the cancelling of IRA subsidies) or how far it mainly reflects the increased up-front costs of relatively capital-intensive renewable energy projects following the rise in long-term interest rates. In the latter case, the rise in oil and gas prices and their likely future volatility following the US attack on Iran should help restore the relative attractiveness of renewable energy.

So far, non-US countries have applied **two** main strategies in responding to the dramatic shift in US policy on climate change.

Firstly, when the US has stayed engaged with an organization, other countries have generally sought to avoid direct confrontation while maintaining a pro-climate-action approach. For example, non-US shareholders in the IMF and World Bank have been willing to compromise with the US on the public narratives of the two organizations (where there is now little overt mention of climate change). Instead, these shareholders are relying on existing strategies, funding allocations, work programmes and staff to carry climate-related work forward. The World Bank’s board successfully resisted US efforts to dilute the sustainability focus of the International Development Association (IDA) – an arm of the bank that focuses on development finance – following the latter’s December 2024 funding replenishment. There is also a hope that some key pillars of net zero policy can be reframed in a way that will appeal to the US administration without mentioning the word ‘climate’ – one example is the World Bank’s emphasis on job creation. In the case of the FSB, other members initially objected to the US push to scale back climate-related financial stability work. However, they have now accepted that the FSB will not for the time being integrate any further climate-related policy initiatives into its supervisory and regulatory work.⁶⁷ A key question therefore is whether this work will be picked up by other organizations from which the US has withdrawn, such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).⁶⁸

Underlying this first strategy is the concern that confronting the US on climate issues would lead either to its complete withdrawal from a given institution or to future funding restrictions that would damage other work on which a consensus remains. However, it is hard to see how such a strategy will maintain the urgency of action and policy momentum required to avoid the worst impacts of climate change, or how such an approach might overcome the conflict inevitably caused when one member of a group is actively trying to undermine the goals of the group as a whole. A key test will come in the summer of 2026, when the World Bank’s existing climate action plan comes to an end and the bank’s board will need to decide on whether there should be a new one – or, if not, what should replace it.

⁶⁷ Costa, M. (2025), ‘G20 watchdog pauses climate change work amid member division’, Green Central Banking, 18 July 2025, <https://greencentralbanking.com/2025/07/18/g20-climate-change-work-paused-amid-division>.

⁶⁸ Network of Central Banks and Supervisors for Greening the Financial System (2025), ‘Origin and Purpose’, <https://www.ngfs.net/en/about-us/origin-and-purpose>.

The second strategy for dealing with the Trump administration’s antipathy to climate action has been applied where the US has formally withdrawn from an organization or simply not attended critical meetings. This entails ignoring the US absence and continuing to seek to advance climate action. In the case of the South African G20 summit in November 2025, which Trump refused to attend, the G20 presidency negotiated a statement among those member countries ‘that were present’ reiterating support for climate action and green finance (among other issues).⁶⁹ Similarly, the Brazilian presidency of COP30 in 2025 negotiated a declaration⁷⁰ that – while disappointing many participants⁷¹ – strongly reasserted the importance of tackling climate change, reasserted the financing commitments made at COP29, and framed the challenge in the context of ensuring social protection and protecting vulnerable communities.

In both instances, President Trump reacted fiercely, and in the case of South Africa the declaration has probably contributed to his unprecedented decision to exclude the country from the US-hosted G20 summit scheduled to be held in Miami in December 2026.

In April 2026, Colombia and the Netherlands co-hosted a free-standing summit, attended by some 57 countries (without the US, China, Russia or Saudi Arabia), which focused on maintaining progress in transitioning away from fossil fuels.⁷² This had the advantage of not being part of any formal structure involving the US, making it harder for the administration to interfere in the outcomes or retaliate against those attending.

Words clearly matter, and in this respect the second strategy has clear advantages in helping to push back against the development of a false narrative globally, and to oppose the rollback of climate policies and strategies under pressure from the US administration.

However, as can be seen from the nature of debates within the EU on policies such as the phasing-out of hydrocarbon-powered vehicles, or the simplification of sustainability reporting by companies, the demonstration effect of US opposition to climate action and the cover this provides to those who would wish to delay the transition can be strong. So far, EU authorities have made some adjustments but have not fundamentally weakened the framework guiding the impetus for the net zero transition. However, the situation is fragile.⁷³

The weakness of *both* strategies is reflected in the handling of new or emerging issues, such as governance of tools to address ‘climate overshoot’ (that is, the risk of global warming exceeding the 1.5°C target in the Paris Agreement). In particular, the question of how to govern controversial techniques proposed for **solar radiation**

⁶⁹ G20 (2025), ‘G20 South Africa Summit: Leaders’ Declaration’, 22 November 2025, <https://www.g20.utoronto.ca/2025/251122-declaration.html>.

⁷⁰ COP30 (2025), ‘Belem Declaration on Hunger, Poverty, and Human-Centered Climate Action’, 7 November 2025, https://cop30.br/en/news-about-cop30/documents/cop30-belem_declaration_eng-final.pdf.

⁷¹ Essentially because it failed to follow up on the COP29 declaration by setting out a roadmap for the phase-out of fossil fuels.

⁷² Dunne, D. (2026), ‘Santa Marta: Key outcomes from first summit on transitioning away from fossil fuels’, Carbon Brief, 30 April 2026, <https://www.carbonbrief.org/santa-marta-key-outcomes-from-first-summit-on-transitioning-away-from-fossil-fuels>.

⁷³ Mühlenhoff, J. (2025), ‘Despite its plan to cut emissions by 90% in 2040, the EU misses a robust response to the climate crisis’, Heinrich-Böll-Stiftung European Union, 2 July 2025, <https://eu.boell.org/en/2025/07/02/despite-its-plan-cut-emissions-90-2040-eu-misses-robust-response-climate-crisis>.

The demonstration effect of US opposition to climate action and the cover this provides to those who would wish to delay the transition can be strong.

management⁷⁴ – the impacts of which would likely transcend borders – urgently needs a cooperative response. Yet the current US administration appears unwilling to address this issue. Even if it were to do so, its approach would likely be clouded by the president’s view that climate change is ‘the greatest con job ever’.⁷⁵ At the same time, if the subject were to be tabled in a group like the G7 or G20, the US would be unlikely to remain passive.

3.2 Worldwide energy security

President Trump’s ‘energy dominance’ policy has not been clearly defined by the administration.⁷⁶ Nonetheless, it is generally understood to mean making the US a dominant force in global hydrocarbon markets through a mix of domestic deregulation and foreign policy. The goal seems to be to **increase US energy security** and the US’s ability to **leverage fossil fuel exports for geopolitical gain**.

In reality, the administration’s actions over the past 16 months or so have led to the sharpest *reduction* in worldwide energy security – and, linked to that, in the US’s own *effective* energy security – since the Arab oil embargo of the 1970s.

The most critical step has been Trump’s decision, with Israel, to attack Iran in what has been widely described as a ‘war of choice’. The military operation that began on 28 February 2026 has failed in its apparent objective of triggering a collapse in the Iranian regime, which in turn has responded by attacking the Gulf oil states and closing the Strait of Hormuz through military action and threats. As a result, oil producers in the region have been forced to cut production by more than 14 million barrels a day (b/d), a volume equivalent to nearly 15 per cent of worldwide consumption.⁷⁷ Liquefied natural gas (LNG) shipments by Qatar and the UAE have also been cut by 300 million cubic metres per day, equivalent to 20 per cent of worldwide consumption.

In response, crude oil and LNG prices on 15 May had risen by more than 50 per cent since the war started. And a full reversal is unlikely in the near term. Even if the current negotiations maintain a ceasefire and restore reasonably free access through the strait, the threat of sudden closure in the future would remain, adding a risk premium to oil and gas prices. In addition, damaged oil and gas facilities in the Gulf states will take months, and in some cases more than a year, to be fully restored, partially continuing the constraints on supply.

⁷⁴ Climate Overshoot Commission (2023), *Reducing the Risks of Climate Overshoot*, September 2023, https://www.overshootcommission.org/_files/ugd/0c3b70_bab3b3c1cd394745b387a594c9a68e2b.pdf.

⁷⁵ PBS (2025), ‘Trump called climate change a ‘con job’ at the United Nations. Here are the facts and context’, 25 September 2025, <https://www.pbs.org/newshour/politics/trump-called-climate-change-a-con-job-at-the-united-nations-here-are-the-facts-and-context>; and The White House (2026), ‘President Trump Delivers Remarks to the United Nations General Assembly’, 23 September 2025, <https://www.whitehouse.gov/videos/president-trump-delivers-remarks-to-the-united-nations-general-assembly>.

⁷⁶ Zycher, B. (2025), ‘What Does Energy Dominance Mean?’, American Enterprise Institute, 16 July 2025, <https://www.aei.org/articles/what-does-energy-dominance-mean>.

⁷⁷ International Energy Agency (undated), ‘The Middle East and Global Energy Markets: Key facts on the Strait of Hormuz, oil and gas markets, and the IEA’s response’, <https://www.iea.org/topics/the-middle-east-and-global-energy-markets>; and International Energy Agency (undated), ‘Oil Market Report (2026)’ <https://www.iea.org/reports/oil-market-report-may-2026>.

The timing of the UAE’s withdrawal from OPEC on 1 May 2026 was certainly influenced by the war in the Gulf, but the causes pre-dated the US and Israeli attack on Iran. Moreover, it is unclear what the move will mean for the security of oil and gas supplies in the long term, as the prospect of increased supplies of low-cost oil from the UAE may help deter investment in hydrocarbon supplies elsewhere.

Elsewhere, the Trump administration’s actions in Venezuela in removing President Nicolás Maduro and working with his acting successor, Delcy Rodríguez, may *eventually* increase total world supplies of oil. But given the dilapidated state of Venezuelan oil infrastructure, the impact will only become significant over many years, and only then if energy companies are sufficiently reassured about the long-term security of any potential investments. At the same time, the US administration has stepped up efforts to limit the growth of renewable energy in the domestic US market, seeking instead to redirect investment into hydrocarbons. It has removed subsidies for renewables, attempted to block nearly complete wind farms and maintained the previous administration’s effective ban on low-cost imported EVs from China.⁷⁸ In an extraordinary move, the administration recently agreed to pay TotalEnergies, a French multinational energy company, \$1 billion to abandon offshore wind projects in the US.⁷⁹

Even when measured against the narrow goal of strengthening US (*not* global) energy security, these actions have **three** critical flaws:

Since crude oil and LNG are traded on global markets, the US is just as vulnerable to the price effects of global shortages as many other countries are.

First is the apparent belief that US energy security can be met simply by the US producing enough oil and gas to meet its *own* demand. Thus, despite US actions being overwhelmingly responsible for the closure of the Strait of Hormuz, President Trump has on more than one occasion argued that the US itself didn’t need the strait to be reopened and that its efforts to do so were a public service to other countries.⁸⁰

However, since crude oil and LNG are traded on global markets, the US is just as vulnerable to the price effects of global shortages as many other countries are. Moreover, even if the administration somehow managed to delink domestic US markets completely from international markets (e.g. by expanding restrictions on US oil and gas exports and by instituting domestic price controls), the US would still face very serious economic consequences because of the way constraints on global oil and gas supplies would affect its main trading partners. Such a delinking would also undermine incentives for energy companies to invest in the US.

⁷⁸ Bierenkoven, C. (2025), ‘Biden Administration Finalizes Rules Effectively Banning Chinese Cars in the U.S.’, Edmunds, 14 January 2025, <https://www.edmunds.com/car-news/biden-administration-effectively-bans-chinese-evs.html?msocid=337efb016b5d61db3f50ed066a7a60ea>.

⁷⁹ High, M. (2026), ‘Why did Trump Pay TotalEnergies \$1bn to Cancel Wind Plans?’, Business Chief, 31 March 2026, <https://businesschief.com/news/why-trump-paid-totalenergies-1bn-to-end-its-us-wind-plans>.

⁸⁰ Smith, J., Mallett, C., Benson, O. and Nunes, E. (2026), ‘Trump in China recap: President insists US doesn’t need Hormuz opened ‘at all’’, *Mirror*, 15 May 2026, <https://www.mirror.co.uk/news/world-news/trump-china-visit-live-xi-37152963>.

Second, the administration apparently believes that private companies will be willing to commit investment (whether in Venezuela or, as was once even implied, in Iran) *without* a reasonably secure political and legal framework. This fails to understand how multinational energy companies make decisions.⁸¹

Third, the administration seems determined to ignore the evidence that renewable energy is one of the most cost-effective ways of boosting US energy security for the long term.

Faced with this fundamentally flawed approach, other countries have moved cautiously. Although there was unanimous agreement in March 2026 among the 32 members of the International Energy Agency (IEA), including the US, on the emergency release of 400 million barrels of oil from energy stocks,⁸² alignment with the US on other aspects of the policy response has been absent. European NATO members have made clear that they will only become involved in arrangements to reopen the Strait of Hormuz once the fighting has stopped. It also seems likely that the war and the increased long-term risk to Gulf oil and gas supplies will give further impetus to the low-carbon energy transition in many countries.⁸³ This, of course, will put such countries even more at odds with the US.

3.3 International monetary and financial stability

Several Trump administration policies risk disrupting the international monetary and financial system. These policies have been far-reaching already, although in contrast to the administration’s approach on climate, they reflect no single, well-defined objective and are at times contradictory. Nonetheless, the net effect has been to weaken the system in four critical and closely related areas: protection against risks to financial stability; control of inflation; support for the free movement of capital; and the role of the US dollar as the international reserve currency. This section looks at each of these areas in turn.

The administration’s **loosening of prudential regulations** that were put in place after the global financial crisis of 2008–09 is expected to reduce US bank capital requirements by some \$140 billion and allow as much as \$2.6 trillion in extra lending.⁸⁴ This opens the way for a repeat of what happened nearly 20 years ago when loose regulation designed to stimulate growth ultimately resulted in disaster. At the same time, the administration has promoted a light-touch regulatory regime designed to encourage the use of crypto assets – in particular, US dollar

⁸¹ Shamim, S. (2026), ‘Trump wants to ‘take Iran’s oil’: Can he, and what would that mean?’, Al Jazeera, 30 March 2026, <https://www.aljazeera.com/economy/2026/3/30/trump-wants-to-take-irans-oil-can-he-and-what-would-that-mean>.

⁸² International Energy Agency (2026), ‘IEA Member countries to carry out largest ever oil stock release amid market disruptions from Middle East conflict’, press release, 11 March 2026, <https://www.iea.org/news/iea-member-countries-to-carry-out-largest-ever-oil-stock-release-amid-market-disruptions-from-middle-east-conflict>.

⁸³ Although a group of oil companies is trying to make the (perverse) argument that the EU should respond by loosening constraints on oil exploration in the Arctic. See Mooney, A. and Johnston, I. (2026), ‘Oil and gas companies seize the chance to lobby for Arctic drilling’, *Financial Times*, 25 March 2026, <https://www.ft.com/content/1bb72cf7-5fc6-4ee9-ae76-73f7937407f1?syn-25a6b1a6=1>.

⁸⁴ Arnold, M. (2025), ‘Bank deregulation set to unlock \$2.6tn of Wall Street lending capacity’, *Financial Times*, 12 October 2025, <https://www.ft.com/content/8c69189c-7594-4612-bf29-0847ed995d98?syn-25a6b1a6=1>.

stablecoins – in the US and abroad.⁸⁵ However, the new regulatory regime and the way it is being applied seem set to bring a significant increase in financial risk in the US and potentially abroad. Stablecoin issuers are in many respects like banks, but are not being regulated as strictly as banks. Moreover, special regulatory provisions which might in part justify differences from bank regulation, such as the ban on stablecoins paying a return, are not being enforced.⁸⁶ Stablecoins and other crypto assets are also helping to facilitate money laundering and tax evasion.⁸⁷ This, together with the administration’s announcement that it will no longer enforce the Foreign Corrupt Practices Act⁸⁸ (the precursor for the OECD Anti-Bribery Convention)⁸⁹ or rules designed to ensure beneficial-ownership transparency,⁹⁰ weakens governance and adds to financial stability risk.

The administration’s rollback of policies for achieving net zero will increase the likelihood of hydrocarbon-based assets being created in the US economy which subsequently become ‘stranded’.

In addition, the administration’s rollback of policies for achieving net zero will increase the likelihood of hydrocarbon-based assets being created in the US economy which subsequently become ‘stranded’ – i.e. value impaired – or that investors will suffer uncovered losses due to extreme weather. Similarly, the US-Israeli war with Iran, if prolonged, can be expected to trigger a sharp increase in financial stability risks: both in the GCC countries (due to the impact on these countries’ ability to export oil and gas), and in consumer nations facing sharply higher energy prices or even a cut-off in supplies.

Trump has **increased perceived inflation risk** in the US and more widely by repeatedly stating his determination to control Federal Reserve monetary policy and deliver lower interest rates. He appears to believe this will boost the US economy and reduce the cost of servicing the federal debt, and seems little concerned about the long-term impacts on inflation and central bank credibility. From the summer of 2025 onwards, the administration took a series of concrete legal steps that appeared designed to strengthen the president’s influence on the Federal Reserve Board by attempting to remove Lisa Cook and Jerome Powell (the then Fed chair). Both actions were initially stalled in the federal court system, and that against Powell was ultimately dropped to smooth the passage of Kevin Warsh, Trump’s nominee to replace Powell as chair, through the Senate.⁹¹ However,

⁸⁵ A stablecoin is a crypto asset with fixed dollar value guaranteed by the issuer’s holdings of safe dollar assets (typically US Treasury securities) one for one in proportion to its issuance of crypto assets.

⁸⁶ Klein, A. (2025), ‘Interest by any other name should be regulated as sweetly’, Brookings, 10 September 2025, <https://www.brookings.edu/articles/interest-by-any-other-name-should-be-regulated-as-sweetly>.

⁸⁷ Teh, C. (2024), ‘Do digital currencies and cryptocurrencies pose a higher risk of money laundering?’, UK Finance, 4 October 2024, <https://www.ukfinance.org.uk/news-and-insight/blog/do-digital-currencies-and-cryptocurrencies-pose-higher-risk-money-laundering>.

⁸⁸ The White House (2025), ‘Pausing Foreign Corrupt Practices Act Enforcement to Further American Economic and National Security’, 10 February 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/pausing-foreign-corrupt-practices-act-enforcement-to-further-american-economic-and-national-security>; and Clark, C., Quigley, B. F. and Moore, B. (2025), ‘Takeaways from the Pause on Foreign Corrupt Practices Act Enforcement’, Harvard Law School Forum on Corporate Governance, 24 February 2025, <https://corpgov.law.harvard.edu/2025/02/24/takeaways-from-the-pause-on-foreign-corrupt-practices-act-enforcement>.

⁸⁹ OECD (2025), *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, OECD/LEGAL/0293, <https://legalinstruments.oecd.org/public/doc/205/205.en.pdf>.

⁹⁰ U.S. Department of the Treasury (2025), ‘Treasury Department Announces Suspension of Enforcement of Corporate Transparency Act Against U.S. Citizens and Domestic Reporting Companies’, press release, 2 March 2025, <https://home.treasury.gov/news/press-releases/sb0038>; and Palmer, E. (2025), ‘Donald Trump Celebrates End of Corporate Transparency Act Measure’, *Newsweek*, 3 March 2025, <https://www.newsweek.com/donald-trump-corporate-transparency-act-boi-treasury-2038564>.

⁹¹ Warsh was formally sworn in as chair of the Federal Reserve Board on 22 May 2026.

the action against Cook was still pending as of mid-May, while Powell has taken the unusual decision to remain on the Fed’s board after stepping down as chair, an indication of his concerns about the future independence of the central bank.

Fear of inflation has also been increased by the administration’s apparent lack of concern about the current unsustainable path for federal debt. Projections by the non-partisan Congressional Budget Office (CBO) show sustained and growing deficits will – if nothing is done – result in federal debt held by the public reaching 156 per cent of GDP by 2055, with a fiscal deficit of 7.3 per cent of GDP in the same year.⁹² The administration’s request for \$200 billion in supplemental funding to meet the costs of the war against Iran, and its proposal for a \$1.5 trillion national security budget in the 2027 financial year (a 44 per cent increase on the 2026 financial year),⁹³ add further to general concerns over fiscal sustainability. Meanwhile, in emerging economies, there is serious concern that the administration’s push to encourage the international use of US dollar stablecoins (which Scott Bessent, the Treasury secretary, believes will create additional demand for US Treasury securities) will lead to increased dollarization and reduce the effectiveness of domestic monetary policy.

An increasing number of administration policies are **interfering, or threatening to interfere, in the free flow of capital** and earnings on capital. This applies not only to flows of funds into and out of the US but also more broadly. For example, the OBBB Act imposes a 1 per cent excise tax on remittances made after 31 December 2025.⁹⁴ Another element, known as Section 899,⁹⁵ in an early draft of the bill would have imposed taxes on companies originating from countries which the administration determined were discriminating against US companies. This was only dropped after the G7 granted the US an exemption from a previously agreed OECD global minimum tax deal.

The administration is also distorting the way economic and financial sanctions operate, increasing their scope to disrupt global financial flows. Thus, the US has effectively endorsed the authoritarian leadership that for the time being has succeeded Maduro in Venezuela, and eased sanctions to allow Venezuela to sell oil to US companies and on the global market *provided* the revenues go to an account controlled by the US administration.⁹⁶ However, the Venezuelan government’s human rights abuses, the target of the original sanctions, continue. This is not how the sanctions regime was intended to work, and it raises fundamental questions for other countries with sanctions in place on Venezuela as to whether they wish to be part of such a mechanism.

⁹² Congressional Budget Office (2025), *The Long-Term Budget Outlook: 2025 to 2055*, ‘Executive Summary’, March 2025, <https://www.cbo.gov/system/files/2025-03/61187-LTBO-Executive-Summary.pdf>.

⁹³ Associated Press (2026), ‘Trump budget seeks \$1.5 trillion in defense spending alongside domestic program cuts’, NPR, 3 April 2026, <https://www.npr.org/2026/04/03/nx-s1-5772701/trump-budget-defense-spending>.

⁹⁴ Batter, A., Donis, A. and Gerdes, I. (2025), ‘United States: One Big Beautiful Bill Act introduces new excise tax on remittance transfers’, Baker McKenzie, 15 July 2025, https://insightplus.bakermckenzie.com/bm/tax/united-states-obbbba-introduces-new-excise-tax-on-remittance-transfers_1.

⁹⁵ Leahey, A. (2025), ‘Section 899–The ‘Revenge Tax’ that Didn’t Survive’, *Forbes*, 26 June 2025, <https://www.forbes.com/sites/andrewleahey/2025/06/26/crisis-averted-but-what-was-the-section-899-revenge-tax-proposal>.

⁹⁶ Associated Press, Hussein, F. and Garcia Cano, R. (2026), *Fortune*, 18 March 2026, ‘Trump said the U.S. would “run” Venezuela and sell its oil. Now it’s starting to happen’, <https://fortune.com/2026/03/18/venezuela-oil-sanctions-treasury-license-iran-war>.

Lastly, there is a concern that the US government might target foreign-owned assets in the US in pursuit of political goals. In August 2025, the administration issued a ‘stop work’ order with respect to the 80 per cent complete Revolution windfarm, part owned by Denmark’s Ørsted. The order, which was publicly justified on national security grounds, was subsequently overturned in federal court. But in so far as the action may have been linked to the US administration’s campaign to take control of Greenland or opposition to net zero, it sets a worrying precedent for foreign investors in the US.

The administration’s overall **stance towards the dollar’s dominant role** in the global financial system is at best uncertain. Treasury Secretary Bessent has said that the administration favours a strong dollar and supports the currency’s global role, including as the major international reserve asset. However, Stephen Miran, until May 2026 a governor at the Federal Reserve and until September 2025 the chair of the Council of Economic Advisers, argued before the administration took office that the dollar’s reserve asset role placed an unwanted burden on the US economy.⁹⁷ More generally, Trump’s willingness to use economic coercion to achieve both political and economic goals is causing other countries to question the international system’s heavy dependence on the dollar.⁹⁸ For example, in the event of another global financial crisis, would Trump agree to the Fed providing unlimited dollar swap lines to other major central banks *without* conditions? And following the precedent set in February 2022 when the G7 froze Russian state assets in response to Russia’s full-scale attack on Ukraine, would Trump be ready to deploy the same instrument but *without* the justification that the target country had committed a major breach of the UN Charter and without support and parallel action by other convertible-currency issuers?

Both concerns, plus the experience that Trump is generally unconcerned about the longer-term effects of deploying coercive policies, give countries a strong incentive to move away from the dollar as a global reserve asset and denominator for international banking flows. But this is hard to implement because of the underlying attractions of the dollar⁹⁹ – although, ironically, Trump’s threats to impose tariffs on countries that reduce their holdings of US dollar assets only serve to strengthen the case for diversification.

The most important risk for international monetary and financial stability, affecting all four areas discussed above, comes from the threat President Trump has made to seize Greenland (the sovereign territory of a NATO ally), refusing to rule out armed force. It is impossible to place a probability on this happening. But, following the events in Venezuela, statements by the administration in the run-up to the World Economic Forum meetings in Davos in early 2026, and the US-Israeli attack on Iran, it is clearly non-zero.

⁹⁷ Miran, S. (2024), *A User’s Guide to Restructuring the Global Trading System*, Hudson Bay Capital, November 2024, https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf.

⁹⁸ International Monetary Fund (2025), *External Sector Report: Global Imbalances in a Shifting World*, Chapter 2, <https://www.imf.org/-/media/files/publications/esr/2025/english/text.pdf>.

⁹⁹ This reflects the dynamism of the US economy, network externalities, complementarities, safe assets, the depth and breadth of US markets, and the US network of military alliances.

The consequences – both military and economic – of a US attempt to seize Greenland would be seismic. European states would no longer be able to rely on US military commitments under NATO, and would have to move within months to form an independent military alliance. The EU would have little choice but to respond with economic and financial sanctions, both to demonstrate its rejection of US aggression and to limit future exposure to US actions. Sanctions would likely include selling official holdings of US dollar assets. Some experts have argued that the EU would not risk retaliating against the US, given the damage that the US could inflict on the EU in response through its own economic sanctions, including denial of access to dollar clearing. But even if that were the case, or if the split were to be papered over temporarily in some way, European states would want to move as rapidly as possible to limit their exposure to future hostile US actions.

Other countries have so far responded to the administration’s specific measures on monetary and financial stability in a piecemeal fashion. Some are following the US in partially loosening regulation put in place to reduce systemic risks after the 2008–09 global financial crisis,¹⁰⁰ but most governments and regulators outside the US have held the line so far. This could become more difficult if US banks use their increased capital headroom to step up competition internationally. Other major economies have also been more cautious than the US in regulating private crypto assets,¹⁰¹ while the European Central Bank (ECB) has accelerated its plans to issue a euro-denominated central bank digital currency and has stated (for the first time) that it views positively the development of the euro as an international reserve asset.¹⁰² In January 2026, 11 leading central bank heads made a statement in support of Jerome Powell and Fed independence.¹⁰³

The US dollar’s share of global foreign exchange reserves fell from nearly 60 per cent in 2016 to 46 per cent at the end of 2024, underpinned by rises in holdings of non-traditional reserve currencies and in prices and physical holdings of gold.¹⁰⁴ This trend, particularly the rise in the share of gold in countries’ foreign reserves, has accelerated since the start of President Trump’s second term and seems to reflect a clear desire to diversify away from the dollar. There is further support for this in the way the exchange rate of the dollar has sometimes behaved under the Trump administration. First after the ‘Liberation Day’ tariff hikes of 2 April 2025, and then again during the heightened tension over Greenland in early 2026, the US dollar fell along with US equities and bond prices. Normally one would expect the dollar exchange rate to rise during periods of stress.

The French 2026 G7 presidency is seeking to engage the US administration in a discussion about the causes and consequences of rising global economic imbalances. This agenda should in principle provide a forum in which to discuss

The US dollar’s share of global foreign exchange reserves fell from nearly 60 per cent in 2016 to 46 per cent at the end of 2024. This trend seems to reflect a clear desire to diversify away from the dollar.

¹⁰⁰ Breeden, S. (2025), ‘New capital rules from Bank of England will support growth’, *Financial Times*, 2 December 2025, <https://www.ft.com/content/efb2d08e-0fe2-413b-b67e-c3598a4e233b>; and

Arnold M. and Al-Khalaf, L. (2026), ‘Banking rules established in wake of 2008 financial crisis to be eased’, *Financial Times*, 19 May 2026, <https://ft.pressreader.com/v99c/20260519/281767045864656>.

¹⁰¹ Bailey, A. (2025), ‘The new stablecoin regime’, *Financial Times*, 1 October 2025, <https://www.ft.com/content/eb013c4e-ed53-498b-9d75-2b5d9c7ecc65>.

¹⁰² European Central Bank (2025), ‘The international role of the euro’, 11 June 2025, <https://www.ecb.europa.eu/press/other-publications/ire/html/ecb.ire202506.en.html>.

¹⁰³ Jones, C. and Storbeck, O. (2026), ‘Central bank chiefs ‘stand in full solidarity’ with Jay Powell’, *Financial Times*, 13 January 2026, <https://www.ft.com/content/48bd0d88-6820-4b82-9694-f52393945740>.

¹⁰⁴ European Central Bank (2025), ‘The international role of the euro’.

the implications of all the administration’s actions for international monetary and financial stability. But given Trump’s determination to maintain a historically high degree of protection for the US, and given China’s desire to reduce its own dependence on other countries and increase other countries’ dependence on China,¹⁰⁵ the likelihood of a frank discussion of the subject, let alone a cooperative and mutually beneficial outcome, appears slim.

3.4 International development and poverty reduction

The Trump administration’s wider policies on trade and net zero, and the economic fallout from its attack on Iran, are all hurting (or stand to hurt) low-income countries. In addition, the US has rolled back a wide range of policies which have directly supported international development and poverty reduction over many decades.

Most importantly, the administration has argued that **past aid spending** has been wasteful and inconsistent with US interests (in part because recipient countries may not support US policies). In response, the US Agency for International Development (USAID) has been shuttered, with its residual security-related functions allocated to other government departments. US international aid, which stood at \$60 billion a year before Trump took office, has been cut by almost 40 per cent.¹⁰⁶ Traditional development assistance programmes have been replaced by the much smaller ‘America First Opportunity Fund’ of \$2.9 billion a year. Expenditures from this fund must directly advance US economic and national security interests and focus on objectives such as securing critical mineral supply chains, investing in strategic infrastructure, and assisting selected partners where there are clear benefits to US industries or defence planning.

In addition to cutting expenditure, the administration has stopped supporting **global standards** which help sustain good governance and development in poor countries. As previously mentioned, this includes withdrawing from, or no longer complying with, agreements on global minimum taxes,¹⁰⁷ on prevention of bribery of foreign public officials,¹⁰⁸ and on combating money laundering.¹⁰⁹ The administration has argued that these agreements impose unacceptable regulation on US companies.

¹⁰⁵ Lubin, D. (2025), *Will economic policy win China friends in the Global South? The importance of trade ‘rebalancing’ for Beijing’s strategic ambitions*, Briefing Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/2025/09/will-economic-policy-win-china-friends-global-south>.

¹⁰⁶ Kumar, A. (2026), ‘Trump Ends U.S. Foreign Aid in 2026 Budget, Impact on Ukraine and Israel’, *Defense News*, 4 February 2026, <https://www.thedefensenews.com/news-details/Trump-Ends-US-Foreign-Aid-in-2026-Budget-Impact-on-Ukraine-and-Israel>.

¹⁰⁷ Lawder, D. (2025), ‘Trump effectively pulls US out of global corporate tax deal’, *Reuters*, 21 January 2025, <https://www.reuters.com/world/us/trump-declares-oecd-tax-deal-has-no-force-or-effect-us-2025-01-21>.

¹⁰⁸ The White House (2025), ‘Pausing Foreign Corrupt Practices Act Enforcement to Further American Economic and National Security’; and Clark, Quigley and Moore (2025), ‘Takeaways from the Pause on Foreign Corrupt Practices Act Enforcement’.

¹⁰⁹ U.S. Department of the Treasury (2025), ‘Treasury Department Announces Suspension of Enforcement of Corporate Transparency Act Against U.S. Citizens and Domestic Reporting Companies’; and Palmer (2025), ‘Donald Trump Celebrates End of Corporate Transparency Act Measure’.

The administration’s withdrawal from the World Health Organization (WHO) and international climate change institutions will reduce global resilience and very likely increase the threats from pandemics and extreme weather. The poorest countries are typically the most vulnerable to these threats. Similarly, the administration’s domestic policies on migration have reduced net migration to the US from 2.7 million in 2024 to 1.3 million in 2025.¹¹⁰ This, combined with the new tax on remittances, will limit a critical safety valve for the poor in developing countries.

In a few areas the administration appears to be maintaining a positive approach to international development. These include efforts to enhance and speed up the G20 ‘common framework’ for negotiating debt relief in countries facing extreme debt distress or default. The US has also not withdrawn from any of the multilateral development banks (MDBs), which continue to contribute to international development, as seen with the World Bank’s new focus on job creation. However, as discussed earlier, the administration is seeking to reduce or eliminate the contribution of MDBs to tackling climate change, arguably the most important threat to poverty reduction.

The Critical Minerals Ministerial organized by the US State Department on 4 February 2026 illustrates the likely shape of the future US approach to international development finance.¹¹¹ At the ministerial meeting, the US announced a suite of bilateral memorandums of understanding (MoUs) and public and private financial commitments. While substantial portions of this funding are focused on the US, some of the beneficiaries will be low-income mineral producers. However, there is no mention of safeguarding the environment or governance in these countries. The administration’s overriding goal is to strengthen US security of supply ‘driven by America First values’.¹¹²

A further example of the evolving US approach to aid is provided by the American AI Exports Program, under which a range of US development finance institutions will provide financing to developing economies to enable the latter to import US-made AI technology.¹¹³ While the initiative has been presented as empowering developing countries to develop their own AI capabilities, it is strongly focused on promoting the US as the ‘undisputed leader in AI’ and on expanding markets for US products. Commentators have already highlighted that use of American AI technology in this way would simply serve to increase US leverage on the importing country in the event of an economic or political dispute.¹¹⁴

The response by other countries to the Trump administration’s withdrawal of support for international development has been weaker and less coordinated than their responses in the other three categories of public goods assessed in this

¹¹⁰ United States Census Bureau (2026), ‘New Population Estimates Show Historic Decline in Net International Migration’, 27 January 2026, <https://www.census.gov/newsroom/blogs/random-samplings/2026/01/historic-decline-in-net-international-migration.html>.

¹¹¹ U.S. Department of State (2026), ‘2026 Critical Minerals Ministerial: Fact Sheet’, 4 February 2026, <https://www.state.gov/releases/office-of-the-spokesperson/2026/02/2026-critical-minerals-ministerial>.

¹¹² Ibid.

¹¹³ Kratsios, M. (2026), ‘America must share the benefits of AI leadership’, *Financial Times*, 20 February 2026, <https://www.ft.com/content/7ef86dcb-c39b-45ed-a4dc-57f4b7428a74>.

¹¹⁴ Perez, A. (2026), ‘Letter: What happens if the White House switches off the AI?’, *Financial Times*, 24 February 2026, <https://www.ft.com/content/0a9b3f44-d749-4684-8bd1-4315a023a92a>.

chapter. Countries have generally not sought to replace US aid funding.¹¹⁵ Nearly 150 countries have also granted the US an exemption from the OECD global minimum tax agreement. Fifty-four countries attended the 2026 Critical Minerals Ministerial. However, it is uncertain whether the advanced economies which attended the meeting will ultimately participate in proposed initiatives such as setting a price floor for certain minerals, given the level of trust in the US that this would require. No action has been taken in relation to the US withdrawal from enforcement of anti-corruption laws. However, other countries have not on the whole followed suit, and the UK is hosting a bilateral summit on combating illicit finance in December to shore up support for domestic and international action in this area.¹¹⁶

The lack of a concerted international response partly reflects the fact that a number of other advanced-economy donors are also cutting development assistance, although this is typically not because they philosophically reject the importance of spending on international development.¹¹⁷ The situation also probably reflects unresolved tensions between advanced economies and developing ones over what are reasonable expectations for the levels of official aid to tackle climate change and support the Sustainable Development Goals (SDGs), given low productivity growth and tight fiscal constraints in many advanced economies.

In these circumstances, the response to the following three questions will be critical for the future of international development assistance:

How far will recipient countries be willing to engage with the **US’s new aid strategy** where financial support is highly conditional, explicitly targeted towards US rather than common interests, and likely to raise the recipient country’s exposure to US economic coercion? The practical responses to the administration’s new critical minerals strategy¹¹⁸ and AI exports programme will be a key early test.

What is the scope for the rest of the world to **improve the effectiveness** of the official aid it continues to provide, and to find new sources of aid funding (e.g. from faster-growing emerging economies such as China, India and the Gulf states)?

How will non-US countries deal with **competition from US companies** that are not required to follow the same global standards as domestic firms on issues such as fighting corruption or payment of tax? Or will US companies continue to maintain such standards even though not forced to do so?

¹¹⁵ One exception is China’s increase of \$500 million over five years in voluntary contributions to the World Health Organization. See Jovial, N. (2025), ‘China’s \$500M WHO contribution: Boosting global health or expanding influence?’, *The Week*, 22 May 2025, <https://www.theweek.in/news/world/2025/05/22/china-s-500m-who-contribution-boosting-global-health-or-expanding-influence.html>.

¹¹⁶ Foreign, Commonwealth & Development Office and The Rt Hon Yvette Cooper MP (2026), ‘UK to host Illicit Finance Summit in December’, 22 May 2026, <https://www.gov.uk/government/news/uk-to-host-illicit-finance-summit-in-december>.

¹¹⁷ In the UK, aid spending has been reduced to make more funding available for defence in the context of very tight fiscal constraints.

¹¹⁸ Tang, D., Funk, J. and Lee, M. (2026), ‘US wants to create a critical minerals trading bloc with its allies to counter China’, Associated Press, 5 February 2026, <https://apnews.com/article/trump-china-rare-earths-critical-minerals-tariffs-aa82fd4c065c9b62300ff7834b660cfb>.

04

How should the rest of the world respond to the Trump shock?

While the Trump shock has affected the US economy less than many expected so far, the long-term costs are likely to be considerable. Countries outside the US will need to work together if they are to minimize the spillovers from the US economy to the global economy.

Chapters 2 and 3 have set out the nature and broad scope of the Trump shock to global economic governance. This chapter considers the Trump shock's impact so far, how permanent it is likely to be, and what in broad terms is needed in response.

4.1 The impact so far

Up to now – and ahead of the possible economic fallout from the US-Israeli war with Iran – the impact from the Trump economic governance shock on the global economy has been much less severe than many expected. World GDP growth in 2025 was 3.4 per cent, and in its latest (April 2026) assessment the IMF forecasts – in the scenario where the Gulf war ends quickly – global growth

to continue at 3.1 per cent in 2026 and 3.2 per cent in 2027.¹¹⁹ Meanwhile, the WTO’s central forecast for 2026 is that merchandise trade will grow by 1.9 per cent and services trade by 4.8 per cent, although both outlooks remain very uncertain due to the Gulf war.¹²⁰

One key factor behind the better-than-expected performance has been the decision (so far, at least) by most countries not to retaliate against Trump’s tariff hikes, and to continue trading with each other on WTO terms. Meanwhile, companies delayed adjusting their US prices while they waited to see where the eventual end point on tariffs would be. Up until the US Supreme Court decision in February 2026, the administration had also granted exemptions to try and limit sharp impacts on domestic inflation (e.g. in relation to food imports from Brazil). As a result, the overall effective US tariff rate (total tariff revenues divided by the value of imports) was only 9.9 per cent at the end of January, compared to a headline tariff rate which at that time was around 16 per cent;¹²¹ numerous exemptions would help explain this. A second, unrelated factor is the AI investment boom, with the top five major US tech firms spending \$412 billion on such investments in 2025, equivalent to 1.3 per cent of US GDP.¹²² A third factor has been relatively accommodating fiscal and monetary policy internationally, examples of which include the OBBB Act in the US and the German decision in March 2025 to relax the constitutional debt limit in order to fund rapid growth in defence and infrastructure spending.

However, none of these factors mean that the expected long-term costs to the US economy and the global economy from Trump’s policies will be avoided. The historically high level of tariffs – combined with the high degree of uncertainty over what tariff will be applied and when – will still, over time, tend to reduce US efficiency, investment, innovation and competitiveness. The administration’s apparent determination to extract the maximum economic gain from its trade, finance and security relationships with other countries will cause further damage, as will the US’s withdrawal from the provision of a range of global public goods (a move that could be characterized as a modern ‘Marshall Plan in reverse’).

The world economy is also likely to be damaged to some degree, but the extent will depend on how other countries respond. They will work with the US when they have no choice, or when it is clearly in their immediate interest to do so. But the loss of trust, the ending of traditional alliances, and the administration’s adoption – in some areas – of policies that are based on invalid arguments are likely to make countries reluctant to do more than the bare minimum outside these situations. Organizations such as the G20 and G7, which were designed to provide political leadership in addressing global economic crises and long-term chronic

¹¹⁹ International Monetary Fund (2026), *World Economic Outlook: Global Economy in the Shadow of War*, April 2026, <https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026>.

¹²⁰ World Trade Organization (2026), *Global Trade Outlook and Statistics*.

¹²¹ *Financial Times* (2026), ‘Trump tariff tracker: US trade, markets and the economy’, first published 6 February 2025, updated 24 April 2026, <https://www.ft.com/content/2c473393-35fb-479d-8bba-236a1a98087c?syn-25a6b1a6=1>.

¹²² Allen, J. S. (2026), ‘Monitoring AI Adoption in the US Economy’, FEDS Notes, Board of Governors of the Federal Reserve System, 3 April 2026, <https://www.federalreserve.gov/econres/notes/feds-notes/monitoring-ai-adoption-in-the-u-s-economy-accessible-20260403.htm>.

problems, are already working much less well, if at all.¹²³ The critical question, therefore, is whether other countries will both recognize the urgent need to work together *without* the US and find a practical way to achieve this.

4.2 Will the new US approach to economic governance be sustained?

There is growing recognition that the rest of the world needs to find a way to work together on at least some issues without the US.¹²⁴ But one of the biggest constraints on other countries taking the necessary steps to establish an effective mechanism through which to do this is the belief (or hope) that Trump’s economic governance shock will prove temporary – perhaps only lasting a few years. If this were to be the case, some argue, the best approach may simply be to wait it out.

Another scenario is that, despite the current strength and resilience of the US economy, growing evidence of the adverse economic effects of the tariff policy and Gulf war (or a sharp financial market reaction linked to such evidence) builds opposition among Republicans to Trump’s policies and/or persuades Trump to moderate or even reverse some elements in his approach. However, the president’s hold over his party is such that the likelihood of this becoming a major constraint on his actions appears slim.

Further ahead, it is also possible that the Republicans could lose control of both chambers of Congress in the November 2026 mid-term elections, enabling the Democratic Party to reclaim full congressional authority over US tariff policy and reinforce existing institutions in other areas, such as independence of the Federal Reserve. However, it is currently more likely that the Republicans will lose control only of one chamber, most likely the House of Representatives. This would end the Republican Party’s ability to pass new legislation without Democratic Party agreement, and would increase investigative oversight of the president’s actions. But, at this stage, it appears unlikely to lead to a fundamental change of course.

Lastly, there is the possibility that in the 2028 general election Trump would be succeeded by a Democrat or a relatively moderate Republican. However, it could just as easily be a Republican with similar views to Trump’s. The election of a Republican president of the latter type might reduce the extreme uncertainty in US international economic policy (since this appears to be an idiosyncratic attribute of Trump himself) while not changing its direction.

Yet no matter how Trump and the Republicans fare electorally in 2026 and 2028, the likelihood of the US ‘snapping back’ to the role it played in global economic governance prior to 2024 appears slim. The reason for this is partly political. Many Democrat voters are sceptical about the benefits of free trade, and a Democratic administration could struggle to unwind the tariff deals of the Trump administration without opening itself up to the accusation of being weak or putting

No matter how Trump and the Republicans fare electorally in 2026 and 2028, the likelihood of the US ‘snapping back’ to the role it played in global economic governance prior to 2024 appears slim.

¹²³ Work on the French G7 in June 2026 and the UK G20 in 2027 has continued, but both hosts struggle with the near-impossible challenge of finding a way to engage the US administration constructively on the most important economic challenges facing the global economy.

¹²⁴ World Economic Forum (2026), ‘Davos 2026: Special address by Mark Carney, Prime Minister of Canada’.

The international context will make it increasingly difficult for the US to revert to its pre-Trump position in the world. It is likely to take many years for the US’s traditional allies to regain their trust in its motives.

the interests of foreigners above those of the US public. This was a factor behind the Biden administration’s retention of tariffs *vis-à-vis* China. But there are also technical reasons. The more Trump’s economic policies become embedded in US economics and politics, with the federal government relying on tariffs for revenues, or with specific industries relying on continuing protection to stay profitable, the harder it will be for a future administration to reverse course even if that would be its preference.

Lastly, the international context will make it increasingly difficult for the US to revert to its pre-Trump position in the world. It is likely to take many years for the US’s traditional allies to regain their trust in its motives. At the same time, new FTAs, innovative currency and energy security arrangements, reshaped military alliances, and redesigned funding arrangements to enable international organizations to circumvent US opposition to some of their work are likely to make it very hard for America to resume its previous role in the international system even if it wished to do so.

4.3 What is needed in response

As discussed earlier, there are two distinct elements to the Trump shock. The first is the replacement of a US trade policy based on achieving mutual benefit among partners with a zero-sum calculation based on extracting the maximum economic value for access to the US market and provision of security guarantees. The second is the US’s withdrawal from providing a range of key global public goods.

All countries have been impacted by this shock, but the most seriously affected are those that have previously been most closely allied with the US and have the deepest trade and investment relationships with it, as well as countries (typically the poorer ones) that have relied extensively on the global public goods the US has traditionally supported.

The medium-term response of the global community to the Trump shock needs to address both these aspects and improve the position of the countries principally affected. But it also needs to address the longer-term erosion of global economic governance norms that preceded Trump, a trend that has principally been driven by China. National policies on internal market barriers, regulation and strategic investment will clearly be very important. Nonetheless, some key issues can be addressed only through collective action. The next chapter looks at how this may be achieved.

05

The case for a ‘third pole’ in global economic and financial governance

Trying to persuade the US and China to join in universal collective action, or developing case-by-case coalitions of the willing, will be less effective than organizing a single permanent group of countries, a ‘third pole’, to promote a rules-based approach to global economic and financial governance.

There are essentially three possible approaches that countries wanting to respond proactively rather than passively to the Trump shock can take:

The first is to **continue with the approach adopted up to now in the periods when Trump has been president**. This involves trying to collaborate with the US through the existing international institutions and groups where the US remains engaged (e.g. in the IMF, MDBs, G7 and G20) or on issues where America’s role is essential (such as the provision of military intelligence, weapons and political support for Ukraine). This approach also means accepting, over a longer period, the asymmetric trade and investment relationships imposed by the US authorities

in recent negotiations, and the weaker standards applied to US firms operating abroad, while developing national policies to reduce exposure to these asymmetries as far as possible. This in turn means focusing on trade diversification, on strengthening domestic regulation to protect against US-generated risks in finance, technology and climate change, and on resisting pressure from the private sector to follow the US model.

In the case of the G7 and G20, the strategy means trying to find ways to reframe key global concerns so that they become acceptable to the US. Mark Carney, the Canadian prime minister, attempted this at Canada’s 2025 G7 summit in mid-2025: taking out direct references to issues, including trade and climate finance, to which the US would object and attempting to reframe these around delivering growth, infrastructure investment and energy security. He also gave summit participants more options about what they would sign up to, rather than pushing for a single common declaration. The French are attempting broadly the same approach with their 2026 presidency of the G7, focusing on global imbalances (a subject on which the US Treasury has so far responded positively)¹²⁵ and reform of the global development framework (particularly the role of public development banks).¹²⁶ This approach may also mean relying on the US effectively opting out of discussions on certain topics with which it no longer wishes to be involved.

More broadly, the strategy also means accepting what would have been seen in the recent past as entirely unacceptable behaviour in economic diplomacy, such as President Trump’s unilateral decision to exclude South Africa from the 2026 G20 summit, and the bullying tactics adopted by the US to derail the IMO agreement on addressing carbon emissions by shipping.

However, there are several drawbacks with this approach. It may result in some of the most important issues, such as tackling climate change or reforming the global trading system, not being discussed and addressed, or only being considered within a highly restricted or distorted framework that does not permit the development of truly effective solutions.¹²⁷ A continuing erosion of diplomatic norms and standards can also be expected as the US extends its intimidatory approach to new areas, and as other large countries adopt similar tactics. If the formal strategies underpinning the work of leading MDBs change in response to US pressure, there is likely to be an erosion of MDB action on climate change, gender equality and other SDGs even if a large majority of MDB shareholders are in favour of maintaining a focus on these issues. There would also be no systematic high-level forum at which non-US countries could develop a collective response to the Trump shock. Instead, concerned countries would have to rely on individual national policies and ad hoc coordination meetings. This is likely to be much less effective.

A continuing erosion of diplomatic norms and standards can be expected as the US extends its intimidatory approach to new areas, and as other large countries adopt similar tactics.

¹²⁵ Although it is hard to see how the discussion will add much value when the US has already resorted to protection and China is not present.

¹²⁶ Focus 2030 (2026), ‘G7 France 2026: focus on development issues, understanding the challenges, keeping up with the latest news’, <https://focus2030.org/en/g7-france-2026-focus-on-development-issues-understanding-the-challenges-keeping-up-with-the-latest-news>.

¹²⁷ See, for example, Butler, C. (2025), ‘It’s time to rethink the G7’, Chatham House Expert Comment, 18 June 2025, <https://www.chathamhouse.org/2025/06/its-time-rethink-g7>; Butler, C. (2025), ‘The world still urgently needs sustainable finance – regardless of the Trump administration’, Chatham House Expert Comment, 16 July 2025, <https://www.chathamhouse.org/2025/07/world-still-urgently-needs-sustainable-finance-regardless-trump-administration>.

Nonetheless, in the short term the approach outlined above will be tempting for many countries, as it will be the easiest politically and may appear the least costly. It may also be relatively easy to rationalize, if policymakers hold out the hope that the US will revert to its previous behaviour when Trump leaves office. But, as discussed earlier, this is likely to prove a false hope. Delaying the necessary steps to act independently of the US will prove more costly and politically painful over the long term.

A second approach, as Carney set out in his recent speech, is for so-called ‘middle powers’ to act together through multiple **coalitions of the willing** on issues such as WTO reform, climate change, development and energy security. This has the advantage of flexibility in that a coalition can be established to tackle *any* pressing issue. The membership of different coalitions can also be optimized to achieve maximum coherence and impact. However, this approach’s flexibility is also its weakness. Establishing a different coalition for each issue would be time-consuming and would stretch scarce resources. It would also reduce the overall political impact of the effort, and limit the extent to which regular partners can build trust and negotiate trade-offs across different issues.

The third approach, which is favoured by the author, is for a *single* group of countries to give priority to the **creation of a new and permanent alliance on global economic governance**. Such an alliance would focus most immediately on addressing the two key features of the Trump shock identified earlier (see Section 4.3). Over the longer term, it would seek to establish a ‘safe’ economic space between, and counterweight to, *both* the US and China. By acting collectively, members of the group would not only increase their influence on public and private decision-making internationally, but would also create a large (and potentially very large) economic space in which their firms could operate freely and in compliance with stable and relatively high standards.¹²⁸ This is the ‘third pole’ to which the subtitle of this report refers.

In the remainder of this report, the analysis will describe the countries or blocs that might pursue this proposed approach as the **‘rules group’**, and the new economic governance architecture they would create as the **‘third pole’** in the global economy.

In line with the needs set out in Chapter 4, the new group would have five principal objectives at the outset:

First, it should make an honest assessment of what has happened to global economic governance, particularly as a result of the Trump shock since the start of 2025, but more broadly over the past 15 years as a result of the actions of both the US and China. As reflected in the analysis in Chapters 2 and 3, this assessment should unbundle the impact of the Trump shock on global trade, the net zero transition, energy security, monetary and financial stability, and poverty reduction. It should establish a consensus on the likely permanence of the current stances of both the US and China, and determine which gaps in global economic governance arising from these stances need to be addressed most urgently.

¹²⁸ In the sense that they would match the levels achieved before the second Trump presidency, and in some areas improve on them.

Second, the new alliance should aspire to uphold the existing rules, norms and frameworks underpinning global economic governance wherever possible. These include WTO rules and procedures, anti-corruption agreements, bank capital adequacy norms, etc. This approach would mean resisting changes in the strategies and leadership of international organizations where such changes would undermine these objectives; it would also mean resisting pressure from the private sector to copy US deregulatory initiatives (particularly when such lobbying pays insufficient attention to the negative consequences of deregulation).

Third, it should coordinate its members’ actions to minimize negative spillovers from the Trump shock. For example, a key goal should be to preserve the most favoured nation (MFN) principle in trade relations between countries, although exceptions may need to be agreed when an economy is forced to respond to pressure from the US to agree an asymmetric trade deal.

Fourth, the group should capitalize on the stronger bargaining position its members would have vis-à-vis the US and China on issues where US and/or Chinese participation in addressing an issue is either highly desirable or unavoidable. This means developing common positions on specific issues and keeping to a minimum the number of contexts where individual members of the group may be forced to make rapid bilateral concessions to US or Chinese pressure, which could weaken the position of all other members. One example is the goal of securing access to critical minerals while maintaining social, environmental and governance protections in the poorest countries. Another is the goal of deploying US and Chinese AI while minimizing the national security risks and the possibility that use of these technologies may open the way for future coercion. A further goal would be maintaining progress on the net zero transition. The third pole would clearly not be large enough to deliver net zero at a global level simply through actions limited to its own economic space. But its economic weight – if deployed with maximum extraterritorial impact in such areas as standard setting, R&D, industrial strategy, financial regulation, trade policy and taxation – could make a major difference to progress on the target globally.

Fifth, a third pole in the global economy should develop and promote solutions to new and long-standing issues that, one way or another, have undermined the effectiveness of global economic governance. This project should begin with the most immediate challenges: for example, by proposing a new and more workable text for the national security exemption in the WTO; and by developing a more effective way to use the limited available public international finance to address the climate finance gap in emerging markets and developing economies (EMDEs). But any new alliance must also address the longer-term weaknesses in global economic governance that pre-date the Trump shock. This includes improving voting weight legitimacy in the international financial institutions (IFIs) given changes in relative global GDP weights, and finding a means to strengthen the voice of low-income countries in decision-making on global economic issues. However, these goals will need to be achieved while preserving the effectiveness of the system for all participants.

Any new alliance must address the longer-term weaknesses in global economic governance that pre-date the Trump shock. This includes improving voting weight legitimacy in the international financial institutions.

Although the concept of a third pole is deliberately not universal, the above objectives *also* provide a basis for a return to universal approaches in the future should either the US or China decide to change their approach. A key feature should be that membership of the third pole is open to any country willing to demonstrate commitment to its core principles.

However, this does not change the need to define clearly **who would be inside and who would be outside the alliance at the outset**. Members will need a sufficient degree of trust, political coherence and perceived common interest to act together across a wide range of policy issues. This may only be achieved by defining membership in part, at least, according to the **demonstrated beliefs of participants**. In particular, full members should:

- Want to preserve a rules-based international economic system;
- Believe trade agreements should be developed for mutual benefit, and oppose the use of economic coercion to achieve unbalanced outcomes (i.e., coercive instruments should be used only to defend against coercion by other countries);
- Be ready to comply with international law and respect treaties once signed (including the UN Charter);
- Believe in supporting – and, if a high-income or upper-middle-income country, helping to finance – global public goods including monetary/financial stability and the net zero transition;
- Agree on operating in international organizations according to long-established diplomatic norms and agreed decision-making rules (whether by consensus or, as with the IMF, on a constituency basis¹²⁹); and
- Be ready to reform existing international organizations to improve how they work and address any perceived unfairness in governance arrangements.

As well as beliefs, participation in the rules group/third pole will need to be defined by members’ **attributes**. One set of participants should consist of traditional advanced-economy partners of the US that have the agency, capability and resources to act increasingly independently. Another should consist of faster-growing emerging economies. The overall group does not need to be defined by its members’ domestic political systems, so it could include non-democracies. Equally, a pragmatic approach is likely to be needed on human rights. That said, a very poor human rights record is likely to rule an economy out from participation simply because other potential members will find cooperation difficult, even in unrelated spheres.

But the third pole should *not* include China. This is primarily because China does not, as judged on its past and recent behaviour, share the core beliefs set out above. China has used economic coercion instruments extensively in the

¹²⁹ IMF (2026), ‘IMF Executive Directors and Voting Power’, 18 May 2026, <https://www.imf.org/en/about/executive-board/eds-voting-power>.

past 15 years (e.g. against Canada,¹³⁰ Australia¹³¹ and, most recently, Japan¹³²). There are also some strong similarities between the US and Chinese views on the ‘right’ of major powers to dominate other countries in their respective regions. Although China has in the main followed the letter of WTO rules since joining the organization at the end of 2001, there is a widespread view that it has not followed their spirit, using extensive state subsidies and state coordination to gain a competitive advantage. China also until very recently used its developing-country status to justify restricting access for foreign goods to its domestic market,¹³³ and has deployed capital controls to manage its exchange rate and prevent the kind of appreciation that would normally be expected to result from very large current-account surpluses.

In addition to this track record, China’s economic size would unbalance the rules group, while the continuing threat of Chinese intervention against Taiwan would make the group unstable. If China were to attack Taiwan, continued membership would be impossible. It is also likely that including China in the third pole would trigger an even stronger negative reaction from the US than might otherwise be the case.

Other questions over a given country’s participation could be much more evenly balanced. For example, including **India** would add significantly to the grouping’s economic weight and dynamism. But India’s track record on global economic governance (for example, in helping to block progress on plurilateral agreements in the WTO¹³⁴), combined with its possible aspiration to be an independent economic pole in its own right, suggests it might prove a difficult partner.

In contrast to the US’s positions under the Trump administration, the new alliance should undertake a genuine and sustained **dialogue with low-income countries** on the basis of solidarity and an aspiration to achieve long-term mutual benefit. This should lead to the rules group being a champion of low-income countries in international negotiations. It would also expand the group’s economic influence. However, the alliance should avoid containing a large number of small, low-income economies in its formal membership, as this could significantly reduce its agility, flexibility and impact.

In terms of **scope of operations**, the third pole should initially focus on international trade and investment because this will very likely remain at the core of the Trump shock despite the recent US Supreme Court ruling.

The new alliance should undertake a genuine and sustained dialogue with low-income countries on the basis of solidarity and an aspiration to achieve long-term mutual benefit.

¹³⁰ Geopolitics Unplugged (2025), ‘China’s Economic Sanctions: A Tool of Foreign Policy’, 28 January 2025, <https://geopoliticsunplugged.substack.com/p/chinas-economic-sanctions-a-tool>.

¹³¹ McDonagh, N. (2024), ‘Hidden Lessons from China’s Coercion Campaign against Australia’, Australian Institute of International Affairs, 28 February 2024, <https://www.internationalaffairs.org.au/australianoutlook/hidden-lessons-from-chinas-coercion-campaign-against-australia>.

¹³² Sim, D. (2025), ‘The risks China faces as it deploys an economic arsenal against Japan’, *South China Morning Post*, 21 November 2025, <https://www.scmp.com/news/china/diplomacy/article/3333562/risks-china-faces-it-deploys-economic-arsenal-against-japan>.

¹³³ Moritsugu, K. and Keaten, J. (2025), ‘China gives up WTO developing country status in face of U.S. tariffs’, PBS News, 24 September 2025, <https://www.pbs.org/newshour/world/china-gives-up-wto-developing-country-status-in-face-of-u-s-tariffs>.

¹³⁴ Manak, I. (2025), ‘How India Disrupts and Navigates the WTO’, Council on Foreign Relations, 10 February 2025, <https://www.cfr.org/articles/how-india-disrupts-and-navigates-wto>.

However, from the outset the alliance will need to be seen as being about a lot more than trade. And it should quickly expand its scope to encompass discussions on other major themes at the heart of the Trump shock, such as the net zero transition, energy security, international monetary and financial stability, and poverty reduction.

This would emulate to a degree the approach of the G20, which was established at leader level in 2008–09 with a very strong initial focus on financial stability, global imbalances and macroeconomic policy coordination, reflecting the themes underlying the crisis of the time.¹³⁵ But the G20 subsequently evolved into a forum capable of addressing a diverse range of issues, including climate finance, global health threats and the international financial aspects of counterterrorism.

To be effective, the new group would need to have a **combined economic weight** at least comparable to that of either of the other two major poles in the global economy (the US and China); ideally, it should be substantially bigger.

It is also critical that the group has sufficient political leadership to carry its agenda forward effectively. This partly means that there must be a leader-level component in the architecture governing the alliance. This is to ensure that the trade steps launched by it are ambitious, and that the group’s focus can extend beyond areas that are the principal remit of trade ministers. To maximize the chances of success, **the group ideally also needs to contain political leaders with the vision and time** (not just technocratic expertise) to get the concept off the ground, i.e. individuals who could play roles like those of John Maynard Keynes and Harry Dexter White with respect to the Bretton Woods institutions, Robert Schuman and Jean Monnet with respect to the EU, or Gordon Brown with respect to the G20.

Establishing a third pole would have **several key advantages** over using multiple coalitions of the willing. Having a single core group would be **administratively more efficient** in pursuing broader initiatives. It would also make it possible to establish a stable overarching **political architecture**, including a leader-level component, to complement participating officials’ technical expertise. This would help provide the political will and support to make and implement difficult decisions, enable the group to tackle a broader range of issues than just trade, and deal with emergencies more quickly and effectively. Such features could be achieved without much loss of policymaking flexibility, provided the members of the group genuinely shared the beliefs set out above.

¹³⁵ It also follows the example of the European Coal and Steel Community, which was established in 1951 as the forerunner of the European Economic Community and eventually the European Union (although there is no intention that the third pole should reach the level of cooperation and integration achieved by the EU).

06

How should the third pole be established?

Building on the trade and investment dialogue between the EU and the CPTPP is likely to be the quickest and most practical way to establish a third pole with the right membership.

Global economic groupings have previously continued and even thrived after a key member has left. These have included: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which emerged in 2018 from the negotiations to establish the Trans-Pacific Partnership (TPP) after Trump's withdrawal of the US from that proposed grouping; the G7, which took over from the G8 after Russia was suspended following its invasion of Crimea and eastern Ukraine in 2014; and the EU, which continued without the UK (its second largest economy, accounting for 16 per cent of EU GDP in 2016)¹³⁶ following Brexit.

But the challenge of constructing an effective third pole for the global economy without the US or China is arguably greater than adapting to new political circumstances was in the case of these precedents. There are no existing negotiations, nor an agreed framework and set of objectives, to draw on. The prospective composition of the group is uncertain, while the most likely potential members have limited political, analytical and policymaking bandwidth given the wide range of global challenges they face. Nor is a dominant hegemonic economy

¹³⁶ Eurostat (2017), 'Share of Member States in EU GDP', 10 April 2017, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20170410-1>.

or pair of economies available to lead the process. And in contrast to the three cases cited above, the new grouping is likely to face hostility and deliberate disruption from the US and possibly China.

A practical and tightly focused approach is therefore essential if these challenges are to be addressed. The most important factor to get right at the outset is the role of the EU.

6.1 The role of the EU

The need for the new grouping to have an economic weight at least comparable to that of the US or China makes the EU an essential member.¹³⁷ However, a third pole would not work as a simple extension of existing EU trade policies, standards and regulatory approaches. Nor can the EU act as an economic hegemon within the new alliance. The EU itself is not united enough internally to do so, nor would other countries accept it in that role.

It is also vital, if a third pole in the global economy is to be created, that the EU does not turn inwards, abandoning its current economic openness in favour of a broadly protectionist mindset in response to intense competition from Chinese manufacturing and fear of US technology dominance. The eventual shape of the European Commission’s proposed Industrial Accelerator Act,¹³⁸ which will focus EU public procurement and government subsidies in certain strategic industrial sectors on products made in the European Economic Area (or possibly a broader grouping), will be a key determinant of the future direction of EU policies and whether a third pole is viable.

The same is true with respect to implementation of the EU’s 2023 Economic Security Strategy, which sets out tools to mitigate risks to EU economic security.¹³⁹ It is also true of the EU’s 2026 Economic Security Doctrine, which (among other things) identifies approaches the EU can take, if necessary, to exert leverage on other countries that are threatening its economic security.¹⁴⁰ Both new policies are justifiable in principle given the pressure the EU is now under from both the US and China, but it is essential that in the course of their implementation the EU does not copy these two countries and become just another coercive economic power. It is therefore important that any economic security measures adopted are the minimum necessary given the threat, are justified on clear national security grounds or as a response to demonstrably unfair competition, and follow clear

It is important that any economic security measures adopted are the minimum necessary given the threat, are justified on clear national security grounds or as a response to demonstrably unfair competition, and follow clear legal processes.

¹³⁷ The EU is the world’s largest trading block, accounting for 16 per cent of world trade in goods and services. See: Council of the European Union (2026), ‘The EU’s role in global trade’, <https://www.consilium.europa.eu/en/infographics/the-eu-s-role-in-global-trade>.

¹³⁸ Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (2026), ‘Commission proposes Industrial Accelerator Act to strengthen industry and create jobs in Europe’, European Commission, 4 March 2026, https://employment-social-affairs.ec.europa.eu/news/commission-proposes-industrial-accelerator-act-strengthen-industry-and-create-jobs-europe-2026-03-04_en.

¹³⁹ European Union (2023), ‘Joint communication to the European Parliament, the European Council and the Council – on “European economic security strategy”’, 20 June 2023, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52023JC0020>.

¹⁴⁰ Think Tank European Parliament (2025), ‘New EU economic security doctrine’, 17 June 2025, [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2025\)772915](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2025)772915).

legal processes.¹⁴¹ It is also important that the EU’s strategy recognizes the benefit to the EU of being part of the largest possible rules-based economic space by allowing for preferential treatment both of trusted partners and of other countries sharing the ‘third pole beliefs’ set out above (see Chapter 5).

This approach will be important in newly drafted policies, but it should also be reflected in the implementation of some established policies where the EU may need to make interim adjustments to build consensus among members of the third pole. One example is the EU’s Carbon Border Adjustment Mechanism (CBAM), implementation of which started at the beginning of 2026.¹⁴² The widespread deployment of similar mechanisms over time is likely to be essential to the viability of the third pole if it is to cover the pursuit of net zero, and if members inside the group are to be protected from unfair competition by non-members that have renounced climate-related policies. The UK plans to introduce its own CBAM from the start of 2027, and similar policies are being considered by other advanced economies.¹⁴³ But such moves could also, if applied inflexibly at the outset, prevent several key EMDEs from aligning with the EU and developing a common response to US tariffs.¹⁴⁴ Another example is the EU’s Deforestation Directive, which has been criticized by supplier countries (among others) for its cost, complexity of compliance and potential unfairness to small farmers.¹⁴⁵

Most fundamentally, however, the EU will only be able to play a full role in a third pole if the EU establishes security and defence independence from the US. This is not just an issue for the EU, and in some respects it is easier to see a route by which the EU can surmount this challenge than is the case for some other traditional US allies. This is discussed further in Section 6.3.

A final concern is the possibility that populist political parties may win power in leading EU nations in the coming few years. There is some evidence of the EU being able to manage populist governments while maintaining its core values and approaches.¹⁴⁶ The UK’s negative economic experience of Brexit¹⁴⁷ and the

¹⁴¹ The EU move to cut steel import quotas by 47 per cent from 1 July and impose a 50 per cent tariff on additional quotas in an effort to deal with a damaging import surge, and a European Commission proposal to require companies in certain sensitive sectors to maintain diversified sources of supply, are examples of new policies which needed to be tested rigorously against these criteria.

¹⁴² Directorate-General for Taxation and Customs Union (2026), ‘CBAM successfully entered into force on 1 January 2026’, European Commission, 14 January 2026, https://taxation-customs.ec.europa.eu/news/cbam-successfully-entered-force-1-january-2026-2026-01-14_en.

¹⁴³ Glushchenko, A. (2025), ‘How countries around the world are responding to the EU CBAM (June 2025)’, GMK Center, 19 June 2025, <https://gmk.center/en/infographic/how-countries-around-the-world-are-responding-to-the-eu-cbam-june-2025>.

¹⁴⁴ The EU adopted a number of simplification measures in the CBAM ahead of the mechanism’s entry into force, suggesting there is a willingness to show a degree of flexibility. See Mizulin, N., Vander Schueren, P., Geraets, D. and Nosowicz, A. (2025), ‘EU adopts CBAM simplification regulation: 10 key amendments and challenges ahead’, Mayer Brown, 17 October 2025, <https://www.mayerbrown.com/en/insights/publications/2025/10/eu-adopts-cbam-simplification-regulation-10-key-amendments-and-challenges-ahead>.

¹⁴⁵ Li, B. et al. (2026), ‘What is the EU Deforestation Regulation: 8 Key Questions Answered’, World Resources Institute, 15 May 2026, <https://www.wri.org/insights/explain-eu-deforestation-regulation>.

¹⁴⁶ Examples include the decision of Greece’s Syriza government to stay in the euro despite a 2015 referendum rejecting the EU’s bailout terms, and the pragmatic decision of the Giorgia Meloni government in Italy to align with EU external policies on Russia and Ukraine. The defeat of Viktor Orbán in Hungary’s April 2026 parliamentary election also shows how EU membership can help prevent a populist political leader from permanently capturing political power in a member state.

¹⁴⁷ A recent National Bureau of Economic Research (NBER) paper estimates that Brexit has resulted in a reduction of 6–8 per cent in UK GDP per capita compared with what it would otherwise have been. See Bloom, N. et al. (2026), ‘Measuring Brexit’s Economic Toll on the United Kingdom’, *The Digest*, NBER, 1 February 2026, <https://www.nber.org/digest/202602/measuring-brexit-economic-toll-united-kingdom?page=1&perPage=50>.

unpopularity of several of President Trump’s external policies in Europe may also make populist governments in the EU cautious about either leaving the EU or aligning themselves too closely with the US. Nonetheless, the challenge posed by the potential formation of a government dominated by the extreme right in either France or Germany would be the greatest to date, and it might make the EU’s full participation in a third pole very hard to deliver, either because of internal instability or because a significant minority of member states might switch to preferring closer alignment with the US and its policies.

Other prospective members of the rules group, such as the UK, also face the threat of populist government.

However, other prospective members of the rules group, such as the UK, also face the threat of populist government. And the creation of such an alliance should help its members to strengthen their relative economic performance, and to maintain their ability to regulate against false information and other forms of political interference online. It would also be likely to provide a strong alternative international vision to that of the US administration. This should help governments in the EU and other prospective participants push back against populist ideas, making the establishment of a third pole in the global economy an attractive strategy for *existing* leaders.

6.2 Composition of the core group

The larger and more diverse the formal membership of the third pole, the greater will be its legitimacy in seeking to influence global economic governance and institutions. But that will also make agreeing common positions harder, and the group will be slower-moving in response to further shocks. There is therefore a balance to be struck in devising participation. The EU is the only essential member, but inclusion of certain other participants (for instance, the UK and some emerging economies) would be highly desirable.

In practice, it is very hard to establish a new economic grouping from scratch, particularly where there is no dominant country to propose goals or criteria for participation, or to adjudicate on disputes over whether a given country should be a member or not. Relying on self-selection is also problematic, as one cannot then control the size of the group; some countries may claim that they fit the membership criteria when in fact this is far from being so.

A more practical solution, therefore, is to start with an *existing* country grouping or combination of groups where membership is already determined. This is what happened with the G20 in 2008–09, when the leaders’ group used as its basis a previous grouping established by finance ministers and central bank governors in 1999 following a series of financial crises.¹⁴⁸ Once a starting group has been identified that has about the right composition, it should then be possible to invite other countries as ‘permanent guests’ (as was the case with Spain in the G20). It is much harder to exclude a country that may feel it has a legitimate right to participate given the initial basis used to set up the grouping.

¹⁴⁸ *Time Africa* (2025), ‘The History of the G20: From 1999 to the Johannesburg Summit 2025’, 19 October 2025, <https://africa.time.com/g20/the-history-of-the-g20-from-1999-to-the-johannesburg-summit-2025>.

One option is to begin with the **G6** (i.e., the G7 members minus the US)¹⁴⁹ and then invite additional countries on the basis of a consensus within the G6. This would have the advantage that the government currently holding the presidency of the G7, France, is also a member of the EU and would have the opportunity to convene the G6 in the margins of G7 preparations. The structure of the French government also, in principle, gives the French president more time than some other leaders to focus on foreign affairs. But starting with the G6, which accounts for 18 per cent of global GDP,¹⁵⁰ would require the addition of a lot of individual members to reach an economic weight comparable to the US’s 26 per cent share. It would also look like an explicit exclusion of the US from an established grouping. And France would have to take on the burden of organizing a summit for the new alliance in the same year as a G7 summit and in the run-up to a highly contentious French presidential election in 2027.

Another option – and the one advocated by this author – is to start with a grouping comprising the **EU plus the members of the CPTPP**. This has a number of advantages that could make it a better choice than a ‘G6 plus’ approach:

- Accounting for 32 cent of global GDP, an EU-plus-CPTPP group would be larger than either the US (26 per cent) or China (17 per cent). In terms of world trade, the EU and CPTPP combined would be even more dominant, accounting for nearly 50 per cent of total exports plus imports of goods.
- An EU-plus-CPTPP alliance would not include China, the US or India. While China has applied to join the CPTPP, it does not meet the technical criteria and is unlikely to be admitted for the foreseeable future. Nor does the combined group include any countries seriously questioning the need for action on climate change (even though it does include some major hydrocarbon producers).
- Within the combined group, the EU and CPTPP are fairly equally balanced, with the EU accounting for 55 per cent of GDP and 43 per cent of the population.
- An EU-plus-CPTPP group would already include all members of the G6, while the EU and 11 out of 12 members of the CPTPP (not Brunei Darussalam) are members of the Multi-Party Interim Appeal Arbitration Arrangement (MPIA),¹⁵¹ an alternative dispute settlement mechanism developed to substitute for the WTO’s Appellate Body. Such a grouping would also account for nearly 50 per cent of current IMF quotas, although these votes are split across a number of different constituencies.
- Such a grouping would be viable as a third pole with just the EU and CPTPP’s current membership, but a number of additions could be made, including Brazil, South Africa and South Korea (which is in any case considering membership of the CPTPP). These countries appear to share the proposed goals of the pole and would significantly increase its impact. In addition, starting with a membership

¹⁴⁹ Butler, C. (2024), ‘The US election could create the need for a G7 alternative – without American representation’, Chatham House Expert Comment, 15 October 2024, <https://www.chathamhouse.org/2024/10/us-election-could-create-need-g7-alternative-without-american-representation>.

¹⁵⁰ In market value terms.

¹⁵¹ WTO Plurilaterals, Geneva Trade Platform (2025), ‘Multi-Party Interim Appeal Arbitration Arrangement (MPIA)’, https://wtoplurilaterals.info/plural_initiative/the-mpia.

consisting of the EU plus the CPTPP helpfully leaves open in the short term the questions of whether to invite India to join, and whether India would wish to be a member.

- The focus of the CPTPP on trade and investment would fit with the need for a third pole initially to focus on these areas. However, a combination of the EU and the CPTPP would also be a viable forum for addressing other key issues such as the net zero transition, energy security, monetary and financial stability, and poverty reduction.
- The new grouping would include both advanced and EMDE members with a range of political systems, but the driving force would be liberal market economies.

The main disadvantages of the proposal above are the number of countries involved – 39 at a minimum – assuming one includes the individual member states in the EU as well as the EU institutions. An EU-plus-CPTPP format would also mean the inclusion of some very small states with populations of less than 1 million (Brunei Darussalam, Luxembourg and Malta).¹⁵²

Using a combination of the EU and the CPTPP as the basis for the third pole would not require that the EU *itself* join the CPTPP. That would be very time-consuming, and would delay or divert attention from many of the key discussions that are urgently needed. Instead, the group should be mainly outward-facing, with the members acting together to achieve the common objectives set out in Chapter 5.

However, the effectiveness of an EU–CPTPP partnership will be strengthened if the two constituent groups accelerate their **internal reform efforts**.

In the case of the EU, this author argues, the priority should be implementing key elements of the 2024 reports by Mario Draghi (a former Italian prime minister and former president of the ECB) and Enrico Letta (also a former Italian prime minister) on European competitiveness and the European single market respectively.¹⁵³ Of particular note are these reviews’ recommendations on the need for single markets in financial services, energy and defence procurement, and on the importance of lightening the burden of regulation where this can be done without compromising the underlying purpose. The European Commission’s president, Ursula von der Leyen, has set out a single market roadmap to 2028 and more controversially is using ‘omnibus’ legislation to accelerate regulatory reforms.¹⁵⁴

¹⁵² The best way to handle this is probably to give small states the option of being represented at meetings by the European Commission (in the case of EU member states) or a new central secretariat in the CPTPP (in the case of Brunei).

¹⁵³ European Commission (2024), ‘The Draghi report on EU competitiveness’, https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en; and Letta, E. (2024), *Much more than a market*, Brussels: European Commission, <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>.

¹⁵⁴ Alemanno, A. (2025), ‘The Omnibus Road to Constitutional Drift’, *Verfassungsblog*, 12 November 2025, <https://verfassungsblog.de/omnibus-legislation-europe-constitutional>.

It is critical that a sufficient number of member states commit to prioritizing work on the new grouping over other forums – whether the G7, G20 or BRICS.

Within the CPTPP, the priorities should be to update certain chapters in the partnership’s founding agreement and to establish a permanent secretariat or commission. There is also likely to be a need to respond to continuing membership requests – including from Costa Rica, Indonesia, the Philippines and the UAE. None of these additions would compromise the viability of the EU-plus-CPTPP format as the basis for the third pole, although two other applications – from China and Taiwan – would be problematic and are best deferred indefinitely.

On balance, the author believes that starting with this combined EU–CPTPP grouping is the best available route to establishing a third pole in the global economy. It is not perfect, but can be begun immediately and has a viable diplomatic path. However, **three key risks** will need to be managed from the outset:

First and most important is the risk that members of the new grouping will be diverted into dealing with other demands, particularly given the pressures arising from the Gulf war and the limited policy bandwidth in many trade and economic ministries. It is therefore critical that a sufficient number of member states (along with EU institutions) commit to prioritizing work on the new grouping over other forums – whether the G7, G20 or BRICS. This will require a change of mindset under which members of the third pole see it as one of the primary forums for developing their international economic policy agenda (free from constraint by either the US or China) and then use other groups of which they are members as force multipliers. Negotiation of new FTAs by members of the new alliance may consume time and bandwidth, but will also help spread its influence.

The second risk is that either the US or China, or both countries, will retaliate against the new group, seeing it as a threat to their view of how global economic governance should evolve.

The third risk is that some initial members, or prospective new members, turn out to be blockers on key policy areas.

These risks are best managed by articulating a strong high-level vision at the outset. This vision would require: (a) commitment to the beliefs set out in Chapter 5 of this report; (b) openness to membership by other countries that demonstrate a genuine commitment to similar values; (c) recognition that establishment of a third economic pole would be distinct from, but complementary to, any possible reshaping of security relationships;¹⁵⁵ and (d) a desire for constructive, though not subservient, relationships with the US and China.

¹⁵⁵ An argument could be made that the risk of retaliation against prospective members of the third pole by one or both of the US and China is so great that the alliance will *only* survive if it is underpinned by a parallel framework for active security cooperation, including a self-defence pact. However, from a pragmatic perspective, this is not a viable proposition, at least not initially, given the political and geographic diversity of the membership envisaged for the pole. Moreover, the author’s view is that a broad-based economic alliance has a reasonably good chance of success, provided it is not undermined by prospective members’ *dependence* on the US for their security. This is because many countries share a growing dislike of US and Chinese economic coercion tactics, and are disillusioned by increasing evidence of policy failure, particularly the slowing Chinese economy and US inability unilaterally to restore access through the Strait of Hormuz. The key requirement – which the third pole concept seeks to address – is that other countries should have an alternative to the US or China to coalesce around.

6.3 Addressing security dependence on the US

Starting the third pole with a CPTPP-plus-EU alliance would, through its economic size, begin to limit the ability of the US and China to exert economic leverage on participants. However, as an economic rather than security construct, the group would not in itself limit the US’s ability to exert leverage through military alliances.

Under President Trump, the US has pulled back from the provision of global security as a public good. The US is now deploying military force more or less exclusively to serve what it perceives to be direct US security interests. At the same time, it is using the military support it does provide to its allies more explicitly to extract economic advantage (as well as to deliver security benefits to the US). Concerns over US reliability as an ally are being reinforced by the US’s current inability to supply anti-missile defences to allies following the rapid depletion of its own stocks in the war with Iran.

If the third economic pole is to thrive and play a full role in global economic and financial governance, the US and/or China must be prevented from using leverage linked to security relationships or direct military pressure to undermine the new group’s effectiveness. This is likely to be most acutely an issue for the US’s traditional allies – i.e. Australia, Canada, the EU members of NATO, Japan, South Korea and the UK. However, the options facing individual countries will vary considerably according to the source of the principal security threat, their existing military capabilities and military potential, and the availability of potential allies – the latter of which is also linked to geography.

The commitment by NATO members to spend 5 per cent of GDP on defence by 2035 (3.5 per cent on core military needs and 1.5 per cent on defence-related security and resilience) could be sufficient over the period to enable Europe (broadly defined to include the UK, EU member states and regional partners such as Ukraine) to be militarily independent, if it so chooses, of the US. But for this to be the case, the spending targets would need to be fully implemented. Europe would need to build a much more cost-effective military procurement infrastructure, prioritize R&D and spending on technically advanced weapons¹⁵⁶ and surveillance systems, and maximize the benefits from security cooperation between the EU, the UK and Ukraine. Europe would also need to build a military alliance/command infrastructure that does not place the US at its core. The French and UK nuclear weapons capabilities already provide a partially effective deterrent against attacks on the European space as a whole, but further action will be needed to ensure the UK deterrent is made fully independent from the US.¹⁵⁷ Wider cooperation is also needed between France, the UK and other European countries on funding, technical development and protocols for nuclear use, to ensure the combined effect of the deterrents keeps pace with the capabilities of other nuclear powers.¹⁵⁸ Overall,

¹⁵⁶ There is evidence that this is already beginning to happen in the context of the boost to German defence spending, while the US’s inability to supply its allies with advanced anti-missile weapons following the rundown in stocks in the Iran war adds to the urgency of Europe becoming more self-reliant.

¹⁵⁷ This is likely to be very expensive but appears essential in the long term given the trend in US policy.

¹⁵⁸ President Emmanuel Macron’s speech in March 2026 updating French nuclear strategy suggests France is already leaning in the necessary direction. Landler, M. (2026), ‘Macron Expands French Nuclear Arsenal and Vows Protection for Neighbours’, *New York Times*, 2 March 2026, <https://www.nytimes.com/2026/03/02/world/europe/france-nuclear-arsenal-macron.html>.

the European goal would *not* be to compete with the US (or China) for global military dominance, but rather to reach a point as quickly as possible where Europe would not be dependent on US cooperation for effective defence against Russia. The cost is likely to be substantially greater than during the period of full US–Europe military cooperation.

If Europe puts itself on the track described above, it is still unclear how quickly it will be able to establish sufficient military independence from the US to remove security from the calculus in bilateral trade and economic negotiations. This will depend in part on whether Trump chooses to retaliate (e.g. against a European switch away from US equipment suppliers, or against plans for the creation of a fully independent European nuclear deterrent) and whether he is constrained by Congress.¹⁵⁹ Retaliation could take the form of renewed tariff pressure (once Trump has perfected a new tariff tool following the recent Supreme Court ruling) or the US siding with Russia on key aspects of Ukraine policy (although the more the US disengages from providing military and economic support for Ukraine, the smaller its leverage *vis-à-vis* Europe will become).

But retaliation by the US in response to European efforts to become militarily independent would add to existing fundamental questions about the value of US security alliances. If the latter increasingly take the form of ‘protection rackets’ (in which countries receiving support have to pay the US in economic, political or military terms) rather than a mutual defence effort with each party contributing as much as they can, or if the EU has to threaten economic retaliation (e.g. tariffs, restrictions on big tech operating in the EU market, or selling holdings of US Treasury securities) to prevent the US from occupying Danish territory, it is not clear what US security guarantees are worth. The US and Europe have had previous trade conflicts (e.g. over Airbus and Boeing subsidies) even while maintaining a strong military alliance. Germany, Japan and South Korea have long contributed to the costs of maintaining US military bases on their territory. But the context has now completely changed. Nonetheless, if Trump chooses suddenly to withdraw all security cooperation (and is able to persuade Congress to agree), it is likely that Europe would be able to respond sufficiently quickly to fill the gap – through a new military alliance architecture, new spending commitments and military redeployments. Indeed, it could be argued that precisely this kind of shock is needed to galvanize the actions Europe must take over the long term. It is also possible that such a shock by the US would accelerate the integration of Ukraine and Canada into a European-led mutual defence system.¹⁶⁰

In contrast to the above, **Japan and South Korea** do not, at least in the short term, have a viable alternative to their military alliances with the US in dealing with the threats from China and North Korea. Japan and South Korea do not have existing nuclear deterrents, and establishing these would be extremely difficult

¹⁵⁹ Congress has, for example, passed legislation to set a minimum of 76,000 US troops permanently based in Europe. See O’Brien, C. (2025), ‘Compromise defense bill stymies Trump on Europe troop withdrawals’, Politico, 7 December 2025, <https://www.politico.com/news/2025/12/07/compromise-defense-bill-trump-europe-troop-withdrawals-00680407>. Nonetheless, Trump’s decision in April 2026 to withdraw 5,000 troops from Germany and cancel the deployment of a missile battalion in Europe following critical comments by the German chancellor, Friedrich Merz, of the US attack on Iran suggests Trump has significant freedom to act.

¹⁶⁰ Aside from shared values and the history of cooperation through NATO, Canada and Europe also have a strong common interest in the defence of their Arctic territories and transit routes.

Retaliation by the US in response to European efforts to become militarily independent would add to existing fundamental questions about the value of US security alliances.

politically, both domestically and internationally. Historic bilateral tensions make it very unlikely that Japan and South Korea would be able to agree a mutual defence pact as a substitute for their bilateral alliances with the US. In contrast to the war in Ukraine, which may conceivably be frozen within the next year, the best that can be hoped for in East Asia is that tensions associated with North Korean belligerence and China’s threat to Taiwanese autonomy may be adequately managed and conflict avoided. Distance means that Europe cannot serve as an alternative security partner for Japan and South Korea to the extent that it might conceivably be able to do with Canada. But given the threat that the US perceives from China, and the benefit to the US from maintaining military bases on the territory of its two allies, it could be argued that both Japan and South Korea have more leverage over the US than they have deployed so far in economic negotiations. If Japan and South Korea deploy their existing leverage more effectively in future, it may be enough to enable them to play a full role in a third economic pole while retaining necessary defence partnerships with the US.

6.4 Implementation

European Commission President von der Leyen’s outreach to the CPTPP in June 2025¹⁶¹ provides a good starting point to develop the CPTPP-plus-EU grouping further as a potential third pole in the global economy.

The EU proposed to deepen trade and investment cooperation between the two blocs, potentially laying the groundwork to reform the WTO from within. The CPTPP responded positively, and this was followed by the first EU–CPTPP ministerial meeting, held in Australia in November 2025, under a new trade and investment dialogue. The ministerial meeting set out a broad shared agenda on international trade, including support for a transparent, predictable and rules-based trading system.¹⁶² It also identified four tangible areas for cooperation (trade diversification, digital trade, trade and investment facilitation, and supply-chain resilience) and commissioned officials to prepare cooperation work plans on these topics ahead of the next dialogue, to be held in 2026. EU and CPTPP trade ministers made a further declaration at the WTO Ministerial Conference in March 2026, reiterating this agenda and in particular highlighting their support for WTO reform and their willingness to work with other like-minded countries.¹⁶³

¹⁶¹ Fortuna, G. (2025), ‘Let’s create a new World Trade Organization – Von der Leyen’, Euronews, 27 June 2025, <https://www.euronews.com/my-europe/2025/06/27/von-der-leyen-touts-eu-led-alternative-to-mired-wto>.

¹⁶² Department for Business & Trade, UK Government (2025), ‘Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) joint ministerial statement on the inaugural trade and investment dialogue with the EU, 20 November 2025’, 20 November 2025, <https://www.gov.uk/government/publications/cptpp-joint-ministerial-statements-trade-and-investment-dialogues-with-the-eu-and-asean-20-november-2025/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-cptpp-joint-ministerial-statement-on-the-inaugural-trade-and-investment-dialogue>.

¹⁶³ Directorate-General for Trade and Economic Security (2026), ‘Joint Ministerial Statement from the EU and the CPTPP at the 14th WTO Ministerial Conference’, European Commission, 27 March 2026, https://policy.trade.ec.europa.eu/news/joint-ministerial-statement-eu-and-cptpp-14th-wto-ministerial-conference-2026-03-27_en.

In addition, following his January 2026 Davos speech on the role of middle powers, Canada’s Prime Minister Carney has promoted the idea of an EU–CPTPP agreement on rules of origin.¹⁶⁴ This form of trade facilitation would allow manufacturers throughout the two blocs to trade goods and components more seamlessly under a process of ‘cumulation’.¹⁶⁵

Leaders’ process

While these initial steps are promising, a lot more will be needed to turn a dialogue on trade and investment among trade ministers into a broad-based process for establishing a third pole for the global economy. Most important is the organization of an inaugural leaders’ summit and the preparatory process leading up to it.

A possible timetable would be to organize a summit for the leaders of all countries in the two blocs, plus proposed ‘guest’ countries, during the leaders’ week of the UN General Assembly meetings starting on 22 September 2026. This would need to be prepared through meetings of leaders’ senior personal representatives (‘sherpas’); such meetings could take place in the margins of other ad hoc or regular events. A preliminary discussion among some of the leaders in the proposed grouping could also be organized in the margins of the French G7 summit in Evian on 14–16 June, as several guest countries other than just G7 members are expected to attend.

Sherpas would need to prepare a **short public declaration** setting out the beliefs and goals of the new grouping, and a **supporting agreement** on the detailed scope and initial process to be followed. Key elements that would need to be covered in the two documents include:

- A **visionary statement of the goals of the new alliance**, drawing on the values set out in Chapter 5 of this report.
- A list of **any other countries and international organizations**, aside from the CPTPP and EU member states, that would participate in the new group from the outset.¹⁶⁶
- **The priority work strands** targeting areas most affected by the Trump shock. In addition to trade and investment, these work strands should include the net zero transition, energy security, international monetary and financial stability, and international development. Cooperation with non-member developing countries and assessment of the impact of new technologies (particularly AI) should be treated as cross-cutting themes for the four priority work strands.

¹⁶⁴ Lanktree, G., Lum, Z.-A. and Stone, J. (2026), ‘Carney constructs a mega anti-Trump trade alliance’, Politico, 12 February 2026, <https://www.politico.eu/article/eu-and-indo-pacific-blocs-eye-major-new-trade-pact>.

¹⁶⁵ ‘Cumulation’ allows products entirely produced or substantially transformed in one country to be treated as originating in that country, even if they contain inputs from other countries and so deviate from the concept of origin. This is particularly important in global supply chains where components are sourced across many countries.

¹⁶⁶ Many key international institutions – from the Bretton Woods institutions to various specialized UN agencies and the G7 and G20 – that traditionally underpin the multilateral economic system may only be able to give limited support because the US and China continue as members.

- The appointment of **two senior envoys** (one from the CPTPP and one from the EU) to lead the initiative. This would be similar to the way the EU and UK appointed two envoys to oversee negotiations on the UK’s withdrawal from the EU. The envoys would need to have the vision, diplomatic skills and international political status to carry the initiative forward (they are likely to be former leaders, or current/former foreign or finance ministers).
- An outline of **governance arrangements**. This should specify that the group would meet at leaders’ level every one or two years in one of the participating countries, and would identify the host country for a first summit in 2027. This material should state that the leaders’ process would be supported by *four* essential ministerial work streams (trade and investment; energy and climate; finance ministries/central banks; foreign affairs and development) and that meeting agendas would be prepared by the two envoys. The process should also be supported by a rotating secretariat drawn from the host country for the upcoming leaders’ summit, the European Commission/Council secretariat, and the chair of the CPTPP (currently Vietnam) or a CPTPP commission if one is created. These arrangements should emphasize that decisions by the new grouping would be made by consensus.
- A statement on the **(constructive) relationship** that the group wishes to have with non-members, particularly the US, China and countries in the developing world.
- An initial **work plan** for the combined group, including priority themes/potential quick wins. This would incorporate the themes already identified by the EU–CPTPP trade and investment dialogue. Other possible topics are discussed further below.

Role of the UK

At the core of the new alliance would be the idea that it should be a collective effort by *all* participants to preserve a rules-based international economic system and improve it over time. The goal is to achieve this *without* an economic hegemon, and indeed the grouping would be formed precisely because the systems on offer from the world’s two current hegemons are unacceptable to a great many other economies.

However, the grouping will still need champions if it is to become a reality. So far, the European Commission and Canada’s Prime Minister Carney have been the leading champions. However, another country that in many respects is well placed to take a leading role in the development of the new grouping is the UK.

The UK is the third largest trading partner of the EU (after the US and China), and is seeking to develop a closer economic partnership with the bloc as the tensions over Brexit have subsided. It is also the EU’s most important security partner in a world in which the US is reducing its European role. At the same time, the UK

is the second largest economy in the CPTPP and its first non-Pacific member.¹⁶⁷ Historically, the UK has one of the closest economic and security relationships with the US, and has a history of good economic relations with China (epitomized by the so-called ‘golden era’ of 2010–20).¹⁶⁸ It is also a long-standing proponent of the global system of economic and financial governance, having been one of the two leading founder members of the Bretton Woods system.

Perhaps most importantly, the UK is looking for a **new role** in the world economy following the country’s exit from the EU, and is likely to be among the economies most damaged if the current weakening of the open international trade and investment system develops into full-scale fragmentation into multiple blocs. Playing a leading role in the development of an EU-plus-CPTPP alliance is also likely to have more impact in the current context than efforts to influence the US or China directly.

But whether the UK will take up the opportunity is unclear. The current Labour government is unpopular domestically, facing a potential leadership contest, and may be reluctant to take on risks internationally as it tries to restore support at home. The UK may also be constrained by a continuing desire to stay close to the US and by a reluctance to provoke President Trump.¹⁶⁹ The UK will also hold the presidency of the G20 in 2027 and of the G7 in 2028, which may reduce its diplomatic and policy bandwidth and ability to prioritize development of a third economic pole. But each of these factors has an opposite side. A successful role in establishing such a pole could help the Labour government domestically, and might appeal to many Labour Party members. The UK’s historic relationship with the US may help it manage the broader US reaction to the formation of a third pole (despite potential hostility from President Trump). And there are likely to be many synergies between the agendas of the G20, the G7 and an EU–CPTPP alliance.

Perhaps the most important development that is needed for the UK to play a leading role in establishing a third pole in the global economy is a shift in mindset among UK politicians and civil servants in three respects. First, they would need to agree that the best way to strengthen global economic and financial governance in the long term is to move quickly to build a strong third pole in the global economy rather than trying to bridge the current divides with the US and China. Second, they would need to share the view that the UK needs, over the long term, to reduce its economic and security dependence on the US (rather than simply survive until Trump leaves office). And third, they would need to agree that the CPTPP has the potential to be more than just a trade and investment grouping or multiplier for ideas developed in other groupings such as the G7.

Perhaps the most important development that is needed for the UK to play a leading role in establishing a third pole in the global economy is a shift in mindset among UK politicians and civil servants.

¹⁶⁷ The immediate economic benefit for the UK in joining the CPTPP is small (0.3 per cent of GDP over 10 years), as the UK already has FTAs with most CPTPP members. However, it was important politically to the Conservative Party government as a demonstration that the UK could thrive outside the EU. It was also argued by one of the UK’s lead negotiators in the run-up to signature of the accession protocol in the summer of 2023 that the main benefit rested in the role of the CPTPP as a future geopolitical force and as a potential multiplier for UK views. This has been borne out by the role the CPTPP may play at the heart of a third pillar of global economic governance.

¹⁶⁸ The bilateral relationship deteriorated sharply after the Chinese crackdown on political dissent in Hong Kong in 2019–20, but the relationship is now on an improving track.

¹⁶⁹ Although continuing developments such as Trump’s threats against Greenland, his decision to attack Iran and his subsequent threats of potential war crimes against the Iranian people on social media may eventually force a fundamental rethink of UK strategy *vis-à-vis* the US.

Initial priorities

The initial agenda to be agreed at a leader-level EU-plus-CPTPP summit should be organized under two main headings addressing the major features (see also Section 4.3) of the Trump shock:

The first should be **trade and investment**. In addition to the agenda set out at the EU–CPTPP ministerial dialogue in November 2025, the group could address immediate and practical issues such as: how countries should respond to current US attempts to rework the trade and investment agreements put in place following Trump’s reciprocal-tariffs move; what might be done to raise the profile and authority of the MPIA dispute settlement mechanism; how to update and clarify the national security exemption in the WTO; how to limit the ‘demonstration effect’ of Trump’s tariffs and the risk that other countries will face public pressure to follow a similar path; and how, as far as possible, to safeguard the MFN principle, in particular the benefits it brings to low-income and developing economies. Three further possible action areas include cooperation on critical minerals, on developing common responses to US and Chinese AI technology dominance, and on optimizing investment screening procedures and export controls.

The second heading should be **global public goods**. One possible theme would be to develop a response to the US administration’s undermining of global standards on financial stability, anti-corruption action, sustainability and online safety – such a response should address, in particular, the risk that looser rules in any or all of these four areas will give US firms a competitive advantage, creating pressure for businesses outside the US to follow suit. Another theme could be to look at the impact on global energy security of US actions in Venezuela and Iran, and to assess how EU and CPTPP members should respond in their economic policies. A third theme should be to renew and strengthen efforts to address the climate finance gap facing EMDEs, and to ensure EMDEs have access to vital green technologies. A fourth theme might be to reach a common position on the range of pressures facing the IFIs (namely the IMF, MDBs and FSB) from the Trump administration, including the pressure to reduce their focus on climate action and global health.

A supplemental third agenda heading should be a discussion of concrete **institutional initiatives** that the EU-plus-CPTPP group might undertake to complement the policy discussions under the first two headings. One possibility would be to create a **new forum** to discuss the role of **industrial strategies** and their international dimensions. This might focus on lessons learnt from the rapid development in industrial strategies over the past five years, on their relationship with economic security strategies, on the opportunities for international coordination, and on the role of industrial strategies in promoting global objectives such as the net zero transition, the expansion of high-quality service sector jobs¹⁷⁰ and the integration of AI into national economic growth models.

Linked to the above, the new group should consider **designing and launching a concrete joint project**, where collective funding by all members (based on a GDP ‘key’) could deliver more than the sum of the parts and would complement existing

¹⁷⁰ See Rodrik, D. (2025), *Shared Prosperity in a Fractured World: A New Economics for the Middle Class, the Global Poor, and Our Climate*, Princeton: Princeton University Press.

national efforts.¹⁷¹ Possible topics include: space science; the provision of data as a global public good (notably in the area of climate change, but also human health and governance/anti-corruption); and R&D on specific aspects of AI (such as its use in education). An advantage of an R&D- or data-focused project is that it would not depend on regional proximity to be successful, and could more easily complement and reinforce efforts on the same themes at the national level.

Relations with non-members

One of the most important areas the new grouping will need to get right at the outset is its relationship with non-member countries, particular the US, China and developing economies.

It is hard to predict how the US will respond to a move to develop a third pole in the global economy. A core aim of the alliance would be to strengthen the ability of its participants to resist unreasonable demands by either the US or China. There is therefore a risk that the US president will react negatively and attempt to derail the initiative, including through retaliatory tariffs or other economic or political measures (although the US Supreme Court’s recent ruling will at least in the short term reduce the president’s ability to respond quickly or target a subset of countries).

The new group’s members will need to prepare for this and accept that there could be a significant short-term cost to achieving the long-term benefits the third pole would offer. At the same time, they can reduce the risk of retaliation, in part by appealing directly to the wider US political establishment and public. First, they should emphasize that the goal of a third pole is not to be anti-US or anti-China, but rather to maintain and develop an economic space governed by rules, transparency, the pursuit of mutual benefit and lack of coercion. Second, they should state that the group is open to membership by any country willing to adhere to its core principles. Third, they should manage the development of the group and time key announcements to minimize the likelihood of retaliation from the US administration. Thus, while it will be important to have an initial leaders’ summit as soon as possible to agree the vision, goals and initial steps for formation of a third pole, a high-profile launch can be delayed until the first summit in 2027. At that point, the US president’s scope for retaliatory action may have been reduced by Republican losses in the mid-term congressional elections.

In contrast to the US, China has in recent years deepened its involvement in international governance rather than withdrawn from it. It also claims to share the goals of many potential participants in the third pole in relation to achieving mutual benefits, respecting a rules-based system and supporting provision of global public goods. For the reasons set out in Chapter 5, it does not make sense to include China in the third pole; however, there is *currently* more scope for cooperation with China than with the US. Therefore, an early objective should be to establish a flexible

¹⁷¹ An example of such a project is ITER, which seeks to demonstrate the practicality of nuclear fusion. See ITER (2026), ‘About: In a Few Lines’, <https://www.iter.org/few-lines>.

cooperation framework with China on a range of issues where there is potential for common ground – e.g. the net zero transition, dispute settlement in the WTO, maintaining financial stability and addressing global imbalances.

As discussed earlier, adopting a positive and proactive approach to the aspirations and needs of **low-income countries (LICs) and lower-middle-income countries (LMICs)** should be a defining feature of the new EU-plus-CPTPP grouping even though currently only one prospective member – Vietnam – is an LMIC and no prospective members are LICs. Taking this approach will help secure the alliance’s future expansion. It should also have considerable immediate benefits for LICs and LMICs, as it will reinforce the ability of such countries not to have to choose between the US and China. It will provide a large, stable export market, which these countries can serve as an alternative to exporting to either the US or China. And it could have particular benefits for LICs and LMICs in helping them capitalize on the AI revolution (see Chapter 7).

In line with this, members of the third pole should make an early and clear-cut offer of support to LICs and LMICs by stating that they will:

- Maintain trade preferences for LICs;
- Minimize negative spillovers from their responses to Trump’s tariffs (e.g. do as little damage to the MFN system as possible);
- Continue to uphold international good governance standards (as in the OECD Anti-Bribery Convention);
- Offer a more attractive partnership model than either the US or China for collaboration on AI or the development of critical minerals;
- Re-energize the OECD agenda on global tax harmonization following the US’s withdrawal from the OECD global tax deal;
- Support the net zero transition in developing countries (e.g. by ensuring that MDBs maintain, and ideally expand, their climate finance commitments); and
- Maintain open standards for technology and support developing-country access to new technologies.

07 Technology and the third pole

A third pole in the global economy would help members and non-member developing economies alike maximize the economic and societal benefits they draw from the digital transformation, while enabling them to control the risks more effectively. AI should also increase the viability of such an arrangement.

The digital transformation of the global economy will play a critical role in the future development of economic and financial governance, and vice versa.

Digital technology is rapidly **transforming the way an economy works**. It is too soon to say whether the impact of AI will be similar to other technological revolutions (such as the introduction of electricity) in the sense that it will cause considerable disruption to firms, labour and markets but will ultimately leave the economic model functioning broadly as it does now. Or whether the impact, for example in raising overall productivity growth or reducing the total demand for labour, could be so great as to require fundamental changes in the way society is organized, including through innovations such as universal basic income programmes. How the introduction of AI will interact with rapid demographic change in some countries is also poorly understood.

However, it is already clear that digital technology such as AI can bring **enormous benefits** for societies that manage such technology's use and diffusion well, while generating **considerable financial, economic and social risks** for those that do not. Aside from the much-discussed risk of humans losing control of their lives to machines, there are more conventional risks ranging from the financing of the enormous AI investment boom, to the widening use of AI in investment portfolio management, to the impact on net zero ambitions of the vast energy demand coming from data centres.

Governments need to make economic and financial governance choices *now* on regulation, and on the role of public versus private technology infrastructure; these choices may have long-lasting consequences for growth and prosperity.

These choices are made more complicated by the position of digital technology at the centre of **strategic economic competition** between the US and China, and between these countries and the rest of the world. The US and China are currently far ahead of all other economies (developed and developing alike) in their dominance of most aspects of digital technology development; this is being achieved largely through the activities of their firms. This does not mean that other countries are without agency. But exercising this agency requires countries to focus on areas where they can currently compete with the US and China. They also need to maintain control over their own digital environments so that they are free to maximize the benefits and minimize the risks from deploying AI products developed by the US and China. This includes countries ensuring they maintain the freedom to switch from one technology offer to another, and identifying measures that can mitigate national security, societal and strategic economic risks. The **dominant role of the private sector** in AI development, and its influence on AI governance decisions (up to this point), may also require governments to depart from traditional approaches to regulation and public investment. Non-US advanced economies and EMDEs (excluding China) should recognize that they face a common challenge, and work together in developing their response.

The creation of a third pole will provide a large economic space in which countries can develop best practice on the adoption and diffusion of digital technology.

The creation of a third economic pole can make a major contribution to managing this challenge. It will provide a large economic space in which countries can **develop best practice** on the adoption and diffusion of digital technology – and particularly on the embedding in society of AI – free from any distorting influence from the US and Chinese governments. An example of an approach that could spread quickly within the grouping is the recent Australian decision to ban the use of social media by children under the age of 16.¹⁷² Another practical step could be using state procurement and R&D funding to ensure technology ‘hyperscalers’¹⁷³ provide cloud services under terms that enable users to switch relatively easily from one service provider to another.¹⁷⁴

Establishment of a third pole in the global economy will enable members to coordinate their **responses to US or Chinese economic coercion** on issues such as online safety, the removal of false information, data privacy, digital taxation and competition enforcement. Members may also use their voting weight within the MDBs to ensure that MDBs provide adequate financial and technical support for countries wishing to preserve control over their digital environments.

Alignment of standards within the grouping could also **create demand for socially beneficial technology products** such as AI models, specifically designed for use in schools, which preserve cognitive development. This will be important

¹⁷² University of Sydney (2025), ‘What is Australia’s under-16 social media ban? The world-first law explained’, 5 December 2025, <https://www.sydney.edu.au/news-opinion/news/2025/12/05/what-is-australias-under-16-social-media-ban-the-world-first-law-explained.html>.

¹⁷³ Data Driven Daily blog (2025), ‘What is a Hyperscaler? Meaning, Examples & Impact’, 8 November 2025, <https://datadrivendaily.com/what-is-a-hyperscaler>.

¹⁷⁴ Eaves, D. (2025), ‘The Path to a Sovereign Tech Stack is Via a Commodified Tech Stack’, Tech Policy, 15 December 2025, <https://www.techpolicy.press/the-path-to-a-sovereign-tech-stack-is-via-a-commodified-tech-stack>.

for members of the third pole but will also help developing economies without the same market power.¹⁷⁵ The third pole should also be able to use its market power to achieve other broad public benefits, such as improved access to technology, benefiting both its members and non-member developing countries.

The causality may work the other way as well – that is, the economic and social transformation brought about by digital technology could **increase the viability of a third pole**. This may arise first from the impact of digital technology on the global economy, including by facilitating services trade between distant countries or making it easier to introduce complex trade mechanisms, such as CBAMs, that require large amounts of data and rapid analysis or decision-making to work efficiently.

The digital technology transformation could also strengthen the third pole by providing its leading members with **new economic diplomacy tools**. These tools could make negotiations and decision-making more agile and better coordinated, compensating for the relatively high number and diversity of the new grouping’s members. For example, AI may make it easier to respond to a shock by quickly identifying collective policies which reflect the diverse preferences of different members.

¹⁷⁵ This is similar to the way green technology advances and price reductions through economies of scale in China have greatly benefited developing countries.

08

Conclusions

The risks from establishing a third pole in the global economy are manageable, and are far outweighed by the potential long-term benefits.

Much of the debate about how to strengthen global economic and financial governance *before* the Trump shock focused on universal approaches in which all countries would move together to raise global standards, protect the global commons, provide finance (according to ability to pay) and develop fairer voting systems in international institutions. The initial instinct was to continue with this after the Trump shock as well: whether by framing issues in a way that was thought acceptable to the US administration; by continuing with established policies (but without talking about them); or by using multilateral groups to pursue issues that the US is not interested in and betting on it to stay away and not disrupt the work.

However, it is now clear that this strategy will not work. It weakens the momentum for necessary global action too much, and the US under President Trump is not prepared to stand to one side.

This report has therefore advocated a different approach. It has argued for the establishment of a new permanent economic grouping, consisting of a powerful subset of countries and institutions united by the desire to preserve and improve the global economic and financial governance framework that existed before the Trump second-term shock. This alliance would form a ‘third pole’ in the global economy distinct from the two other major poles, namely the US and China.

The report has described the theoretical benefits of establishing a third pole, and has shown how it could be developed in practice through a rapid broadening and deepening of the existing trade and investment dialogue between the EU and the CPTPP.

Taking this approach is not without risk. First, in order to focus on the third pole, its prospective members will have to reduce the effort they put into *other strategies* for coping with President Trump and China. Second, the initiative may provoke retaliation from the US or China. And third, starting with the EU-plus-CPTPP

grouping proposed in this report may be criticized as lacking inclusivity, even though its actions are likely to bring considerable benefits for members and non-members alike, including LMICs and LICs.

But even though there may be short-term costs, the longer-term benefits would be considerable. In particular, creation of a third pole would establish an economic space – larger than either the US or China – in which members would follow stable, transparent rules and fact-based economic policies, contribute to and benefit from public goods, be free from economic coercion, and be able to negotiate freely with each other to achieve mutual benefits. This would attract investment and human capital, and boost economic growth within the grouping relative to the rates achievable by the US and China. In the long term, such an architecture is also likely to be the best way to re-establish *universal* norms on economic and financial governance.

While establishing a third pole in the global economy will be challenging to achieve and take time to establish, it is not an idealistic dream. Time and again, the long-term benefits of openness, transparency and diversity of approach have been demonstrated. If EU and CPTPP member states decide to pursue this approach, they will need to keep their eye on these rewards as they battle through what is likely to be a very difficult period.

About the author

Creon Butler leads the Global Economy and Finance Programme at Chatham House. He joined the institute in 2019, since when he has written and published on a wide range of global economic policy issues, including the interaction between macroeconomic policy and climate change, sovereign debt distress, the challenge of funding global health priorities, the long-term implications for the international economic system of the COVID-19 pandemic, the war in Ukraine and the second presidential term of Donald Trump.

Before joining Chatham House, Creon served in the UK Cabinet Office as director for international economic affairs in the National Security Secretariat and as G7/G20 ‘sous sherpa’, advising the UK prime minister on global economic policy issues.

Creon first joined the Cabinet Office in 2013 as director in the European and Global Issues Secretariat, and designed the UK’s global Anti-Corruption Summit in May 2016.

He was also the British deputy high commissioner in New Delhi from 2006 to 2009, and has served in senior positions in HM Treasury and the Bank of England.

Acknowledgments

This report draws in part on a paper the author presented at the Nomura Macroeconomic Research Conference in the autumn of 2025, titled ‘Could the Trump Administration’s trade policy lead to the end of US global financial dominance?’

The author is very grateful for the insights, expertise and time of two peer reviewers, Erik Britton and John Llewellyn, as well as many colleagues and roundtable participants at Chatham House whose debates and writing informed the report. Extensive thanks are also due for tremendous advice, support and expertise to colleagues in the Global Economy and Finance Programme at Chatham House, including Rem Korteweg, David Lubin, Sarah Okoye, Stephen Pickford and Kendall Spence. The author is most grateful to Jake Statham for his expert editing. The views expressed in this report are entirely those of the author, and do not necessarily reflect the positions of the Global Economy and Finance Programme’s funders or the views of those who have commented and otherwise contributed.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical including photocopying, recording or any information storage or retrieval system, without the prior written permission of the copyright holder. Please direct all enquiries to the publishers.

Chatham House does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author(s).

Copyright © The Royal Institute of International Affairs, 2026

Cover image: Heads of state and government meet at the G20 leaders' summit on 23 November 2025 in Johannesburg, South Africa – a summit boycotted by the US.

Photo credit: Copyright © Per-Anders Pettersson/Getty Images

ISBN 978 1 78413 680 2

DOI 10.55317/9781784136802

Cite this paper: Butler, C. (2026), *Saving global economic governance from the 'Trump shock': Why rules-supporting countries should establish a 'third pole' in the global economy, without the US and China*, Report, London: Royal Institute of International Affairs, <https://doi.org/10.55317/9781784136802>.

This publication is printed on FSC-certified paper.
designbysoapbox.com



Independent thinking since 1920



The Royal Institute of International Affairs
Chatham House

10 St James's Square, London SW1Y 4LE

T +44 (0)20 7957 5700

contact@chathamhouse.org | chathamhouse.org

Charity Registration Number: 208223