ESJ Social Sciences Peer-reviewed

The End of Multilateralism? Rising Regional Trade Agreements, Trade Wars, and The Future of the International Trading System

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Doi:10.19044/esj.2026.v22n16p1

Submitted: 15 March 2026
Accepted: 05 June 2026
Published: 30 June 2026

Cite As:
Hekim, D. (2026). *The End of Multilateralism? Rising Regional Trade Agreements, Trade Wars, and The Future of the International Trading System*. European Scientific Journal, ESJ, 22 (16), 1. https://doi.org/10.19044/esj.2026.v22n16p1

Abstract

The multilateral trading system faces an existential crisis driven by three mutually reinforcing dynamics: the structural failings and deliberate paralysis of the World Trade Organization (WTO), most acutely manifested in the Appellate Body's incapacitation since December 2019; the exponential proliferation of regional trade agreements (RTAs); and two waves of unprecedented trade wars under the Trump administration in 2018–2020 and 2025–2026. While substantial scholarship addresses each phenomenon in isolation, no existing study integrates the three within a single comparative analytical framework that also encompasses the second Trump trade war and the February 2026 US Supreme Court ruling on the IEEPA tariffs. This study fills that gap through an integrated comparative analytical framework drawing on terms-of-trade theory, the deep-agreements literature, and the welfare economics of trade wars. The analysis is supported by quantitative tariff series, comparative tables of the two trade wars and three governance scenarios, and a focused case study of critical mineral and technology export controls. Four conclusions follow: the WTO crisis is structural rather than cyclical; RTA welfare effects depend on agreement depth, not on regionalism per se; a tiered architecture combining deep RTAs, a residual WTO baseline, and bilateral managed trade is the most plausible trajectory; and critical mineral and technology export controls constitute an emerging governance gap that no existing framework adequately disciplines.

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

Keywords: Multilateralism, World Trade Organization, Regional Trade Agreements, Trade Wars

Introduction

The international trading order that emerged from the ashes of the 1930s was constructed on a deliberate premise: that the discriminatory, beggar-thy-neighbour commercial policies which followed the Smoot-Hawley Tariff Act of 1930 had prolonged the Great Depression and contributed to the conditions from which the Second World War emerged. The General Agreement on Tariffs and Trade (GATT, 1947) and its institutional successor, the World Trade Organization (WTO, 1995), embodied the collective determination to subject trade policy to binding rules, reciprocal commitments, and impartial adjudication. For half a century, this architecture largely delivered: average applied tariffs fell from approximately 22% to around 5% across eight negotiating rounds, and the WTO's dispute settlement mechanism became, in the words of its admirers, the 'crown jewel' of the multilateral system (Hoekman & Mavroidis, 2015).

That architecture is now under severe stress, and this study is motivated by a central research question: is the multilateral trading system in structural and potentially irreversible decline, and if so, what form of international trade governance — bilateralism, regionalism, or a reformed multilateralism — will replace it? This question is decomposed into three related sub-questions. First, what are the specific institutional, legal, and political mechanisms through which the WTO has lost its capacity to govern international trade, and what role have trade wars and the COVID-19 pandemic played in that process? Second, does the proliferation of regional trade agreements represent a constructive substitute for multilateral governance, or does it further erode the non-discrimination principles upon which a stable trading order depends? Third, among the plausible futures for the international trading system, which is most consistent with the theoretical requirements of sustainable trade cooperation and the empirical evidence on current institutional trajectories?

Three convergent forces have driven the contemporary transformation. First, the WTO has proved institutionally incapable of governing twenty-first-century trade: its consensus-based negotiating machinery broke down with the Doha Round's collapse, and its dispute settlement mechanism has been deliberately disabled. Second, regional trade agreements have proliferated in the vacuum created by multilateral failure. Third, trade wars — first under Trump's initial term (2018–2020) and then in dramatically amplified form in his second term (2025–2026) — have demonstrated that the world's largest economy is prepared to deploy unilateral tariff escalation on a scale

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

inconsistent with its WTO bindings, while the institutional mechanism for enforcing those bindings is too broken to respond. The COVID-19 pandemic intersected with and accelerated these dynamics, exposing supply-chain concentration risks, legitimising industrial policy resurgence, and providing new political justifications for economic nationalism.

The remainder of the article is organised as follows. Section 2 reviews the relevant literature across three streams and constructs the research gap. Section 3 sets out the study's methodology, including the type of research, the analytical framework, the comparative technique, the data sources, and the study's limitations. Section 4 analyses the structural failings of the WTO and the trade-war and pandemic dynamics that have deepened the crisis. Section 5 turns to the proliferation of regional trade agreements and their relationship to multilateral decline. Section 6 evaluates three scenarios for the future trading system and presents a focused case study of critical mineral and technology export controls. Section 7 concludes.

Literature Review and Research Gap

Three research streams and their boundaries

The relevant literature can be organised into three principal streams, each of which has matured into a substantial body of scholarship but largely in isolation from the others.

The first stream examines the WTO's institutional crisis and the future of dispute settlement. Hoekman and Mavroidis (2015, 2020) provide the authoritative treatment of WTO legal architecture and reform options; Bown and Keynes (2020) and Bown (2022) document the political economy of the Appellate Body's paralysis, particularly the strategic blocking of judicial appointments by the United States since 2017; Howse and Langille (2023) extend this analysis to the pluralist alternatives that have emerged in the AB's absence, principally the Multi-Party Interim Appeal Arbitration Arrangement (MPIA); Miranda and Sanchez Miranda (2023) provide an insider account of how the AB drove itself into a procedural corner. The shared focus of this stream is institutional repair: what is broken, why, and what reforms would restore functionality. The stream's principal limitation is its tendency to treat RTA proliferation and trade wars as background context — exogenous pressures on the WTO rather than dynamics that interact causally with its decline.

The second stream analyses regional trade agreement proliferation and welfare implications. Mansfield and Reinhardt (2003) established the foundational empirical finding that multilateral stagnation accelerates preferential agreement formation; Baier and Bergstrand (2007) generated the trade-creation estimates that underpin most subsequent gravity analysis; Limao (2006) and Karacaovalı and Limao (2008) identified the stumbling-

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

block mechanism; Hoffmann et al. (2019), Mattoo et al. (2022), and Kohl et al. (2016) developed the analytical apparatus distinguishing shallow from deep agreements; Dür et al. (2014) provided the DESTA depth index used widely in subsequent empirical work. The shared focus is welfare and design: which agreements create trade, which divert it, and what provisions matter. The stream's principal limitation is that it treats WTO disciplines as a stable background framework against which RTA effects are measured, rather than as a variable whose own decline may be altering the RTA welfare calculus.

The third stream estimates the welfare effects of the Trump trade wars. Amiti, Redding, and Weinstein (2019, 2020) provide the foundational tariff pass-through estimates for the 2018 tariffs; Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020) generated the canonical aggregate welfare estimates and Fajgelbaum and Khandelwal (2022) consolidated them; Bown (2021) documented the failure of the Phase One Agreement; Handley and Limao (2017) established the policy uncertainty channel. McKibbin, Noland, and Shuetrim (2025) and Rodriguez-Clare et al. (2025) extend this literature to the second Trump tariff wave. The shared focus is welfare incidence: who pays, what the aggregate cost is, what mechanisms generate it. The stream's principal limitation is its concentration on tariff effects rather than on institutional consequences — the trade wars are analysed for their economic costs, not for what they reveal about, or do to, the multilateral system that was supposed to discipline them.

The research gap

The three streams are connected by their object of study but separated by their analytical framings. The first treats WTO decline as a problem of institutional design; the second treats RTAs as a parallel governance form; the third treats trade wars as economic events. None of them treats the three phenomena as a single self-reinforcing system in which institutional decline accelerates RTA proliferation, RTA proliferation reduces the incentives to repair multilateral institutions, and trade wars exploit the resulting enforcement vacuum to recalibrate the rules-based system into a power-based one.

Four specific gaps follow. First, no existing study integrates the institutional, regional, and unilateral dimensions of the trading system's crisis within a single analytical framework. Second, the second Trump tariff wave (2025–2026) and its constitutional sequel — the February 2026 US Supreme Court ruling on the IEEPA tariffs — postdate the principal academic treatments of the first wave, requiring fresh comparative analysis. Third, the emergence of critical mineral export controls and semiconductor export restrictions as primary instruments of trade policy has not been systematically integrated into analyses of the multilateral system's future, despite becoming

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

one of its central challenges. Fourth, the question of whether the future trading system will be governed by a coherent architecture or by uncoordinated power dynamics has been addressed unevenly across the three streams and not synthesised into testable scenarios.

These gaps map directly onto the study's three sub-questions stated in the Introduction. Sub-question 1 (the institutional mechanisms of WTO decline) addresses the integration gap; sub-question 2 (RTAs as substitute or further erosion) addresses the design-versus-decline gap; sub-question 3 (the future governance architecture) addresses the scenario gap. The focused case study of critical mineral and technology export controls in Section 6 addresses the fourth gap directly. Table 1 summarises this mapping.

Table 1: Three research streams, their boundaries, and the gaps this study addresses

Literature stream	Representative works	Primary focus	Gap addressed by this study
WTO institutional crisis	Hoekman & Mavroidis (2015, 2020); Bown & Keynes (2020); Bown (2022); Howse & Langille (2023); Miranda & Sanchez Miranda (2023)	Institutional repair: dispute settlement and decision-making reform	Treats RTAs and trade wars as exogenous; does not analyse the causal feedback among the three phenomena
RTA proliferation and welfare	Mansfield & Reinhardt (2003); Baier & Bergstrand (2007); Limao (2006); Hoffmann et al. (2019); Mattoo et al. (2022); Dür et al. (2014); Kohl et al. (2016)	Welfare and design: trade creation and diversion, depth measurement, stumbling-block mechanisms	Treats WTO discipline as a stable backdrop; does not analyse whether multilateral decline alters the RTA welfare calculus
Trade war welfare effects	Amiti et al. (2019, 2020); Fajgelbaum et al. (2020); Fajgelbaum & Khandelwal (2022); Bown (2021); McKibbin et al. (2025); Rodriguez-Clare et al. (2025)	Welfare incidence and aggregate cost of unilateral tariffs	Concentrates on tariff effects rather than institutional consequences; mostly predates the 2025–2026 wave and the February 2026 Supreme Court ruling

Methodology

This study adopts a comparative analytical methodology to examine the structural transformation of the international trading system. The approach is qualitative and theoretically informed rather than econometric: it integrates evidence from established empirical literatures with comparative institutional analysis of the WTO, regional trade agreements, and the two waves of US

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

trade wars (2018–2020 and 2025–2026). The methodology is set out below under five sub-headings.

The study is theoretical-comparative in design. It synthesises existing empirical findings within a unified analytical framework and develops scenario-based projections for the future of trade governance.

Methodological framework

The analysis is structured around three theoretical anchors that are integrated rather than applied separately. The first is the terms-of-trade theory of trade agreements (Bagwell & Staiger, 1999, 2002), which provides the framework for evaluating the welfare losses associated with the breakdown of multilateral cooperation. The second is the deep-agreements literature (Hoffmann et al., 2019; Mattoo et al., 2022; Horn et al., 2010), which provides the criteria for distinguishing welfare-enhancing from welfare-eroding RTAs. The third is the welfare economics of trade wars (Amiti et al., 2019, 2020; Fajgelbaum et al., 2020; Mattoo & Staiger, 2020), which establishes the incidence and aggregate effects of the two Trump tariff waves. The three phenomena are analysed as components of a single self-reinforcing cycle rather than as separate research programmes: institutional decline lowers the cost of unilateralism, unilateralism raises the demand for RTAs, and RTA proliferation reduces the political constituency for multilateral repair.

The study employs structured comparison across three dimensions. The first is temporal: the pre-2018 WTO equilibrium, the 2018–2020 Trump I regime, and the 2025–2026 Trump II regime are compared on tariff levels, dispute settlement use, and welfare effects. The second is institutional: WTO discipline, deep RTA discipline, and bilateral managed trade are compared on enforceability, coverage, and durability. The third is scenario-based: three plausible futures for the trading systém- restored multilateralism, stable bilateralism, and a tiered architecture- are compared on preconditions, current empirical evidence, and sustainability. The comparisons are presented through analytical narrative supported by quantitative tables (Tables 2–4) and a focused case study.

Data sources

The analysis draws on five categories of data. First, WTO institutional data, including the Regional Trade Agreements Information System and the dispute settlement database, provide counts of agreements in force, panel and Appellate Body rulings, and consultations filed. Second, US tariff data are drawn from the US International Trade Commission, the Peterson Institute Trump tariff revenue tracker, Federal Reserve Bank of Richmond and New York Liberty Street calculations of the average effective tariff rate, the World Bank WITS database, and the Yale Budget Lab estimates of consumer-cost

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

incidence. Third, empirical estimates are drawn from the peer-reviewed trade war literature (Amiti et al., 2019, 2020; Fajgelbaum et al., 2020; Fajgelbaum & Khandelwal, 2022; McKibbin et al., 2025; Rodriguez-Clare et al., 2025). Fourth, deep-agreement is from DESTA dataset of Dür et al. (2014). Fifth, primary US legal materials are used for the IEEPA tariff regime, including the February 2026 Supreme Court ruling, executive proclamations on Liberation Day tariffs, the Section 122 pivot, and the relevant Bureau of Industry and Security regulations on semiconductor export controls. The critical minerals case study additionally draws on official Chinese Ministry of Commerce announcements of April and October 2025.

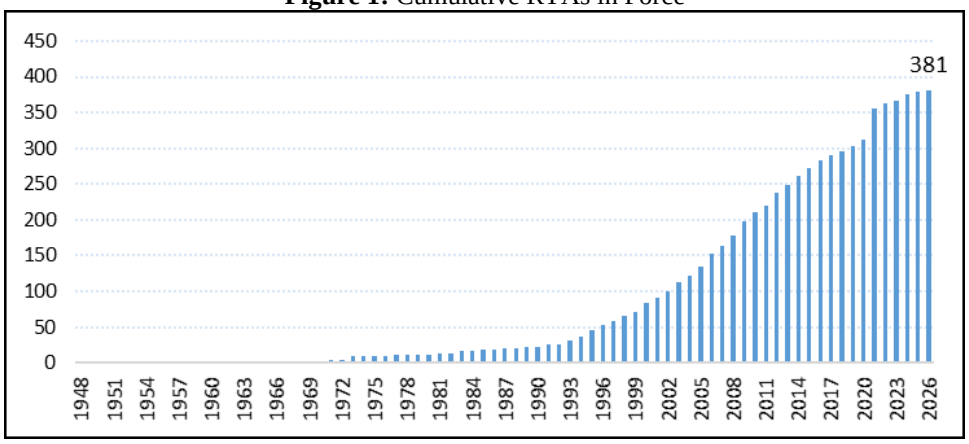
The Crisis of the Multilateral Trading System

From ambition to paralysis: the WTO's structural failings

The WTO was constructed to govern a world in which trade liberalisation through reciprocal tariff reduction was the primary objective. Three structural failings are analytically central to its current crisis.

The first is the breakdown of multilateral negotiations. The Doha Development Round, launched in November 2001, effectively stalled by 2008 and has never recovered. The failure reflected the system's consensus requirement, the expanded membership of developing economies that arrived at the negotiating table with blocking power rather than merely with interests to be accommodated (Baldwin, 2016), and the sheer scope of the new trade agenda- services, intellectual property, investment, competition policy- that exceeded what a consensus-based institution could resolve. As Mansfield and Reinhardt (2003) demonstrated empirically, the growth of WTO membership paradoxically accelerated preferential trade agreement formation because it made multilateral consensus progressively harder to achieve (see Figure 1).

Figure 1: Cumulative RTAs in Force



Source: https://rtais.wto.org/UI/charts.aspx#

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The second failing is the ossification of WTO rules. The substantive WTO framework was negotiated in the early 1990s and has not been comprehensively updated since. The trading landscape it governs has been transformed: global value chains have restructured production across dozens of jurisdictions; digital trade has created an entirely new category of commerce; and the rise of China as a state-capitalist power has generated commercial practices- technology transfer requirements, discriminatory procurement, subsidised overcapacity- that existing WTO rules were not designed to discipline (Bown & Hillman, 2019; Rodrik, 2018).

The third failing, and the most acute, is the paralysis of the WTO's dispute settlement mechanism. The Appellate Body ceased to function when the United States' systematic blocking of appointments reduced its membership below the three-member quorum required to hear appeals. Bown and Keynes (2020) document this as a deliberate strategy: the US sought to disable adverse rulings on its trade remedy practices, particularly anti-dumping 'zeroing' methodologies. As of March 2026, more than 32 panel rulings have been 'appealed into the void' -formally appealed to an Appellate Body that cannot hear them, rendering findings legally non-final in perpetuity. Annual WTO dispute filings collapsed from a peak of 50 consultations in 1997 to just 6 in 2023. Shaffer (2019) characterised this trajectory as a structural shift from rule-based to power-based trade relations, formalised by Mattoo and Staiger (2020) as a reversion to unilateral terms-of-trade manipulation: exactly the dynamic that Bagwell and Staiger (1999) showed GATT/WTO rules were designed to correct.

Trade wars and the WTO's enforcement deficit

Both waves of Trump-era trade wars must be understood not merely as episodes of unilateral protectionism, but as symptoms of, and accelerants to, the WTO's institutional collapse. In the first wave, US Section 301 tariffs on approximately $370 billion of Chinese imports and Section 232 steel and aluminium tariffs on most trading partners were litigated at the WTO. Both panels found US measures inconsistent with GATT obligations; both were appealed into the void. The practical lesson drawn by the US administration was that adverse rulings generated no compliance obligation when the appellate system was inoperative.

The second wave, beginning January 2025 under the invocation of the International Emergency Economic Powers Act (IEEPA), escalated this logic to an unprecedented level. At their April 2025 peak following the so-called 'Liberation Day' proclamation, US tariffs covered approximately 86% of all imports at an average effective rate of 22–27%, levels not seen since the Smoot-Hawley era. At least six WTO disputes were filed, with China, Canada, the EU, and Brazil as complainants. In each case, the United States invoked

ISSN: 1857-7881 (Print)
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GATT Article XXI (the national security exception) as a blanket defence. Crucially, the IEEPA tariffs were struck down not by the WTO - the system had no means to do so- but by the US Supreme Court itself, which ruled in February 2026 that IEEPA does not authorise tariffs. The administration's immediate pivot to Section 122 tariffs and new Section 301 investigations demonstrated that the impulse toward unilateral tariff escalation was structural, not merely administrative. The trajectory of US tariff levels across these regimes is summarised in Table 2.

Table 2: Average effective US tariff rates across trade policy regimes, 1995–2026

Period	Regime	Average effective tariff (%)	China-specific rate (%)	Notes
1995–2017	Post-Uruguay equilibrium	1.4–1.6	2.7–3.1	MFN-bound average; trade-weighted (World Bank WITS)
2018–2020	Trump I (Sec 232 / Sec 301)	2.7–3.0	≈19–21	Sec 301 on ~$370 bn of Chinese imports
2021–2024	Biden continuity	2.2–2.5	≈19	Trump I tariffs largely retained; EV and semiconductor additions in 2024
April 2025	Liberation Day peak (IEEPA)	22–27	≈145 (peak)	~86% of all imports covered; highest level since Smoot-Hawley
May–Sep 2025	Post-Geneva truce	8–10	30 (transitional)	90-day pause; partial rollback after Switzerland talks
Oct–Dec 2025	Post-rare-earth escalation	≈13	≈130	Additional 100% tariff announced 10 October; effective 1 November
Jan 2026 onwards	Post-SCOTUS pivot (Sec 122)	≈13–15	≈30–55 (sectoral)	IEEPA tariffs invalidated; Sec 122 capped at 15%, 150-day expiry; Sec 301 investigations reopened
Historical anchor: 1932	Smoot-Hawley peak	≈20 / 59 (dutiable)	—	Pre-GATT baseline for comparison

Sources: World Bank WITS (1995–2024 weighted means); USITC Dataweb; Richmond Fed average effective tariff rate series (Waugh methodology; 2024 benchmark = 2.2%); New York Fed Liberty Street Economics tariff tracker; Yale Budget Lab (Liberation Day peak estimate); PIIE Trump tariff revenue tracker (Bown); Tax Foundation historical series. Notes: Effective tariff rates are computed as duties collected divided by import value at customs (AETR methodology) where available, and as statutory rates weighted by 2024 trade composition where collection data are lagged. The April 2025 peak reflects announced rates; actual collection rates were modestly lower due to enforcement delays and exemptions. The Smoot-Hawley comparison uses the 1932 figures conventionally cited in the trade history literature; the two series are not strictly comparable because of structural changes in trade composition.

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The economic literature on both trade wars converges on three findings. First, tariffs are borne primarily by domestic consumers and import-using firms: Amiti et al. (2019, 2020) documented near-complete tariff pass-through for the 2018 tariffs, and the Yale Budget Lab estimated peak 2025 consumer costs of $3,800 per average household. Second, aggregate welfare effects are negative but modest in GDP terms: Fajgelbaum and Khandelwal (2022) summarised consensus estimates at net losses of 0.04% of GDP for the 2018 tariffs, while McKibbin et al. (2025) projected 0.4–2.1% of GDP for the 2025 tariffs. Third, Handley and Limao (2017) showed that trade policy volatility suppresses investment and export entry independently of applied tariff levels, the destruction of policy certainty is the trade wars' most durable damage. Table 3 systematises the comparison between the two waves.

Table 3: Comparison of the two Trump trade war waves

Dimension	Trump I (2018–2020)	Trump II (2025–2026)
Primary legal basis	Section 232 and Section 301 of US trade law	International Emergency Economic Powers Act (IEEPA); after Feb 2026 SCOTUS ruling: Sections 122 and 301
Coverage of US imports	~13% (predominantly Chinese goods)	~86% at April 2025 peak
Average effective US tariff	2.7–3.0%	22–27% at peak; ~13% at end of 2025
Peak rate on China	~19–21%	~145% at peak; ~30–55% after settlements
Geographical scope	Targeted (China; steel/aluminium partners)	Universal ("reciprocal" tariffs on ~100 economies)
Estimated US GDP impact	≈ −0.04% (Fajgelbaum & Khandelwal, 2022)	−0.4% to −2.1% (McKibbin et al., 2025)
Consumer-cost estimate	≈$1,500/household/year (Amiti et al., 2020)	Up to $3,800/household/year at peak (Yale Budget Lab, 2025)
Major retaliation	China; EU; Canada; Mexico (limited)	China (rare earth controls); EU; Canada; Brazil
WTO disputes initiated	DS543, DS544; both 'appealed into the void'	At least six disputes filed; US invoking GATT Art. XXI
Termination mechanism	Phase One Agreement (January 2020)	US Supreme Court ruling (Feb 2026); subsequent pivot to Sec. 122
Effect on RTA formation	Catalysed CPTPP, RCEP (deep, rules-based)	Generated hub-and-spoke managed trade (bilateral, power-based)

Sources: Compiled by the author from Bown (2021, 2022); Amiti et al. (2019, 2020); Fajgelbaum et al. (2020); Fajgelbaum and Khandelwal (2022); McKibbin et al. (2025); Yale Budget Lab (2025); US International Trade Commission; PIIE Trump tariff revenue tracker.

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COVID-19: supply-side shock and the legitimisation of economic nationalism

The COVID-19 pandemic, while not a cause of the multilateral system's structural crisis, interacted with and deepened it in ways that have proved difficult to reverse. At the immediate level, the pandemic disrupted global supply chains with a directness and speed that decades of trade liberalisation had made possible but also fragile: semiconductor shortages, pharmaceutical supply concentration, personal protective equipment export restrictions, and shipping bottlenecks collectively demonstrated the vulnerability of the just-in-time, geographically dispersed production model. The WTO reported that world merchandise trade volumes fell 5.3% in 2020.

Beyond the immediate disruption, the pandemic performed a legitimising function for economic nationalism. The concentration of pharmaceutical active ingredient production in China and India, the dependence on single-source suppliers for critical components, and the visible failure of multilateral institutions to coordinate a global response all provided political cover for industrial policy resurgence that had previously been constrained by WTO rules on subsidies and investment. The CHIPS and Science Act (2022), the EU's European Chips Act (2023), and analogous measures across major economies represent a new generation of industrial policy operating at the frontier of WTO legality- and the WTO, in its current disabled state, is institutionally incapable of disciplining them.

Rising Regional Trade Agreements: Causes, Consequences, and the Trade-War Connection

The statistical and structural reality

The growth of RTAs since the WTO's establishment constitutes one of the most significant structural transformations of the international trading system. From fewer than 50 agreements in force in 1990, the WTO's Regional Trade Agreements Information System records 381 in force as of January 2026, corresponding to 628 notifications when goods, services, and accession protocols are counted separately (Figure 1). Every WTO member is now party to at least one RTA; the average is substantially higher. The most dramatic acceleration occurred after the Doha Round's effective failure in 2008, confirming the pattern Mansfield and Reinhardt (2003) identified: multilateral stagnation drives preferential formation.

The causes of this proliferation are multiple. Bagwell et al. (2016) ground the basic incentive in terms-of-trade theory: when multilateral coordination fails, countries turn to bilateral alternatives that capture a subset of the cooperative gains. Baldwin's (1993, 2006) 'domino theory' captures a political economy dynamic: once a major RTA forms, excluded country exporters face disadvantage in the partner market and lobby for counter-agreements, producing a contagious cascade. Grossman and Helpman (1995)

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emphasise the role of organised interest groups; Fernandez and Portes (1998) identify the credibility-signalling function particularly important for developing economies. Eichengreen et al. (2019) add a geopolitical dimension: defence alliances significantly raise the probability of RTA formation, a finding of heightened relevance in the post-2016 environment.

Deep agreements and their welfare implications

A crucial development in the RTA landscape is the evolution from shallow, tariff-focused agreements toward deep agreements extending into regulatory harmonisation, investment protection, competition policy, intellectual property, and digital trade. Hoffmann et al. (2019) systematically mapped RTA provisions across 52 distinct policy areas. Horn et al. (2010) distinguished 'WTO+' provisions -going further than WTO commitments in already-covered areas-from 'WTO-X' provisions — addressing areas entirely outside WTO jurisdiction.

The welfare implications of this deepening are, on balance, positive. Mattoo et al. (2022) demonstrate that deep agreements produce substantially more trade creation and less trade diversion than shallow agreements, with some provisions functioning as de facto public goods that benefit even non-member countries. Kohl et al. (2016), using the DESTA depth index of Dür et al. (2014), confirm that agreement depth is positively associated with bilateral trade volumes. Baier and Bergstrand's (2007) foundational gravity-model finding — that the average FTA doubles bilateral trade over a decade once endogeneity is corrected — appears to strengthen for deep agreements. However, the stumbling-block mechanism identified by Limao (2006) — whereby PTA partners become less willing to cut MFN tariffs because doing so erodes their preference margins — remains empirically documented for the United States, and Karacaovalı and Limao (2008) show analogous effects in the EU.

Trade wars as catalysts for regional agreement formation

The two waves of Trump trade wars have had a specific and underappreciated effect on RTA formation: they have simultaneously accelerated proliferation and degraded quality. In the first wave, the US withdrawal from TPP prompted the remaining eleven members to conclude CPTPP, a genuinely deep agreement covering 13% of world GDP. RCEP, finalised in 2020, reflected a desire among Asia-Pacific economies to lock in rule-based trade frameworks against the risk of future unilateral disruption. These agreements represent genuine advances in trade governance.

The second wave produced a different dynamic. The Trump administration's bilateral stratégy- offering tariff reductions in exchange for investment pledges, defence cooperation, and implicit commitments to

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

distance from China- generated a hub-and-spoke architecture centred on Washington. The deals struck with Japan, the EU, South Korea, India, and others are better characterised as managed trade arrangements than as liberalising trade agreements in the WTO sense. Mattoo and Staiger (2020) provide the theoretical framework: these represent power-based rather than rules-based bargaining, in which a large economy extracts concessions through the credible threat of tariff escalation rather than through reciprocal commitment within a binding legal framework. Power-based bargains lack the durability and enforceability of rules-based ones: they depend on the continued willingness of the dominant party to honour them. The Phase One Agreement of 2020, which China fulfilled at only 60% of its purchase commitments (Bown, 2021), illustrates this fragility.

The Future of Trade: Bilateralism or Multilateralism?

The theoretical stakes

The question of whether the future trading system will be anchored in bilateralism or multilateralism is, at its core, a question about whether the cooperative equilibrium described by Bagwell and Staiger (1999, 2002) can be sustained against the forces that have destabilised it. In their framework, the WTO's principal achievement was to implement, through the principles of reciprocity and MFN non-discrimination, an efficient multilateral bargain that internalised the terms-of-trade externality, the incentive each large country has to manipulate its terms of trade through unilateral tariffs at the expense of others. The collapse of the Appellate Body removes the primary enforcement mechanism for that bargain; the proliferation of bilateral deals replaces it with power-based arrangements that cannot perform the same function.

Mattoo and Staiger (2020) make the key theoretical point: the central costs of trade wars arise not merely from the tariffs themselves but from the destruction of the rules-based framework, the shift from a regime in which tariff bindings constrain policy options to one in which large economies exploit their market power freely. Smaller and medium-sized economies lose the protection that bound MFN rates and binding dispute settlement provided. The Handley and Limao (2017) uncertainty framework adds the investment channel: policy uncertainty in a power-based system is structurally higher than in a rules-based one, suppressing the trade-related investment that drives productivity and income growth.

Three scenarios for the future trading system

Three scenarios can be distinguished analytically. The first is restored multilateralism, in which the WTO undergoes sufficient institutional reform to restore functional dispute settlement, and multilateral disciplines are updated for the new trade agenda. The preconditions are demanding: the

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

United States would need to accept a reformed Appellate Body; major players would need to agree on subsidy disciplines sufficiently robust to address Chinese state capitalism; and the WTO's consensus rule would need reform to allow plurilateral progress without universal agreement. The empirical evidence offers limited grounds for optimism.

The second scenario is stable bilateralism, in which the hub-and-spoke architecture of 2025–2026 becomes the dominant framework for governing trade among major economies. This scenario has the advantage of descriptive accuracy as a characterisation of the current direction of travel, but it faces severe sustainability problems. Bilateral managed trade- as Phase One demonstrated- is difficult to enforce and prone to backsliding precisely because it lacks the institutional apparatus that makes multilateral commitments credible. More fundamentally, bilateral deals cannot solve the coordination problems that multilateral frameworks address: rules of origin, regulatory harmonisation, intellectual property enforcement, and anti-dumping disciplines all require multilateral consistency to function efficiently. The third and most analytically plausible scenario is a tiered architecture, in which deep regional agreements govern commercially significant trade among members of the major trade blocs; a residual multilateral framework provides a baseline of tariff bindings, MFN discipline, and transparency; and bilateral managed trade fills the governance gaps. This architecture is already visible in outline: CPTPP, RCEP, the EU's FTA network, and the African Continental Free Trade Area collectively cover the majority of world trade with enforceable legal disciplines. The critical question is whether the multilateral residual can perform its function without functional enforcement. Table 4 summarises the comparison.

Table 4: Three scenarios for the future trading system

Scenario	Description	Preconditions	Current empirical evidence	Sustainability assessment
Restored multilateralism	WTO institutional repair; Appellate Body restored; substantive rules updated for digital trade and subsidies	US accepts reformed AB; subsidy disciplines for state capitalism; consensus-rule reform to permit plurilateral progress	Weak — US Section 122 pivot after the February 2026 SCOTUS ruling shows no recommitment to multilateral norms	Theoretically optimal but politically remote in current US–China rivalry context
Stable bilateralism	Hub-and-spoke architecture as	Continued US willingness to enforce its	Moderate as a descriptive characterisation	Structurally unstable — Phase One (60% compliance, Bown

ISSN: 1857-7881 (Print)
e-ISSN 1857-7431 (Online)

Scenario	Description	Preconditions	Current empirical evidence	Sustainability assessment
	the dominant framework for major-economy trade	bilateral bargains; partner acceptance of asymmetric commitments	of 2025–2026 direction of travel	2021) showed fragility; lacks coordination mechanisms
Tiered architecture	Deep RTAs govern major trade; residual WTO baseline; bilateral managed trade fills gaps	Major RTAs maintain depth and disciplinary authority; WTO residual retains normative legitimacy even without strong enforcement	Strong — CPTPP, RCEP, EU FTA network, AfCFTA collectively cover the majority of world trade	Most plausible but fragile — depends on whether residual multilateral framework can function without functional enforcement

The case for qualified pessimism

This analysis supports qualified pessimism about the prospects for functional multilateral governance, while resisting the more extreme conclusion that the trading system is simply collapsing. Three structural dynamics warrant this assessment. First, the legal authority for US tariff escalation has been substantially constrained by the February 2026 Supreme Court ruling. The administration's pivot to Section 122 tariffs capped at 15% and expiring after 150 days narrows the legal space for unilateralism. Second, the deep regional agreements that have proliferated in response to multilateral failure contain genuine governance content that partially substitutes for WTO disciplines. Mattoo et al. (2022) show these agreements generate trade creation with limited diversion; their investment, regulatory, and intellectual property provisions provide binding disciplines for participating members. Third, critical mineral and technology export controls- examined in detail in the case study below- frepresent a new form of trade restriction for which neither WTO rules nor most RTAs provide effective governance. This gap is likely to widen and constitutes the most significant structural challenge to any future trading framework.

The long-run trajectory will be determined by three variables: whether the United States eventually joins the MPIA or accepts a reformed Appellate Body; whether WTO rules can be updated to govern industrial policy and technology trade; and whether the major regional agreements maintain their institutional depth and disciplinary authority. On current evidence, all three remain uncertain.

ISSN: 1857-7881 (Print)
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Case study: critical minerals and technology export controls

The most consequential governance gap in the contemporary trading system is not generated by tariffs but by export controls on critical minerals and advanced technology. Unlike tariffs, which are bound by WTO commitments and constrained by retaliation symmetry, export restrictions fall into a regulatory vacuum: GATT Article XI prohibits quantitative export restrictions in principle, but Articles XX(g) (exhaustible natural resources) and XXI (national security) provide expansive exceptions that have not been judicially tested in the Appellate Body's absence. Neither the WTO nor any major regional agreement provides binding discipline over the dual-use export control instruments that have become central to US–China economic competition.

The Chinese rare earth restrictions of 2025 illustrate the asymmetry. On 4 April 2025, China's Ministry of Commerce imposed licensing requirements on seven heavy rare earth elements and related permanent magnets, in immediate retaliation against the Trump administration's Liberation Day tariffs. After a temporary reprieve negotiated at the 11 May 2025 Geneva talks — which exchanged a 90-day tariff truce for partial restoration of supply — Beijing escalated decisively on 9 October 2025, announcing the most extensive tightening of its rare earth regulatory framework to date and extending licensing requirements to any foreign entity with military affiliation as of 1 December 2025. The measures targeted precisely the segments where US dependence is most acute: permanent magnets for F-35 aircraft, submarine propulsion systems, missile guidance, electric vehicle motors, and wind turbine generators. China commands roughly 90% of global rare earth processing capacity, and the selective licensing instrument required no formal embargo to produce supply disruption across allied defence and industrial chains.

The corresponding US instrument is the export control regime administered by the Bureau of Industry and Security (BIS). Building on the October 2022 advanced computing controls and the December 2024 expansion that added 140 entities to the Entity List and extended the Foreign Direct Product Rule (FDPR), the second Trump administration added 42 Chinese entities to the Entity List in March 2025 and a further 23 in September 2025, while implementing the Affiliates Rule that extends end-user controls to entities majority-owned by listed firms. The January 2025 AI Diffusion Framework - which would have imposed tiered controls on AI chip exports globally- was rescinded in May 2025, but replaced piecewise with case-by-case licensing rules for the Nvidia H200 and equivalent products under the January 2026 BIS final rule. The trajectory is one of progressively extraterritorial controls: the FDPR's reach over foreign-produced items

ISSN: 1857-7881 (Print)
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containing any US-origin integrated circuit content effectively conscripts third-country firms into the US control regime.

The analytical significance of these instruments extends beyond their immediate trade effects. First, they constitute a category of trade barrier that operates outside the tariff bindings, MFN principles, and dispute settlement procedures of the WTO. The October 2025 Chinese restrictions have been characterised by trading partners as inconsistent with GATT Article XI, but no functional appellate mechanism exists to adjudicate the dispute. Second, even the deepest regional agreements - CPTPP, USMCA, the EU's recent FTA generation- contain only limited disciplines on export restrictions on raw materials and essentially none on dual-use technology controls. The Mineral Security Partnership launched in 2022, expanded in 2024, and operationalised through the bilateral frameworks the Trump administration concluded with Australia, Japan, Malaysia, and Saudi Arabia in 2025–2026, is a coordination forum among consuming countries rather than a binding multilateral discipline on producers. Third, these instruments are inherently weaponisable in ways that tariffs are not: a selective licensing measure on a narrow class of inputs can disrupt downstream production for which substitutes do not exist on relevant timescales, whereas tariffs operate through price channels that permit substitution and adjustment.

The implication for the future trading architecture is that the gap between trade governance and trade reality is widest precisely where economic statecraft is most consequential. A tiered architecture in which deep regional agreements govern commercially significant goods trade, a residual WTO framework provides baseline tariff disciplines, and bilateral managed trade fills sectoral gaps still leaves critical mineral and technology export controls ungoverned by any rules-based framework. Until plurilateral disciplines emerge — whether through a critical materials chapter in a future RTA generation, a Joint Statement Initiative at the WTO, or a binding code among consuming economies — this category of instrument will remain the most significant and least disciplined source of trade-policy volatility in the international system.

Conclusion

This article set out to examine whether the multilateral trading system is in structural decline and, if so, what form of governance is likely to replace it. The analysis has generated four substantive conclusions, which together constitute the article's core contribution.

The first conclusion concerns the nature of the WTO's crisis. The analysis establishes that the multilateral trading system's difficulties are not a temporary disruption that will self-correct once political conditions change. They are structural: the WTO's consensus-based negotiating machinery cannot

ISSN: 1857-7881 (Print)
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govern a membership of 164 countries with divergent interests across the new trade agenda; its substantive rules have not been updated since the early 1990s and are increasingly irrelevant to the actual conduct of international commerce; and the deliberate incapacitation of the Appellate Body has removed the enforcement mechanism that gave multilateral commitments their credibility. The COVID-19 pandemic compounded these problems by legitimising industrial policy resurgence and supply-chain nationalism at precisely the moment when WTO rules most needed to constrain them. The implication is sobering: even if political willingness to reform the WTO emerged tomorrow, the institutional repair required is both technically complex and politically contested. A reformed Appellate Body, updated rules on digital trade and subsidies, and a revised decision-making architecture would each independently require years of negotiation in a system already marked by deadlock.

The second conclusion concerns regional trade agreements and their relationship to the multilateral system. The study confirms that the proliferation of RTAs is not, in itself, the cause of multilateral erosion: the evidence reviewed consistently shows that deep agreements generate trade creation with limited diversion and that some of their provisions function as public goods that benefit non-member countries. The study therefore qualifies Bhagwati's stumbling-block hypothesis: whether RTAs obstruct or complement multilateralism depends critically on their content, not their mere existence. The policy implication is that the quality of RTA design matters as much as the decision to negotiate one. The two waves of Trump trade wars have further complicated this picture: the first wave inadvertently produced deep agreements of genuine value (CPTPP, RCEP), while the second wave generated politically managed bilateral arrangements that lack the legal durability and enforceability of rules-based agreements. This distinction between trade liberalisation and managed trade — between agreements that constrain future policy discretion and arrangements that depend on the continued goodwill of a dominant power — is the critical fault line in the contemporary RTA landscape.

The third conclusion concerns the future architecture of trade governance. The analysis finds that neither pure bilateralism nor restored multilateralism adequately describes the emerging order. Pure bilateralism is structurally unstable: it cannot internalise the terms-of-trade externalities that gave rise to multilateral cooperation in the first place, it imposes disproportionate costs on smaller economies that lack bargaining power, and it is subject to the reversals that any arrangement dependent on the continued goodwill of a dominant power must face. The Phase One Agreement's partial implementation provides concrete evidence of this instability. Restored multilateralism, while theoretically optimal, requires institutional repairs

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whose political preconditions do not currently exist. The US Supreme Court's February 2026 ruling, while constraining IEEPA-based tariffs, did not signal a recommitment to multilateral rules-based governance. The most plausible trajectory is therefore a tiered architecture: deep regional agreements governing the bulk of commercially significant trade; a residual WTO framework providing a normative baseline and transparency mechanism; and bilateral managed trade filling the remaining gaps. This architecture is already visible in the CPTPP, RCEP, the EU's FTA network, and the African Continental Free Trade Area. Its stability depends on whether the major regional agreements can maintain their institutional depth and whether the WTO residual can retain normative authority even without strong enforcement. On current evidence, both are uncertain but possible.

The fourth conclusion concerns the new governance gap opened by technology and industrial policy, addressed in detail in the case study. The study identifies critical mineral export controls, semiconductor export restrictions, and industrial subsidies as a category of trade restriction for which neither WTO rules nor existing RTAs provide effective governance. China's weaponisation of rare earth dominance during the 2025–2026 trade war, and the US semiconductor export control regime operating through the Entity List and the Foreign Direct Product Rule, demonstrate that geoeconomic competition is generating trade barriers of a qualitatively different kind from the tariffs that GATT/WTO rules were designed to address. This gap is likely to widen as US–China strategic competition deepens, and it constitutes the most significant structural challenge to any future trading framework; multilateral, regional, or bilateral.

These conclusions must be qualified by the study's inherent limitations, set out in Section 3.5. The analysis is theoretical and comparative rather than econometric: it synthesises existing empirical evidence rather than generating new estimates, and it cannot predict with precision how the political variables it identifies will evolve. The rapid pace of institutional change in 2025–2026 -multiple rounds of tariff escalation, bilateral negotiations, a landmark Supreme Court ruling, and ongoing WTO disputes- means that some of the specific empirical facts cited may have shifted by the time of publication; the structural arguments, however, are not contingent on those specifics. Future research should address three open questions that this study was unable to resolve. First, what institutional design for WTO appellate review would be both technically adequate and politically acceptable to the United States? Second, how can the deep agreements already in force be deepened and interconnected in ways that approximate multilateral disciplines without requiring universal membership? Third, what governance architecture for technology trade and critical mineral supply chains is feasible in a world of US–China strategic competition?

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The overarching finding is this: the international trading system is not collapsing, but it is undergoing a structural transformation whose outcome is not predetermined. The cooperative equilibrium that Bagwell and Staiger formalised as the theoretical rationale for GATT/WTO remains economically superior to the non-cooperative alternative. The task for institutional reformers is to reconstruct sufficient enforcement capacity to make that equilibrium self-sustaining again, under conditions of geopolitical rivalry and technological competition that the architects of the postwar trading order did not foresee. Whether they succeed will determine whether the gains from trade, which have raised living standards for billions of people across the world economy, can be preserved for the generations that follow.

Conflict of Interest: The author reported no conflict of interest.

Data Availability: All data are included in the content of the paper.

Funding Statement: The author did not obtain any funding for this research.

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